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# What next for Thames Water?


Summary:

- Regulation of the privatised water sector has failed.
- **Thames Water must be brought into a performance SAR (Special Administration Regime) for failing its statutory duties.**
- **Special administration should be a stepping-stone to permanent public ownership of Thames Water.**
- To re-privatise Thames Water after special administration is a political and financial risk
  - Outrage over Thames is growing, and public ownership of water is increasingly popular: 82% of the population are in favour.
- Public ownership is *cheaper*
  - Fair compensation in law for shareholders and banks would be zero for a failed water company that has higher repair bills than assets.
  - Over the next five years £22 billion of billpayers' money will go straight onto returns for shareholders and banks. This cost is avoided under public ownership.
- Public ownership is better for the environment
  - The cleanest rivers and seas in Europe are where water is publicly owned


## Re-privatising Thames Water is a political risk

Privatisation has manifestly failed and consumers are paying the price:

- The justification for privatisation of the water sector in 1989 was that it would bring investment to the water sector. In reality, **shareholders have taken over £85.2 billion out of the water sector.. They have 'literally invested less than nothing'**.
- Bills are set to rise £157 per household in the next five years. £22 billion of billpayers' money will go straight into the pockets of private investors. This is double the amount they took between 2020-24.
- Our water infrastructure is crumbling and customers are struggling to pay their bills. Shareholders' reckless extraction of money is untenable.

Public ownership of water is popular and calls for it are mounting:

- Water is publicly owned in 90% of the world and there is a global trend towards public ownership.
- **82% of the population are in favour of publicly owned water.**
- Labour's policy of bringing train operating companies into public ownership, and setting up publicly owned GB Energy have proven popular and successful.
- Water has garnered a huge amount of media attention. Stories about burst pipes and water outages feature very regularly in the local news. At a national level, stories of pollution and water bosses' salaries have provoked significant outrage.
- **Before the last election, more than half of the public said that sewage would influence how they voted.**
- By choosing to re-privatise Thames Water, the government would be swimming against the tide of public opinion.

Re-privatisation would be unacceptable to the taxpayer

- In doing so, the losses would be socialised while the gains are privatised.
- **If the government chooses re-privatisation, British taxpayers will rightly feel that the government has chosen foreign corporate interests over their own.**
- They have already been given this impression by Reed's decision to accept £1786 in football tickets from water company owners; and Reeves' acceptance of a £27,000 donation from KKR. The government must change course now.

Privatisation has a history of threatening essential service provision

- Railway infrastructure was successfully brought into public ownership in 2002 after several high profile incidents - including the fatal Hatfield crash in 2000 - under privately owned Railtrack.
- The East Coast Mainline train franchise was brought into public ownership in 2009. It was improved and brought back to profitability only to be sold off in 2015. It was run so disastrously that it had to be bought back into public ownership in 2018.

Re-privatisation would threaten the environment

- Every single water company in England is currently under criminal investigation for water pollution.
- Thames Water's appalling pollution track record is not an exception, it is the rule: privately-owned water companies profit from pollution.
- **Under public ownership, there would be no incentive to deprive water infrastructure of the investment needed to stop sewage spills.**
- The cleanest rivers and seas in Europe are where water is publicly owned.

Other parties have made their position clear

- Lib Dem MP Charlie Maynard has been part of a Court of Appeal case, arguing for the immediate special administration of Thames Water. The Lib Dems propose turning Thames Water into a public benefit company following a SAR.
- The Green Party are calling for public ownership of water.
- Reform want to nationalise 50% of the water industry.
- This Labour government was elected on a manifesto for 'change'. Maintaining the broken status quo of privatisation does not deliver on this, and betrays the pledges to tackle the causes of the cost of living crisis, and the goal of 'clean water'.

## Permanent public ownership of Thames is cheaper

The cost of **public ownership of the water industry is close to £0, not £100 billion, and it will save £22 billion in privatisation costs**

- The £100 billion figure has been linked (via Baroness Hayman, Defra Under-Secretary, who referred to it in the House of Lords) to a Social Market Foundation report from 2018, which put the cost of nationalising the water industry at £90 billion. This report was funded by Anglian, United Utilities, South West and Severn Trent Water.
- The report has been described as 'economically illiterate' by economist Prof. Sir Dieter Helm. In 2019, Moody's has put the value of the water companies at £14.5

billion. More recently, Common Wealth has put the true value in law at £0 to take failing water companies into public ownership.
- Corporate lobbyists are using Ofwat's "Regulatory Capital Value" to determine the value of the water industry. This is calculated by adding the market value of water companies in 1989 to Ofwat's calculation of capital investments and multiplying by the RPI rate of inflation. It is **an artificially high figure, solely used by Ofwat for price and dividend controls, and many times market value of water companies. It is 'cynically calculated to scare gullible governments off public ownership'.**
- Any figure provided by Ofwat must be treated with suspicion, given they have a statutory duty to provide a return for investors.

The cost of bringing Thames into public ownership:
- Thames currently has an RCV of £21 billion. They could not sell the company to KKR in June for £4 billion.
- Thames Water bosses themselves have recently lowered their estimation of the company's value to £3.5 billion, and admitted that the **government could recoup 100% of the funding in the event of a SAR.**
- In law, there is no requirement for shareholder compensation in the event of public ownership. The question is whether a 'fair balance' has been struck in paying compensation. Given that shareholders have already extracted over £85.2 billion while causing extensive environmental damage and leaving water infrastructure to crumble, **the fair compensation is nothing.**

What will happen to Thames Water's debts?
- What is happening now, under privatisation
  - **Private companies will never pay off their own debts**. Consumers are paying them off through water bills: In 2023/34, on average over a third of revenue from bills went on financing costs.
  - Debt under privatisation is expensive. The interest rate on Thames Water's £3 billion emergency loan was 9.75% per annum.
- What would happen under public ownership
  - **Public debt is much cheaper:** public bodies borrow at the cheapest rate available, close to the Bank of England base rate (currently 4.25%).
  - A SAR requires financial restructuring. As part of this process, **debt would be written off via 'haircuts'**. The previous government's plans under Project Timber involved a 40% haircut for some creditors.
  - **The government should ask for a 100% haircut**. These debts are a result of shareholders' and companies' 'inefficient practices and risky financial structures' and, as such, 'customers should not have to bear the burden' of paying them.

Permanent public ownership is better value for money
- **Money that would have gone to paying shareholders can be spent on paying off debts; lowering bills and improving infrastructure.**
- The cost of regulation will fall when information becomes open and transparent, and there is no need for continuous criminal investigations.
- There will no longer be an incentive to inflate costs. This happens under the current model, where the value of water companies is linked to their spend on capital.

## Regulation of water has failed

The Water Special Measures Act 2025: **banning bonuses doesn't work**

- Thames Water circumvented the bonus ban through their 'management retention plan'. In April, they paid out £2.5 million from their emergency bailout loan to senior managers.
- In July, the CEO of Southern Water nearly doubled his pay, despite a record of failure.
- It was recently revealed that payments worth £1.3 million were made to the CEO of Yorkshire water via an offshore parent company.

The Cunliffe Review: **a new regulator will not solve the problem**

- Just as Ofwat has a statutory duty to provide investors with a profit, Cunliffe recommends that the 'investability' of the sector should be one of the new regulator's duties. This duty to protect shareholder and bank returns is unseen in other regulators such as Ofgem, Ofcom, or the Office of Rail and Road.
- Prioritising a return for shareholders and banks - who take money away from water infrastructure - is incompatible with protecting consumers and the environment.
- A regulator cannot compete with the resources the water companies have at their disposal to 'game the system' through legal and financial protection. The water companies have a combined revenue of £12 billion. Ofwat's yearly budget is around £30 million.

**Water companies will always seek and create gaps in regulation**

- Cunliffe recommends 'regulatory forbearance' for failing water companies. This would enable them to avoid the financial penalties incurred for pollution.
- Thames Water are currently asking to write off present and future fines in a 'regulatory reset', threatening that they will not survive financially otherwise.
- These loopholes create a race to the bottom, where water companies are financially incentivised to deliver a worse service.

> As Water Minister Emma Hardy remarked in February 2024: *"Unless owners and shareholders believe that there is a genuine risk of them losing their licence, they have no real incentive to promote good corporate behaviour or environmental performance [...]If multiple and deliberate breaches of environmental law and repeated deception of the regulator by the provision of falsified performance information is not enough, what fear can those in the sector really have?"*

## What would the Special Administration process look like?

Blair's Labour government successfully transitioned Railtrack into public ownership through administration:

- In 2001, the transport secretary petitioned the High Court to put Railtrack into administration.
- A new company - Network Rail - was created and backed by government finance. This took over operations.

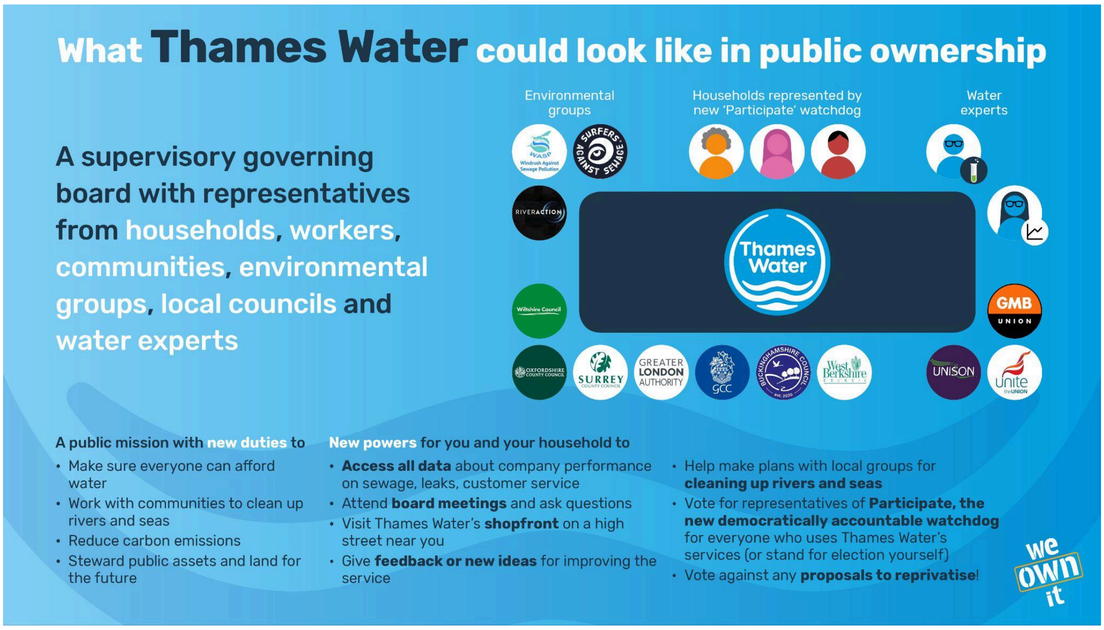
- In 2014, the Office of National Statistics classified Network Rail as a public-sector company.
- [Shareholders were compensated just £500 million]. This was upheld in the courts. Water companies are in a far worse state than railway tracks were.

The SAR process for Thames Water - taking into account new SAR legislation - could look like this:

1. The Secretary of State applies to the High Court to remove Thames Water's licence. This can be done on the grounds of insolvency or performance (failing to carry out statutory duties). Thames should enter a performance SAR, based on its long record of breaching environmental and financial obligations.
2. A special administrator is appointed and given powers to act on behalf of the company. During special administration, they must prioritise outcomes for the public (including consumers and the environment) over creditors' interests.
3. The special administrator then decides whether to transfer the company's assets to a new (public or private) company. Under the 2024 Regulations, they must consider Rescue, which would involve returning the company's assets after debt restructuring within the SAR.
4. During a transfer to a new entity, the decision must be made to transfer Thames Water's assets to a new, publicly owned company for the cost of £0.

## What could permanent public ownership of Thames look like?

- Public ownership would enable rigorous democratic governance of the water system.
- Consumers, workers, environmental groups and experts should all have a shaping role in the running of Thames Water. The Board of Thames Water could look like this:




- By bringing Thames into permanent public ownership, we would be part of a growing trend. In recent years, water was re-municipalised in Paris and Berlin. Water in Cyprus and Austria is 1005 publicly owned and they have the best bathing water in Europe.

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