

# Foundational Economy Research

## PRESS RELEASE:

### *What we need to know (and do) about water*

**19 October 2026**

**For immediate release**

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This important new report finds that public ownership (like better regulation) is not a “one and done” fix for the water industry in England and Wales which has a business model problem.

The research shows the business model problem is that the current amount of revenue going into the water industry in England and Wales is not enough to cover the cost of running day-to-day services, investing in renewing infrastructure and servicing bond and/or equity providers of financing. This is the case whether for for-profit Thames Water or not-for-profit Dŵr Cymru/Welsh Water which has no extractive shareholders.

Under the current household charging regime, even if the public owned the water companies, there still would not be enough revenue to secure our drinking water supply, treat the sewage spilling into our rivers or prepare us for climate change. Any reform needs to be combined with a new charging regime which brings in more revenue and with stronger social control which empowers informed citizens.

### **Thames and Welsh Water have the same business model problem**

Thames exemplifies shareholder extraction, as when Macquarie had an ownership stake from 2006 to 2017. Bond-financed Dŵr Cymru blocks this kind of extraction because it has no shareholders and pays no dividends.

Even when Thames was restricting investment to patch and mend, it invested £25.3 billion after 2001 which was more than its £23.9 million financial surplus after meeting operating costs. There was a £1.4 billion funding gap before any finance expenses. Extractive shareholders did claim £4.1 billion of dividends but, even if their claims had been halved, Thames would still have debts of £18 billion.

Since 2001, Dŵr Cymru's finance expenses without shareholders have taken 27p in every pound of revenue, which are not much below those of Thames where finance expenses with shareholders took 30p in the pound. Financially engineered bond finance was not much cheaper at Dŵr Cymru because its bonds were inflation-linked and tied to a derivatives portfolio.

A publicly owned company could borrow more cheaply but the report argues that this interest rate differential is not large enough to solve the business model problem at current 2026 interest rates. The Dŵr Cymru case shows that bond finance only secures sustainability in cheap money periods like the 2010s when general interest rates are low

### **The business model problem is that regressive charging system does not generate the revenue to cover the activity's large investment needs**

As we showed in our *Murky Water* book, the current system of charging for water is regressive. It bears heavily on low-income households, and this limited water bill increases in the 2000s and 2010s. When water bill increases could no longer be avoided in the 2020s, high income households are still not paying their fair share which limits an increase in revenue.

The limited revenue from household charging has not been able to cover the demand for physical investment in a hugely capital-intensive activity. In the 2010s the industry was not upgrading sewage treatment or building reservoirs and despite that patch and mend investment took 40p of every pound of revenue.

Progressive charging linked to household income should be the long-term objective because, as we showed in our *Murky Water* book, it could double revenue with most households paying no more. For immediate action on affordability, the Westminster Government should mandate a more generous national social tariff for all households on Universal Credit, with most of the cost funded by a charge on full bill payers.

### **If we accept Dŵr Cymru has not delivered, Welsh Government now has the unique opportunity to take the first steps towards social control of water**

Dŵr Cymru shows the severe limits of the not-for-profit bond financed model, as recently admitted by its own Chief Executive. Dŵr Cymru's financial ratios are not much different from those of for-profit English water companies and three water industry regulators rate its environmental performance as bad or worse than other companies. Management capture is always a risk with large not-for-profits and

corporate governance controls have clearly failed at Dŵr Cymru where its Board and appointed Members have not challenged underperforming management.

There is no “one and done” solution to the embedded, complex and wicked problems of the water industry because even after charging reform, the choices would be about priorities and trade-offs on a pathway to improvement. Here our report argues for a new kind of social governance of the industry. 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 formally charged with establishing new Wales-only regulation with a Welsh Ofwat. But it could take this opportunity to do more and different by taking the first steps towards social governance. Our Welsh proposals are for (a) a bill of works to clarify the cost of different policy options as prelude to (b) setting up a Citizens Assembly advised by experts to set priorities. With the pressure for change kept up by (c) establishing a Water Observatory with activist representation and (d) a new Standing Committee of the Senedd resourced to examine finance and environmental performance.

### **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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