

Water Commission MP Briefing: Transforming our Failing Water System

Summary

The current model of privatisation of the water sector has failed. Years of weak regulation, exploitative ownership, and failed privatisation have left our coastlines and rivers polluted, water companies financially unstable, and the public exposed to serious health risks. We are calling for transformational reform of the water sector in the UK that delivers on 5 key principles:

1. **Priority to Protect Public and Environmental Health**
2. **Democratic Decision Making**
3. **Tough Independent Regulators**
4. **Operating for Public Benefit**
5. **Transparency**

International examples demonstrate approaches to finance and governance where the planning, investment and operations of water companies is carried out for public benefit, rather than in the interests of private investors, particularly when paired with municipal oversight.

This briefing will explore the public benefit models that are available for the UK to learn from and adopt in place of the current failed privatised model. We don't prescribe a one-size-fits-all approach but instead set out the five key principles that should be incorporated into the new system:

We make a clear case for strong municipal oversight and call for a shift toward a public benefit model, based on our analysis of existing models.:

1. **Municipalities**
2. **Regional Water bodies**
3. **Not-for-profit model**
4. **Public benefit company/Community interest company**
5. **Public ownership**

The Problem: The Water System is Failing

- Currently, only **14% of rivers** in England achieve good ecological status, and none meet good chemical status.
- In 2024, water companies discharged untreated sewage into waterways across England and Wales for **3.6 million hours**.
- The Office for Environmental Protection found that Ofwat, the Environment Agency and Defra were all **failing to comply with environmental law** in relation to regulatory oversight of untreated sewage discharges.

- Hospital admissions due to waterborne diseases **have increased by 60%** since 2010, with **1,853 cases being reported** to Surfers Against Sewage in 2024 alone.
- Water companies are not spending their budgets on improvements to sewage works, with Yorkshire Water spending just 20% of their budget and South West Water only **spent 39%**.
- The water companies were debt free at privatisation in 1989, and now have **accumulated £64.4 bn debt**.
- In the 2023-24 financial year, **11% of English water companies'** revenue was spent on dividends
- Since privatisation, water company shareholders have extracted nearly 60% of their original investment in real terms - £4.8bn withdrawn from the £8.2bn (2023 prices) initially injected.

The Solution: A Public Benefit Water System

We are calling on the Water Commission to deliver bold recommendations that champion greater municipal oversight, stronger regulation and a clear shift to public benefit models, drawing on international examples to show the way.

We don't prescribe a one-size-fits-all approach but instead set out five key principles that should be incorporated into the new system:

- **Priority to Protect Public and Environmental Health** - Water companies, as providers of a vital public service, must prioritise protecting public and environmental health over shareholder returns, with operating permits requiring urgent review to ensure treated effluent meets standards that reflect local waterway use and safeguard the health of water users, especially through tertiary or quaternary treatment where needed.
- **Democratic Decision Making** - Decisions about water planning, funding, and management must be made regionally and locally with meaningful input and governance power for stakeholders, such as water users, local authorities, and environmental groups, within water company structures, while aligning with a national strategy to ensure coherent delivery of clean and secure water systems across the country.
- **Tough Independent Regulators** - Regulators must be fully independent, properly resourced, and legally bound to protect public health and the environment by enforcing the law, ending pollution for profit, prosecuting illegal discharges, and using powers such as the Special Administration Regime when water companies fail to meet financial, service, or environmental obligations.
- **Operating for Public Benefit** - Water companies must be restructured to ensure public benefit and democratic municipal oversight, with regulation that attracts long-term, low-risk investment in sewerage infrastructure, prioritises nature-based and catchment-scale solutions, and ensures efficient, transparent use of finances—modelled on successful not-for-profit systems in Europe.
- **Transparency** - Water companies must operate with full transparency—openly sharing pollution, environmental, and financial data in a clear, accessible format for the public and regulators—while ensuring no one profits from pollution and enabling effective monitoring and enforcement through cross-agency data sharing.

Alternative Water Company Models

It is important to note that England and Wales are the **outliers in Europe**, where the ownership of water infrastructure remains mostly public. Looking to Europe and beyond, there are a range of alternative financing and governance models that centre around public benefit:

Model 1: Municipal Ownership

Municipal ownership places water governance and services in the hands of local or regional authorities, who are responsible for planning, financing, and delivering water and wastewater services. This model is common across Europe and the United States and over 180 cities worldwide, including Paris, Berlin, and Buenos Aires, have shifted from private to municipal control since 2000 through a process called *remunicipalisation*.

Strengths of the municipal model:

- a) **Improved access and quality** – By removing the profit motive, municipal control often results in better service access and quality. [In Arenys de Munt, Spain](#), the public operator restructured tariffs to guarantee access for low-income households, while in Almaty and Paris, service reliability and coverage significantly improved.
- b) **Reduced costs and environmental benefits** – Municipal control has led to major savings and environmental gains. A clear example of the success of the remunicipalisation of Paris water was shown at the 2024 Olympic Games where the Seine hosted numerous swimming and triathlon events. Whilst much work is still needed to ensure that water users can swim safely in the Seine, the estimated total injection of [1.4 billion euros](#) was a huge achievement and is a testament to the collaboration of many sectors [working together](#) behind a shared vision. By the end of the Olympic Games, bacteriological pollution was [reduced by 75%](#).
- c) **Opportunities for infrastructure investment** – Municipal operators can access lower-interest government or municipal bonds and public investment. [Grenoble's municipal utility](#) tripled infrastructure spending while keeping tariffs low, and cities like Stockholm and Brest accessed major loans from public investment banks for sewage upgrades.
- d) **Democratic and transparent governance** – Municipal water utilities often embed citizen and civil society oversight into decision-making. In Paris and Grenoble, board members include public representatives, while citizen observatories allow input into strategic decisions. Austria and Sweden also maintain strong water transparency and public monitoring systems.

Weaknesses of the municipal model:

- e) **Potential conflict in mixed models** – Where services are municipally owned but privately delivered, tensions may arise if the objectives of public authorities and private operators diverge. These conflicts can hinder long-term planning and reduce public trust.

Model 2: Regional Water Authorities

Regional Water Authorities would decentralise water governance, embedding democratic, catchment-based oversight into how water and wastewater services are planned, financed, and delivered. This model, inspired by successful systems in countries like Austria, Sweden, and Denmark, offers a pathway for greater accountability and community-led environmental stewardship in the UK.

Strengths of Regional Water Authorities:

Following from the strengths of municipalisation, Regional Public Water Authorities would embed customers, and local stakeholders into the governance, decision making and regulation of the industry. [Austria's](#) "Water Sanctuary" concept exemplifies the cultural and legal integration of environmental stewardship at a local level, while [Sweden and Denmark](#) similarly empower municipalities to manage wastewater effectively.

Model 3: Not-for-profit companies

The not-for-profit model allows water companies to operate in the private sector while aligning their objectives with public interest rather than shareholder profit. Surpluses are reinvested into infrastructure, environmental improvements, or community initiatives. However, as the example of Welsh Water demonstrates, the success of this model hinges on strong governance and regulatory oversight.

Not-for-profit models can offer public interest outcomes and reinvestment, but without tough, transparent governance and regulation, they risk replicating the worst outcomes of privatisation. Any expansion of this model must be accompanied by independent and well-funded regulators, municipal oversight, and constitutional safeguards to ensure environmental and financial accountability.

Strengths of not-for-profits:

- a) **Value for money-** Not-for-profits can reduce bills and accelerate infrastructure investment by reinvesting profits instead of paying dividends. [Austin Energy](#), a not-for-profit utility in Texas, consistently offers lower residential electricity rates and reinvests surplus funds into renewable energy and grid improvements.
- b) **Democratic governance-** Not-for-profits can embed democratic structures to ensure decisions reflect community needs. [Welsh Water's board](#) includes members tasked with supporting community relations, while Austin Energy is overseen by a [Utility Oversight Committee](#) made up of elected council members accountable to residents.
- c) **Public interest culture-** Decisions tend to be more customer-centric and focused on long-term outcomes. [Said Business School interviews](#) with former Glas Cymru directors found they prioritised customer outcomes more than when working in shareholder-owned companies, and public consultations revealed strong support for reinvestment over rebates.
- d) **Social value and reinvestment-** Reinvesting surplus in public services can ease pressure on other areas. *In 2023, Austin Energy contributed around \$124 million to Austin's general fund, supporting local parks and libraries.*

Weaknesses of not-for-profits:

- a) **High debt servicing burden**- Without shareholder capital, not-for-profits rely heavily on debt finance, which can become costly. Studies by the [University of Greenwich](#) have shown that approximately 41% of Welsh Water's revenue goes to servicing debt, a higher proportion than in both privatised water companies (35%) and publicly owned Scottish Water (8%).
- b) **Opaque governance**- Poor transparency and limited public accountability can arise in self-selecting models. Glas Cymru's board appoints its own members, and decision-making power rests with just two operational directors, raising concerns about oversight and concentration of authority.
- c) **Weak environmental performance**- Despite no shareholder pressures, poor regulation can still result in environmental failure. Welsh Water was responsible for over 105,000 sewage spills in 2023 and was [fined £40 million](#) for governance failings- rated the [worst performer](#) on water quality by the Drinking Water Inspectorate that year.
- d) **Dependent on strong regulation**- The model's success depends on robust external governance and enforcement. Welsh Water's failings are widely attributed to weak oversight from Ofwat and NRW, unlike more effective examples seen internationally where regulation enforces public interest delivery.

Model 4: Public Benefit Company (PBC) and Community Interest Company (CIC)

The Public Benefit Company (PBC) and Community Interest Company (CIC) models provide a hybrid structure that balances profit-making with a defined social or environmental mission. They allow for private investment while ensuring that profits and assets serve public benefit. These models can be effective for transforming water companies into community-centered organizations that prioritize long-term environmental and public health goals.

The Commission should explore converting water companies to PBCs or CICs, as these structures ensure public accountability, transparency, and sustainability, with legal safeguards like asset locks and dividend caps.

Strengths of CIC and PBCs:

- a) **Value for money**: PBCs and CICs cap dividends, ensuring that profits are reinvested in community benefit rather than maximizing shareholder returns. For example, Severn Trent's 2023-2024 dividend payouts [exceeded 200% of profits](#), which contrasts with CICs, where dividend caps ensure better community value.
- b) **Democratic**: CICs require annual reporting on community benefits and consultation with stakeholders. For instance, [Edinburgh Solar Cooperative](#) involves its members in governance through annual elections, reinforcing democratic control.
- c) **Transparency**: CICs and PBCs are legally required to publish annual reports detailing their progress toward social and environmental goals. The Eni Plenitude

benefit corporation in Italy publishes an "Annual Benefit Report" that evaluates its social impact, showcasing transparency.

- d) **Net environmental, climate, and public health benefits:** PBCs and CICs can enshrine environmental and public health goals in their core documents. [Eni Plenitude](#), as part of Italy's "Società Benefit" model, must operate sustainably, with a focus on environmental and social responsibility.
- e) **Opportunities for infrastructure investment:** PBCs attract socially-conscious investors who prioritise environmental, social, and governance (ESG) criteria. In the US, PBCs have attracted over \$2.5 billion in investments, showing the model's potential for driving infrastructure improvements.
- f) **Asset-locks:** Asset locks prevent the sale or transfer of assets, ensuring that profits and resources stay focused on public benefit. [Edinburgh Community Solar Cooperative](#)'s assets are locked, ensuring that any residual assets go toward similar mission-driven organizations.

Weaknesses of CIC and PBCs:

- a) **Limited implementation and untested at scale:** PBCs and CICs have not yet been tested in large-scale sectors like water utilities in the UK, posing challenges for their broader application. The lack of specific legislation for PBCs in the UK complicates the transition.
- b) **Regulatory complexity:** PBCs and CICs require stringent oversight to ensure they adhere to their public benefit goals. This necessitates robust regulations, which could be a challenge for water sectors transitioning to this model.

Model 5: Public Ownership

Public ownership is the dominant model for water services in Europe. Public ownership is when infrastructure and operations of water supply and wastewater services are **owned and managed by local, regional or national government entities**, ensuring that the revenues are reinvested and not given to shareholders or banks, while governance structures have greater public oversight and transparency, with members of boards often being from service users groups and environmental organisations.

Strengths of public ownership:

- a) **Democratic-** Publicly owned water systems are highly democratic, with strong local accountability, citizen participation, and transparent governance structures-evident in models seen in [Switzerland](#), [Finland](#) and France. In 2023, Eau de Paris launched a [participatory budget](#), allowing citizens to propose and vote on projects related to drinking water, thereby enhancing transparency and public engagement.
- b) **Value for money-** Publicly owned water utilities reinvest all profits into services instead of paying shareholder dividends, resulting in affordable tariffs, high customer satisfaction, and transparent investment in infrastructure. In Austria, [86% of citizens](#) consider water prices fair due to efficient public management.

- c) **Lower borrowing costs** - Public water companies can access cheaper financing through government-backed bonds, which typically carry much lower interest rates than private sector loans. [Dutch utilities](#), for example, owned water utilities benefit from low government bond yields, with 10-year bonds averaging around 1.76% over recent years.
- d) **Reduced debt servicing costs** - Lower interest rates allow public utilities to spend less on debt repayment, freeing up funds for service improvements and stability. Scottish Water, a publicly owned entity, [allocated only 10%](#) of its revenue to debt servicing in 2023. In contrast, private water companies in England, such as Thames Water, Southern Water, and South East Water, spent over 25% of their revenue on debt payments.
- e) **Opportunities for infrastructure investment** - Public ownership allows utilities to borrow at favourable rates, enabling reinvestment in modern, sustainable infrastructure. The City of [Stockholm](#) secured a low-interest £273 million loan from the Nordic Investment Bank to expand its sewage treatment capacity, while [Eau du Ponant](#) in France accessed €80 million from the EIB to improve water conservation and reduce pollution.

Weaknesses of public ownership:

- a. **Lack of funding** - Public ownership can struggle without consistent political will and financial support, risking underinvestment and degraded infrastructure. In [Northern Ireland](#), NI Water faces a £1 billion funding shortfall to 2027 due to reliance on general taxation and lack of domestic water charges, resulting in widespread sewage pollution in Lough Neagh and other waterways—an outlier compared to well-funded public models across Europe.
- b. **Competition for funding** - Concerns about public water services competing with other departments for government funds can be addressed through low-risk, government-backed bond financing. [In Switzerland](#), 37 of 140 planned treatment plants have been upgraded with public investment, drastically improving water quality since the 1960s and demonstrating how a well-supported public model can deliver health and environmental gains with strong public backing.

Further reading:

River Action and Surfers Against Sewage full submission: https://www.sas.org.uk/wp-content/uploads/2025/04/River-Action-and-Surfers-Against-Sewage-Joint-Submission_Final.pdf

Surfers Against Sewage 2025 Water Quality Report: <https://www.sas.org.uk/wp-content/uploads/2025/04/SAS-WQR25-V6-Digital.pdf>