Options for greater public control in the water sector

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Insights from other sectors
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1 Introduction

Recent years have seen significant debate about the successes and failures of privatisation in UK utilities sectors and, in particular, whether changes in water company ownership would improve public outcomes.

Past governments avoided calls to review the ownership model. Notably, the terms of reference for the Independent Water Commission's wide-ranging review of the water system did not require it to consider the transfer of water companies to public ownership or not-for-profit models, and the analysis the Commission did undertake found no clear relationship between ownership models and outcomes.[1]

The landscape has, however, shifted materially since. With the increasing likelihood that the special administration regime could be triggered for Thames Water, and with the new UK Prime Minister, Andy Burnham, calling for greater public control of utilities (as well as greater regional devolution to metro mayors and local governments), there is renewed focus on what alternatives exist.[2] In recent days, there have also been reports that the government is creating the fiscal conditions that could make a move towards public ownership more feasible:

[1] Independent Water Commission (2025), 'Final Report', 21 July, p. 292.
[2] Crerar, P. and Horton, H. (2026), 'Thames Water should be nationalised, Andy Burnham', *The Guardian*, accessed 29 July 2026; Reuters (2026), 'UK's Burnham says greater public control of essentials needed to tackle inflation', 17 July.

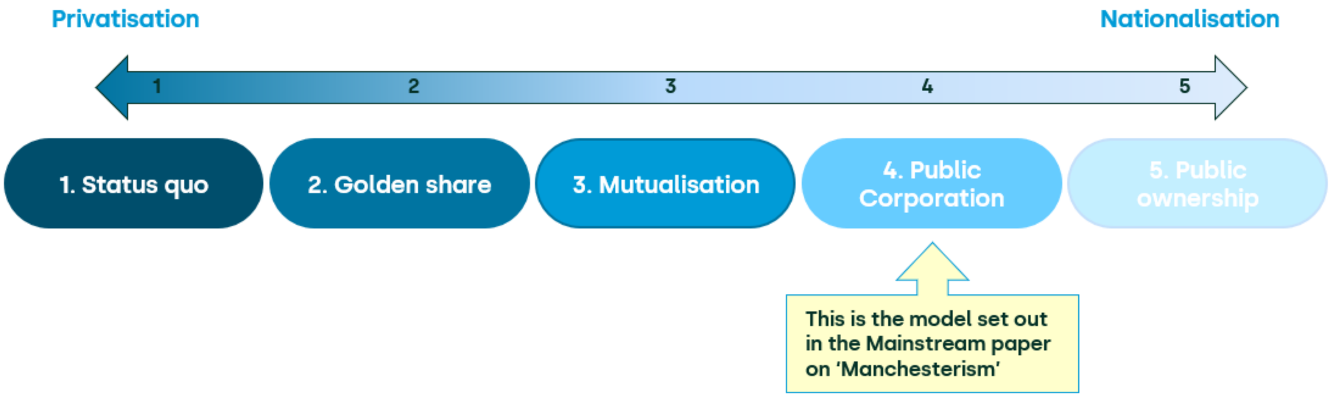
changes to the fiscal rules would allow government to count spending on infrastructure or equity stakes in companies as assets to be offset against borrowing costs.[3] Despite this, there are several further challenges and design choices that government will need to consider.

In this note, we consider potential models for enhancing public control, drawing on lessons from international experience. Rather than a binary choice between public and private control, the governance options for the water sector are best understood as a spectrum of options, varying according to:

1. who owns the assets and carries the liabilities;
2. who holds responsibility for day-to-day operations;
3. the extent of issues over which ministers and regulators can exercise control (regardless of who owns the assets).

Figure 1 below gives an overview of the five main options considered in this paper, while the accompanying Table 1 provides a comparison of each option with respect to a number of key variables.

Figure 1 The spectrum of governance options



Note: In practice, the boundaries between these categories are not always clear-cut. Some entities may sit between categories.

[3] The Times (2026), 'Treasury seeks to kick-start economy with £9bn-a-year borrowing bonanza' accessed 4 August 2026.

Table 1 Comparison of different governance models

Key variable	Status quo	Golden share	Mutualisation	Public Corporation	Full public ownership
Shareholder dividends?	Yes	Yes	No (members)	No	No
Debt on public balance sheet?	No	No	No	Yes	Yes
Operational independence	Full	Full, though govt has veto rights	Full, accountable to members	Substantial	Limited
Requirement to compensate existing shareholders	No	No	Yes, although proponents have argued this could be funded from raising private debt	Yes, unless there is a special administration process or a voluntarily agreement from shareholders to write off their equity	
Precedents	England water sector	Royal Mail	Welsh Water	NESO, Scottish Water	Network Rail, Eau de Paris

Before considering these alternatives, it is important to recognise the current UK water sector context, and the impact this may have on the feasibility of different arrangements, with the following points being of particular relevance.

- Substantial amounts of debt and equity capital have been invested in the sector since privatisation, with the industry-wide regulatory capital value (RCV) approaching £120bn as of Spring 2026.[4] Across any model involving a transfer of ownership, existing shareholders will expect to be compensated for their invested capital and have legal protections under international investment treaties and human rights laws (e.g. Article 1 of Protocol 1 of the European Convention on Human Rights—known as 'A1P1').[5] Such treaties require fair market value compensation where a business is nationalised. An acquisition at less than full market value would be likely to give rise to compensation claims and could have a broader impact on investor confidence in UK

[4] Ofwat (2026), 'RCV 2025/26'.
[5] Clifford Chance (2019), 'UK nationalisation: the law and the cost – 2019 update', July.

markets, with heightened perceptions of political risk either deterring investment or resulting in a higher cost of capital.

- Industry forecasts suggest the sector's investment programme will be significantly larger over the next 25 years than it has been in the past. Any changes to the way in which the sector is financed would need to be able to deliver this investment programme. In particular, there would need to be sufficient capacity from retained earnings, debt markets and/or public borrowing to deliver this investment in the absence of equity.
- The largest projects within this investment programme (e.g. new reservoirs, treatment works and large transfer schemes) are expected to be delivered by third parties—under the DPC and SIPR models—rather than by incumbents. This could allow for greater public control to be built into the arrangements for these new assets.

It should also be noted that Defra and regulatory bodies (including Ofwat and the Environment Agency) already have considerable influence and oversight on key issues including the definition of investment obligations, the setting of regulated charges that companies can collect from billpayers and (within that) the allowed returns that they can earn. A significant proportion of companies' investment programme is driven by meeting requirements established by statute and enforced by regulators; a much smaller amount is discretionary. As discussed further below, recent changes to statute and company licence conditions have expanded the powers available to government and regulators, including around dividends, executive pay and minimum levels of financial resilience.

1.1 Greater public control without changing ownership

Since privatisation, the majority of England and Wales water companies have been financed through a mix of debt and equity. Within this, there are some notable differences in terms of the mix of debt and equity across companies, with gearing often above 60% of regulated capital value and materially higher (c. 85%) in the case of Thames Water. In addition, the type of equity investment can vary—three companies (Severn Trent, United Utilities and Pennon) are listed on the public stock exchange, the remainder are privately financed.

There is often confusion around the role played by equity. Critics of privatisation argue that dividends impose a cost on billpayers that could otherwise be avoided (while also frequently highlighting financial engineering, levels of executive pay and 'complex' company structures as symptoms of 'a broken system'). However, the majority of established companies across the wider economy use a combination of equity and debt to finance their operations, and for good reason. Equity plays several useful roles: as a capital buffer to withstand downturns, in ensuring there are incentives for efficiency and improved service, and in providing shareholder expertise on boards. Without this buffer, the cost of borrowing will increase and, all else being equal, risk will increase as discretionary dividend payments are substituted for mandatory debt repayments.

If this model were to be retained, one option for greater public control (which would fall short of changing ownership models) would be to use enhanced regulatory and statutory mechanisms to address shortcomings. Defra and Ofwat have already taken steps to strengthen oversight of dividend policy, executive pay and financial resilience through licence changes and the Water (Special Measures) Act. Moreover, the Independent Water Commission envisaged broader supervisory tools, including enhanced powers over governance, ownership changes and capital requirements. Some commentators have noted that these recommendations appear to be a means of increasing public control through the back door.[6]

The envisaged national water strategy and strategic direction statements provide an avenue for the government to set out more transparently what it wants the regulator(s) and companies to deliver. Changes to the strategic planning process (which shapes companies' investment programmes) could also build in closer partnering between water companies and local authorities, providing greater public input into capital decisions without the need for ownership change.

If the government's primary objective is tighter control over leverage, distributions and management incentives, this could be achieved at lower cost through regulatory reform rather than enforced changes in ownership. However, there remains a risk that such changes could impact investability and the cost of capital, and there is evidence that political and regulatory instability is already impacting the sector's credit quality.

1.2 Golden share model

A second option, which has reportedly been proposed by Thames Water's senior creditors as an explicit alternative to nationalisation,

[6] Helm, D. (2025), 'The water problem: how to combine public control, private finance and consumer funding', 16 June.

would be for investors to cede 'golden share' rights to the government.[7] Private shareholders would retain their equity shareholdings but provide government with a special share that would confer veto rights over specified decisions, such as ownership changes, asset disposals or amendments to constitutional documents.

The UK government held golden shares in the regional water companies following privatisation, with the power to veto any single shareholder from acquiring more than 15% of the voting rights in any company. This was intended to prevent unwanted takeovers and maintain stability in the early years of private ownership. The shares were time-limited and lapsed in January 1995, with the opening up of companies to the full force of the market followed by an immediate surge in takeover activity.[8]

Subsequent decisions taken by the European Commission and CJEU—including the 2003 ruling against the UK's golden share in the airports authority, BAA—established that golden shares that restricted foreign ownership were a deterrent to cross-border investment. However, there remain examples of golden shares across critical infrastructure sectors, and these have come back on the agenda in a number of sectors internationally.

Box 1.1 Golden share precedent: Royal Mail (2013-)

The government retained a special share following Royal Mail's privatisation in 2013, and strengthened it as a condition of the 2024 takeover of Royal Mail's parent company. The legally binding agreement concerns any changes to Royal Mail's ownership structure or headquarter locations, its Universal Service Obligation, UK stock exchange listing and workforce protections. The golden share model means that the government holds no ordinary equity in Royal Mail—rather it is a separate class of share conferring only specified rights, with no financial return and no entitlement to dividends or assets.

[7] Thames Water's creditors (including Elliott Management, Apollo Global Management, and BlackRock) proposed on 21 July 2026 that they would inject new equity and restructure the debt, retaining ownership, while the government would receive a golden share. See, for example: Macintyre, B. (2026), 'Thames Water investors try to head off government takeover', *The Observer*, accessed 29 July 2026.
[8] Ofwat and Defra (2006), 'The development of the water industry in England and Wales', p. 103.

Golden shares could, in principle, increase ministerial oversight of strategic decisions, while leaving day-to-day operations and financing in private hands. However, the critical question here would be the scope of any such golden share rights. Restricting golden share rights to a narrow set of issues (e.g. changes in ownership) would limit the practical effect of the golden share arrangement (and may not give the government the level of ministerial control that it desires), while extending golden share rights into broader areas (such as investment and pricing decisions) could push up the cost of equity and, hence, bills. Indeed, our research for the European Commission found empirical evidence that golden shares increase the cost of equity and can distort governance incentives.[9]

1.3 Mutualisation: not-for-profit model

Recent media reports suggest that the Burnham government is also exploring mutualisation as an alternative ownership model. [10] There are few details on how this would work in practice, and different terminology has been used (e.g. co-operatives, mutuals and non-profits). Models in which *customers* would buy out the existing shareholder equity appear to be non-starters given the cost to do so would be in the thousands of pounds per household. Therefore, it is likely that this model would involve the following.

- A financial restructuring with debt used to buy out equity, or a special administration process.
- Establishment of a board of independent members fulfilling a public interest oversight role. The members could act as representatives for the interests of households, local government, business customers and environmental groups.
- Moving to a financing model in which investment is financed exclusively through debt and retained earnings, with any financial surplus reinvested in the business, distributed to customers via rebates or retained as a cash buffer. There would be no external equity injections and no distributions to members.

Mutuals are not an entirely new proposition for the England and Wales water sector, which has seen two voluntary mutualisation proposals

[9] Oxera (2018), 'Special rights of public authorities in privatised EU companies' (accessed 29 July 2026).
[10] For example, Wheeler, C. (2026) 'Burnham eyes plan to control water companies without expensive nationalisation', *The i Paper*, 19 July. Different terminology has been used—mutuals, co-operatives and non-profits—with limited detail on the exact legal structures and governance arrangements that are under consideration.

dating back to the early 2000s. Although only 12 months apart, these proposals were viewed quite differently by Ofwat (see Box 1.2).

Box 1.2 Mutualisation precedents in the England and Wales water sector: Yorkshire and Welsh Water

In 2000, Kelda proposed to turn Yorkshire Water into a 100% debt-financed mutual asset company. This proposal was rejected by Ofwat in July 2000, with (then Director General) Sir Ian Byatt taking the view that Kelda had not adequately demonstrated that the proposals had the support of customers and would protect them from risk.[11]

By contrast, Glas Cymru's proposals to turn Welsh Water into a 100% debt-financed not-for-profit company limited by guarantee (CLG) were approved by Ofwat in January 2001. Given highly accommodating debt market conditions, Glas Cymru was able to raise 93% debt/RCV to pay as proceeds to holding company Hyder. The RCV discount at the time of the sale generated a notional buffer that would allow Welsh Water to absorb economic shocks, such as cost overruns or revenue shocks, and Glas presented Ofwat with plans to rapidly reduce gearing over subsequent regulatory periods. The size of the equity buffer has, indeed, grown as Glas Cymru has retained earnings and its gearing is now closer to 60% as retained earnings have been more than sufficient to finance RCV growth.[12]

Glas Cymru remains a CLG to this day, owned by around 50 appointed members. Despite its different ownership structure, Welsh Water is regulated in an identical manner to the privately owned water companies: including a cost of capital

[11] There were also concerns over the independence of the mutual company from Kelda, given two of the mutual's most senior directors would be individuals with shares in Kelda.
[12] Key features leading Ofwat to approve the Glas Cymru transaction were that it involved purchasing Welsh Water at a discount, enabling the establishment of a starting reserve, and the company had a well-developed financing plan to build up this buffer of reserves further. Measures were also put in place to limit the detriment to efficiency incentives arising from the loss of equity involvement. These were principally the involvement of MBIA (the monoline insurer) in monitoring the business, service performance and efficiency incentives within boardroom pay structures, and corporate governance procedures. Competitive tendering—via a detailed procurement plan—was to occur from the outset. Furthermore, the proposals had the support of the Welsh Assembly and customers.

allowance which comprises both a cost of equity and cost of debt component.

Source: Oxera; University of Oxford (2021), 'Welsh Water: A model for the Purposeful Ownership of a Utility', January.

There have also been examples of government-led (i.e. 'enforced') mutualisation in other regulated sectors, most notably in the case of Railtrack, which was established as a private company limited by guarantee after Railtrack was placed into Railway Administration (similar to the SAR process in water). The company was initially entirely debt-financed through borrowing from the markets, following a model similar to that of Glas Cymru.[13]

The attraction of such a model from a political perspective is understandable, since it has the potential to eliminate shareholder dividends while keeping the entity classified as private sector, and hence off the government balance sheet. Moreover, member-ownership has the potential, in theory, to better align management interests with those of customers, employees, local authorities and other public-interest groups represented on the board.

There are, though, a number of pertinent questions around such a model and it should not be taken as given that the Glas Cymru precedent could be replicated today. The Glas mutualisation took place at a time when debt markets were more favourable and future investment needs were less pronounced, allowing Glas to convince bondholders and the regulator of its aggressive de-gearing plans. While ultimately successful, the decision to leverage at 93% was high risk. And, even then, the ability to start with a 7% cash buffer relied on equity holders voluntarily agreeing to write down the value of their stakes to zero.[14]

Mutualisation proposals would need to be assessed on a case-by-case basis, considering the following.

- **Customer benefit**: is there clear evidence that customers would benefit from the mutualisation? In particular, what would the new arrangements mean in terms of the allocation of risk between billpayers, taxpayers and bondholders? Since a

[13] It was subsequently reclassified as public sector, and is now financed through the public purse.
[14] A nominal price of £1 was paid, alongside the transfer of £1.85bn of debt to the new owners.

mutualisation does not change underlying risk, it may simply transfer that risk from equity investors to customers.

- **Investment**: the extent to which there is sufficient debt capacity (once taking account of expected earnings retention) to finance future investment and RCV growth, as well as compensating existing investors, without undermining resilience. The feasibility of such arrangements may vary across companies depending on the scale of their future investments (i.e. if the scale of future investment requirements is large in comparison to the company's RCV, this may limit the feasibility of financing future investment entirely via new debt).
- **Creditworthiness**: an important consideration here is the level of capital buffer that would be required to withstand shocks and maintain a strong, investment-grade credit rating. In light of the reductions in 'regulatory stability and predictability' within the credit rating agencies' assessment of sector risk, maximum leverage for BBB+/Baa1 is now c. 70% (i.e. significantly lower than Glas' initial 93% leverage). In the Glas case, the default risk associated with the bond issues was enhanced by several mechanisms, including credit insurance and covenants.
- **Incentives**: the absence of equity could also reduce incentives for efficiency and service outperformance, meaning that additional protections may be required. Glas put in place measures to limit the detriment to efficiency incentives arising from the loss of equity involvement.[15]

It is also important in the context of mutualisation to remember that the removal of equity holders and increased use of debt financing is not a panacea. As can currently be observed, a highly geared company (mutual) that pays no dividends will still not be financeable if it expects to overspend regulatory allowances, while incurring outcome delivery incentive (ODI) penalties and other enforcement fines.

1.4 Public corporation model

The public corporation model is the preferred institutional design set out in the Manchesterism framework that has been closely associated with Andy Burnham. Under this model, ownership of the assets would sit with government, but day-to-day operations would be overseen by an independent management team and board.

[15] These were principally the involvement of MBIA (the monoline insurer) in monitoring the business, service performance and efficiency incentives within boardroom pay structures, and corporate governance procedures.

The principal argument put forth for this model is that it could eliminate shareholder extraction while preserving some operational independence and, potentially, lower financing costs. The entity would borrow in its own name, allowing the financial relationship with government to remain at arm's length, albeit there may be an implicit state guarantee in place.

A recent example of this model is the National Electricity Systems Operator (NESO) (see Box 1.3).

Box 1.3 Public corporation precedent: NESO

NESO has been publicly owned by DESNZ from 1 October 2024, with an independent board appointed through a public appointments process and holding dual licences from Ofgem that it must comply with regardless of ministerial preference .

NESO was bought from National Grid for an enterprise value of £630m, with the majority of that cost to be recovered through existing regulated charges on energy bills that would previously have gone to National Grid—a 'revenue-neutral over time' acquisition structure.

However, while the NESO example demonstrates that public ownership can be combined with operational independence and an economic regulatory framework, it is only a partial analogue for water: NESO did not face the same scale of legacy debt, customer-service obligations or asset-remediation challenge as a large water company.

In the water sector, this is the model that has been adopted in Scotland. Scottish Water is a public corporation with its own board and an established governance framework, offering a more directly relevant precedent for public ownership in the water sector. Around 10% of the average Scottish Water bill goes towards debt servicing, compared with approximately 28% in England and Wales, reflecting both a lower legacy debt burden and the absence of shareholder return requirements.

Some proponents of the public corporation model (as outlined in the 'Manchesterism' framework) propose introducing a new 'Public Sector Net Worth' measure of government debt to underpin the UK government's fiscal rules, such that the acquisition costs of water companies would be offset by the value of the assets acquired.[16] It has recently been reported that the government is actively considering this approach, with the Treasury exploring whether changes to the fiscal rules could be used to finance equity stakes in companies.[17]

Whilst this would provide greater fiscal headroom than previously assumed, the approach should still be treated with caution. In practice, there is no guarantee that markets would disregard an increase in liabilities simply because it is matched by the acquisition of infrastructure assets: bond markets would need to be satisfied that the investments generate sufficient commercial returns to service the associated debt. The Institute for Fiscal Studies has cautioned that there is not an 'unlimited pot of money'.[18]

For that reason, a public-corporation model may in practice still face material constraints to borrowing: both in financing the upfront cost of acquiring water company assets, and in funding the ongoing capital investment programme that any new ownership structure would need to deliver.

Furthermore, the feasibility of keeping the companies' debts off the balance sheet depends on whether the new arm's-length status is accepted by the ONS. If government ultimately stands behind the entity and cannot credibly allow failure, it risks being reclassified (as occurred with Network Rail in 2014).[19] Implementing this model would require a robust statutory framework, strong appointment processes, clear accountability mechanisms and a debt structure that is transparently serviceable from revenues.

1.5 Full nationalisation

Under full nationalisation, a water company would effectively become part of central government and would be subject to HM Treasury spending controls. This model offers the clearest form of public ownership and the strongest direct line of democratic accountability

[16] Lawrence, M. and Williams, A. (2026). *The Productive State: A Framework for Manchesterism*. Mainstream, p. 54. Available at: https://www.mainstreamlabour.org/publications/the-productive-state (Accessed: 5 August 2026).
[17] The Times (2026), 'Treasury seeks to kick-start economy with £9bn-a-year borrowing bonanza', 5 August.
[18] Ibid.
[19] In 2014, the ONS reclassified Network Rail as part of central government on the grounds that most of its funding came from the government rather than commercial sources. This meant that Network Rail was no longer permitted to issue debt in its own name and instead relied on government funding. It is now subject to the fiscal constraints and spending pressures that affect government departments more broadly.

through ministers, Parliament, the National Audit Office and the Public Accounts Committee.

Some proponents of renationalisation have pointed to the 'Paris model', as an example of successful nationalisation, However, as we set out in Box 2.6, there are important differences between the French context and the England and Wales water sector.

Box 1.4 Nationalisation precedent: Eau de Paris (EDP)

In 2010, EDP was established as a fully publicly owned water utility, bringing the two private concessions back into municipal ownership. The board is made up of elected municipal officials, staff representatives and representatives of NGOs advocating for users and the environment. The price of water was cut by 8% as a result of savings from eliminating dividends, applying public procurement rules, and integrating previously fragmented operations.

However, compared with the England and Wales water context, the infrastructure has always been owned by the city and the issues that arose largely stemmed from the design of the concessions contracts that were agreed with the private sector. The Paris case therefore does not provide a direct replicable model for English water nationalisation.

In principle, full public ownership could reduce the cost of capital by removing the equity premium and refinancing existing debt at rates closer to sovereign borrowing costs. However, the equity risk would effectively be transferred to billpayers or taxpayers, which is a potentially hidden cost of nationalisation.

There are further significant risks and issues that would need to be resolved.

- **Shareholder compensation**: full nationalisation would create the largest impact on public sector net financial liabilities and is most politically contested, with associated risks around market signalling and international investment treaty considerations. Full renationalisation would imply a very substantial up-front valuation exercise and compensation bill, particularly where fair market value has to be established for unlisted companies as well as listed ones. Any attempt to acquire assets below what investors regard as fair value would be likely to invite legal challenge and could raise wider concerns about the treatment of property rights in UK regulated markets.

- **Risk of investment deferral**: one of the most consequential risks of public ownership is the tendency for long-term infrastructure investment to be deferred when it comes into competition with shorter-term political or fiscal priorities. Once investment sits within or alongside the public spending envelope, capital programmes may become vulnerable to wider fiscal pressures and short-term political priorities.

- **Accountability**: full public control would bring full accountability for the state. For example, if government directs or signs off the company business plan, it will have to take accountability for any non-compliance (e.g. with environment legislation) that subsequently arises and will be open to legal challenge, with taxpayers on the hook for any financial penalties.

2 Does this add up to a good idea?

This paper has discussed alternative ownership and financing options that could give greater public control over water companies. There are clearly advantages and disadvantages of each for a government that is seeking swift action and a tough stance on private companies (in light of growing anti-profit sentiment and perceived failings) but must balance this against maintaining investor confidence, living within public sector fiscal constraints and the material need for financing in the water sector over the coming 25 years.

As this debate rolls on, and different options are promoted and challenged, the questions that should be asked are as follows.

- **What problem is greater public control intended to solve?** The main challenge facing the water sector is that significant investment needs to be delivered to meet population growth, improve environmental outcomes, adapt to a changing climate and address a backlog of capital maintenance. Bills will need to rise to pay for this. This fundamental issue will not go away with changes of ownership or greater government control. Indeed, while a range of factors have contributed, the causes of this

problem can at least partly be traced back to government and regulatory decisions of the past—the Independent Water Commission concluded 'that government and regulator pressure on bills played an important role in what can now be seen as underinvestment over this period [2009 to 2024]'.[20]
- **What would greater public control mean for who bears risk?** Changing ownership models will not, in isolation, change the sector's investment requirement or levels of risk. Instead, different models are likely to transfer risk from one stakeholder to another. Indeed, the current debate over ownership ultimately comes down to moving those obligations from equity more towards customers and taxpayers. Are those players really better placed to manage risk?
- **What impact would greater public control have on incentives and capital allocation?** It is worth remembering that the Independent Water Commission's analysis found no evidence to suggest publicly owned or non-profit water companies perform better than privately-owned ones. Perhaps the biggest risk from an outcomes perspective would be water investment decisions becoming part of central government funding choices and capital being rationed.

Finding a way forward that reconciles the competing objectives outlined above is likely to be a considerable challenge for government. Non-structural options—such as greater public/private partnering on strategic plans at regional level and a revised approach to economic regulation—look to be more deliverable than widescale changes in ownership.

In the meantime, outstanding questions over such fundamental issues as the government's objectives, ownership, control and the future regulatory system that will be in place are affecting investor confidence and the cost of finance. In this context, time and resources would be better spent on how to restore political and regulatory stability, and provide the enabling conditions for the sector's largest-ever investment programme.

[20] Independent Water Commission (2025), 'Final Report', 21 July, p. 204.