

Foundational Economy Research

PRESS RELEASE: *What we need to know (and do) about water*

19 October 2026
For immediate release

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**English and Welsh water has a business model problem:
under private or public ownership, with revenue constrained by regressive
charging, the operating surplus does not cover the costs of adequate physical
investment and servicing finance capital**

What you need to know about water's business model problem is illustrated by a comparison of post 2001 financials at (a) Thames Water, the classic example of extractive ownership under Macquarie and (b) Dŵr Cymru (Welsh Water) the one privatised water company which is 100% bond financed and cannot distribute to shareholder owners.

- Even when Thames was restricting investment to patch and mend, the cost of physical investment was greater than its EBITDA surplus after operating costs. Over 25 years at Thames, there was less than nothing left to service financial capital.
- Bond finance blocks shareholder extraction but is not markedly cheaper if bonds are inflation linked and tied to a derivatives portfolio. Over 25 years, finance expense takes 27p in each pound of revenue at Dŵr Cymru against 30p at Thames.
- The business model drives increasing debt at Thames and Dŵr Cymru. Over 25 years Thames distributed £ 4.1 billion of dividends to shareholders and, if that had been halved, Thames outstanding debt would be reduced from £20 billion to £18 billion.

A publicly owned corporation could borrow more cheaply than a private bond financed company. But this interest rate differential is not large enough to make the business model work. The level of interest is critical. Low interest rates stabilised the Dŵr Cymru business model in the 2010s but interest rates are high and rising in the second half of the 2020s.

The business model problem is caused by the intersection of two variables:

- Water and sewerage is (with railways and the electricity grid) one of three utilities with a voracious demand for physical investment. Inadequate levels of physical investment took 40p from every pound of water industry revenue in the 2010s.
- Water charging is (like gas and electricity charging) regressive so the poor pay absolutely more per person and relatively more per household for water. This inhibited

bill increases in the 2000s and 2010s and now limits the revenue raised from bill increases in the 2020s because high-income households are not paying their fair share.

What to do? Progressive charging according to household income should be on the agenda because it could double revenue with most households paying no more. This is a mid-term policy when Westminster government does not at present have comprehensive data on household income. A short-term policy would be a more generous national social tariff scheme for all those on universal credit, with most of the revenue cost recovered by a charge on full bill payers.

More fundamentally, we need to break from the binary choice between public ownership and regulatory reform because there is no “one and done” solution to the embedded, wicked problems of water and sewerage now facing the new challenge of climate change after 25 years of underinvestment.

Even after charging reform, water and sewerage would be about priorities and trade-offs on a pathway to improvement in a process of learning within physical and financial constraints. Hence our argument for a new kind of social governance of the water sector. The complex choices in water are inherently political not technical and should be made after deliberation by informed citizens (advised by experts).

Welsh Government is now formally charged with rearranging regulation and setting up a Welsh Ofwat. But it could take this opportunity do more and different by taking the first steps towards social governance. Hence our Welsh proposals for a bill of works to clarify the cost of different policy options as prelude to a Citizens Assembly advised by experts, an independent Water Observatory, which recognises also activism and citizen’s science, and a Standing Committee of Senedd.

Our suggestions are not prescriptive but illustrative. They show how we could at modest cost move towards social governance operating through new kinds of institution. This would give meaning to the idea of public control regardless of ownership.

Foundational Economy Research:

Foundational Economy Research is an action-research agency which works on the sectoral provision of basics and the politics of change in ordinary places in Wales, the UK and beyond. This public interest briefing is the first in a series of briefings and reports which build on the analysis of English and Welsh water in our *Murky Water* book published in 2025.

For the media:

A copy of the *What we Need to Know* briefing can be downloaded from the foundational economy research web site at <https://foundationaleconomyresearch.com/>

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