DEW Paper 2-2024 [1]

Ownership without investment in English water

- net capital extraction by shareholders of English & Welsh water and sewerage companies 1990-2023

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[1] This paper is one of a PSIRU series on the economic, political and environmental problems of privatised water in England, under the general heading of 'Democratising English Water' (DEW). All will be available at https://gala.gre.ac.uk/

Summary

In the 33 years since privatisation in 1990, in total, the shareholders of the 10 English and Welsh water and sewerage companies (WASCs) have invested less than nothing of their own money in the companies. The shareholders' impact has rather been very negative, withdrawing a real net total of £85.2bn. from the public water and sewerage services since privatisation.

Total shareholder equity (share capital and share premium) in all the companies fell, even in cash terms, from £3,767m. in 1990 to £3,397m. in 2023.

In real terms, this represents a 62% cut - a reduction of £5523m. (after revaluing the 1990 equity to 2023 prices). Only two companies show any real increase over the period, one of which is Southern Water, due entirely to the £391m. injection by Macquarie in 2022.

Shareholder equity of £3,397m. in 2023 represents only 25% of the total so-called 'shareholder funds' on the balance sheet (£13,223m.), the rest of which consists of retained earnings from profits, which would be equally available to public sector owners.

In 1990 the companies started with £5.7bn. in retained earnings – inherited from the previous public sector water authorities and from government subsidy. In 2023 retained earnings were a little higher in cash terms, but the real value of retained earnings has halved, falling by £6.7bn. (@2023 prices) in the 33 years from1990 to 2023.

Instead of retaining profits, the shareholders have over that 33 year period decided to take out dividends with a cumulated real value of £72.9bn. (@ 2023 prices), over 10 times the value of earnings retained on the balance sheet.

The combined effect of the extraction of dividends, reduction in real value of shareholder equity, and reduction in retained earnings, is a real loss of £85.2bn. (@2023 prices) for the water and sewerage services of England and Wales.

Even the original purchase of shares at privatisation, injecting a total of £3,767m., was effectively largely financed by extracting dividends of nearly £3bn. from the balance sheets inherited from the public sector – as well as benefitting from nearly £5bn. which appeared on the balance sheet thanks to the government's write-off of debts.

This evidence from England and Wales is consistent with international evidence on the failure of the private sector to invest in water services in the global south and elsewhere. A global review by PSIRU in 2006 concluded that cutbacks in aid in the vain hope of private investment, meant that: "The net contribution of 15 years of privatisation has thus been to significantly reduce the funds available to poor countries for investment in water."

The idea that a privatized system can deliver new capital from shareholders for investment is a dangerous illusion: it does not happen. After 33 years it is not plausible to argue that there can be some 'better' regulation that will transform this situation. A rapid transition to public ownership is needed to end the large-scale extraction of money, as well as providing long-term advantages of democratic oversight and transparency. Other countries, and other sectors, should take careful note of these results, carry out similar analyses on remaining privatisations – and resist any attempt to introduce any more privatisations.

1. Introduction: shareholder investment in the privatised English water companies

Investment of new money from shareholders is a recurring issue for the privatised water systems of England and Wales.

- OFWAT is currently urging the shareholders of the water companies to inject some more of their own money into the companies in order to finance part of the cost of investment to deal with the problems of sewage pollution, to avoid raising consumer charges. The feasibility of this is affected by how normal it is for shareholders to make such investments.
- OFWAT and UK Water, the trade association of the companies, defend the substantial dividends paid by the companies as necessary in order to 'secure the capital they need to finance their investment programmes'. This implies that the dividends paid to shareholders encourage them to invest more of their capital.
- A core argument for privatisation of water and other services was that this would enable the systems to gain direct investment to finance investment, instead of public sector borrowing, or the retained surplus of the companies. So it is relevant to assess how much finance has been injected by the uniquely private channel of share capital, compared with debt or retained earnings.

This paper addresses a set of specific questions:

1. how much equity have shareholders of the English & Welsh water companies actually invested in the companies (a) in the initial privatisation in 1989-90 (b) since that initial privatisation, so from 1990-2023
2. How do these figures compare with the dividends extracted by the shareholders from 1990-2023?
3. On retained earnings: (a) how much is retained on the companies' balance sheets in 2023; and (b) how does this figure compare with the retained earnings inherited in 1990 from the previous public water authorities?
4. How much of the initial equity injection in 1989 was itself indirectly financed by dividends extracted from the previous public water authorities, and by government write-offs of debt?

A note on terminology: this paper uses 'shareholder equity' to mean actual injections of money by shareholders, as shown in the share capital and share premium elements of company balance sheets. This is different from 'shareholder funds', which also includes 'retained earnings'.

2. Methodology

Shareholders invest equity by paying the company money in exchange for shares. Company balance sheets in the UK have to show how much share capital has been issued, which represents the face value of the shares: investors often pay much more than face value, and this additional value is shown as 'share premium' on the balance sheet. So the share capital plus the share premium is an accurate picture of how much shareholder equity has been invested in the company.

Shareholders own the company and all its profits, and so the retained profits of the business are also included in total 'shareholder funds'. However, these retained profits are not external money injected by the shareholders, they are surplus generated from within the business.

This paper identifies from company accounts:

1. the value of share capital and share premium on the balance sheets of the 10 English and Welsh WASCs in 2023. All data is taken from the accounts filed at Companies House (and cross-checked

against the company APR data required by OFWAT). This shows the cumulative total of the value of equity investment at and since privatisation.

2. the value of share capital and share premium in the accounts of the 10 English and Welsh WASCs in 1990. All data is taken from the Companies House accounts. This shows the value of equity invested as a result of privatisation itself.

3. The difference between these two shows how much equity has been injected since privatisation. This can then be compared with existing data on dividends paid out over the same period

4. The actual process of change between 1989 and 2023 is analysed by examining share issues or reductions recorded since 1990, and other relevant evidence from company accounts.

When values from 1989 are converted to 'real' current £2023 prices, the calculation uses financial year CPIH indices. This is the same methodology as used by the FT in calculating the real current £2023 value of dividends and capital spending over the period. The cumulative value of dividends and capital spending over the period also use the same methodology as the FT. [2]

Note that all data relate to the 10 WASCs, because they were the companies privatised in 1989. The other 'water-only' companies (WOCs) were already private. This means that totals for e.g. dividends and capital spending differ from sector figures, because the WOCs are not included.

3. Results: shareholder equity, retained earnings and dividends in 2023 and 1990

A. Shareholder equity in 2023

The first table shows that in March 2023 the face value of share capital in the WASCs was £1032 million. When share premium payments are included, the total shareholder equity was £3.4 billion.

The most striking thing about the shareholder equity figures is how low they are.

- The total of £3.4billion represents a mere 2% of the cumulative real capital expenditure by the WASCs since privatisation (£179 billion @ 2023 prices, using CPIH)
- It is equivalent to only about 1/4 of the 2023 revenue of the companies, £12.3bn.

The retained profits accumulated within the business are also shown. They are twice as large as the shareholder equity. These do not represent injections of capital from external shareholders, but profits which have not been taken out as dividends by the owners. Both the retained profits and the profits taken out as dividends would also be available to public sector or non-for-profit owners to finance investment. Some funds are earmarked as reserves related to financial transactions, mainly hedging.

Together these make up total 'shareholder funds' of £13.2 billion, all of which belong to the shareholders. But only 25% of this, £3.4bn., was injected as equity by shareholders from their own money.

Table 1. Shareholder equity and retained earnings on company books 2023 £million

Company	Share capital £m.	Shareholder equity (share cap + share premium £m.	Retained earnings £m.	Other (reserves, hedging, etc) £m.	Total shareholder funds £m.
Anglian Water	32	**1197**	**1090**	20	**2306**
Dŵr Cymru	310	**310**	**-197**	1433	**1546**

[2] See Plimmer and Hollowood 15 April 2024 https://www.ft.com/content/c3cdfefb-c912-4699-bb7f-72c5c6515757

Northumbrian Water	123	**123**	**217**	7	**347**
Severn Trent Water	1	**251**	**2049**	-0.4	**2299**
South West Water	296	**709**	**263**		**972**
Southern Water	0	**438**	**332**	95	**865**
Thames Water	29	**129**	**526**	779	**1435**
United Utilities	230	**230**	**1377**	24	**1630**
Wessex Water	0.001	**0.001**	**609**		**609**
Yorkshire Water	11	**11**	**631**	573	**1215**
Total WASCs	**1032**	**3397**	**6897**	**2929**	**13223**

Sources: company accounts as filed at Companies House, and company APRs to OFWAT

B. Shareholder equity and retained earnings after privatisation 1990

The corresponding table from immediately after privatisation, March 1990, is set out below. Total value of shareholder equity was shown as £3.8 billion , with retained earnings of £5.7bn.

There are two striking features, when compared with the 2023 figures above.

- the value of shareholder equity in the companies was actually higher in 1990 than in 2023. Even in money terms, the value of shareholder equity has fallen. In real terms, it is less than half what it was immediately after privatisation.
- The retained earnings in 1990, inherited from their public sector predecessors were much larger than the shareholder equity even at privatisation, which means that these retained earnings were more important from the outset than equity injected by the new private owners (and as shown below, much of the initial 'shareholder equity' was effectively recycled retained earnings).
- The retained earnings in 2023 are a bit higher in money terms, but much lower in real terms.

Table 2. Shareholder equity and retained earnings on company books 1990[3] £ million

Company	Shareholder equity (share capital + share premium) £m.	Retained earnings £m.	Total shareholder funds £m.
Anglian Water	860	269	1129
Dŵr Cymru	276	495	771
Northumbrian Water	123	374	497
Severn Trent Water	400	1268	1668
South West Water	266	357	622
Southern Water	46	317	363
Thames Water	360	969	1329
United Utilities	1080	536	1616
Wessex Water	81	434	515
Yorkshire Water	275	710	985
Total WASCs	3767	5729	9497

Note: Northumbrian's privatisation effectively happened a year later, so 1991 figures are used: see footnote.

[3] Northumbrian Water's privatisation effectively took place a year later. The company issued shares worth £123m in the next financial year 1990-91, and retained earnings were £374. These figures for 1991 are included in the table for 1990 table above, and elsewhere, to provide fairer comparisons and totals

C. Change in value of shareholder equity 1990-2023

The table below shows the change in shareholder equity between 1990 and 2023, in cash and real terms. These results show that:

- overall, in the 33 years since privatisation, shareholders have injected no net new equity into the companies. Even in cash terms, there has been a slight fall from £3644m. to £3696m.
- In real terms, the value of shareholder equity in the companies fell by £5.6bn. (@2023 prices), a reduction of 62%. Only South West and Southern show an increase in shareholder equity over the 33 year period.

Table 3. Change in value of shareholder equity 1990-2023

Company	S'holder equity 1990* £m.	S'holder equity 1990* revalued to £2023 prices	S'holder equity 2023 £m.	Change in real value of s'holder equity 1990-2023 £m. 2023 prices	2023 as % of 1990 Cash	2023 as % of 1990 real%
Anglian Water	860	2046	1197	-849	139%	59%
Dŵr Cymru	276	657	310	-347	112%	47%
Northumbrian Water	123	293	123	-170	100%	46%
Severn Trent Water	400	952	251	-701	63%	26%
South West Water	266	633	709	76	267%	112%
Southern Water	46	110	438	327	944%	397%
Thames Water	360	856	129	-727	36%	15%
United Utilities	1080	2569	230	-2339	21%	9%
Wessex Water	81	193	0	-193	0%	0%
Yorkshire Water	275	654	11	-643	4%	2%
Total WASCs	**3767**	**8962**	**3397**	**-5565**	**90%**	**38%**

*Note: companies except Northumbrian revalued from 1989-90; Northumbrian revalued from 1990-91.

The shareholder equity was reduced in many cases by simple decisions of the individual companies. For example, Yorkshire Water in Oct 2008 decided to "undertake a capital reduction and convert £765m. of share capital into distributable reserves"; in October 2012 Thames Water's shareholders reduced the share capital of the company by £1 billion ; In March 2015 the directors of Wessex Water "approved a capital reduction of £84,349,999 £1 ordinary shares" (2014-15 note 20 p.76). The biggest single step may have been by United Utilities in Jan 2015 , when the company decided to cancel shares worth £1,199m. and remove £647.8m. from the share premium account, thus transferring a total of £1,747.8m. to "strengthen its distributable reserves". These 4 decisions alone cut shareholder equity by £3.6billion.

The movements have varied - some companies decided to increase share capital in some years – but not enough to offset these trends. And the failure to add to the original share capital shows a long-term successful resistance to financing new investment with more share capital. OFWAT has been attempting to convince the companies to do so, but there have been three kinds of response to this pressure.

The first is the hoped-for response of injecting new capital: the main example is the financial restructuring of Southern Water in 2022, which involved Macquarie paying £391.2m. for a majority of the shares, which was added to the share premium account.

The second has been a mixture of confused hints, airy dismissals and veiled threats in the companies plans submitted to OFWAT as the basis for their claims for price rises in 2025-30. Thames Water says that "equity holders are willing to inject another £3.25bn, but only if they get the regulatory outcome they want from Ofwat. This includes a 40 per cent increase in customer bills by 2030 to underpin the investment, as well as leniency on regulatory fines and dividend rules.” [4] United Utilities’ plan chapter 9 says that: " We are confident that we... will be able to attract £1.35 billion new equity from our listed parent to support our target capital structure" , but this is: "subject to Ofwat reviewing and updating the risk-reward balance and allowed returns at the Final Determination". Severn-Trent has three different versions of its plans: the investor summary says tentatively that : "our plan assumes £1 billion of new equity from our investors....we see a prominent role for equity in funding our AMP8 plan”; the overview version is much bolder and claims that "we have raised £1 billion of new equity from our investors”; and the customer version says nothing at all about any shareholder equity contribution. South West Water’s investor summary does not mention any equity contribution from shareholders, while the business plan itself says "we do not at this stage necessarily see additional equity (apart from retained earnings) over the period from 2025-2030”.

The third is making a financial transaction which appears to deliver more shareholder equity, but may be cosmetic only, without injecting any new capital into the company. Wessex Water, which had only a single £1 share in 2023, created a second £1 share in November 2023, issued to the existing parent, for which it was paid £477m. This can be expected to appear on the 2024 balance sheet as a £477m. boost to the share premium account – but it will not change the total shareholders funds, because the ‘payment’ for the share was “Paid-up out of amounts standing to the credit of the company’s revaluation reserve (being £477,260,408)” (Shares issued 27 November 2023).[5]

D. Change in value of retained earnings, and dividends 1990-2023

Retained earnings represent profits which have not been distributed but remain on the balance sheet. They do not represent money injected by shareholders, but profits from the company’s operations which have been retained within the company, instead of being distributed to shareholders as dividends.
The results show that:

- retained earnings on the 2023 balance sheet are not much higher, even in cash terms, than the retained earnings inherited from the former public companies at privatisation
- the real value of retained earnings has halved, falling by £6.7bn. in the 33 years from1990 to 2023. If reserves are included there is a real fall in value of more than 25%.
- by contrast, the cumulated real value of profits distributed as dividends over that 33 year period total £72.9bn., more than 10 times the amount retained on the balance sheet

Table 4. Change in value of retained earnings 1990-2023, dividends paid in period

Company	Retained earnings 1990 £m.	Retained earnings 1990* revalued to £m 2023 prices	Retained earnings 2023 £m.	Reserves (valuation, hedging etc.) 2023 £m.	Real change in retained earnings 1990-20923	Cumul dividends 1990-2023 revalued to £m 2023 prices
Anglian Water	269	640	1090	20	450	12638
Dŵr Cymru	495	1177	-197	1433	-1374	2692
Northumbrian Water	374	891	217	7	-674	4104
Severn Trent Water	1268	3017	2049	-0.4	-968	11773
South West Water	357	848	263		-585	4515
Southern Water	317	753	332	95	-421	2279
Thames Water	969	2306	526	779	-1779	10,362
United Utilities	536	1276	1377	24	101	12668
Wessex Water	434	1033	609		-424	4250
Yorkshire Water	710	1689	631	573	-1058	7596

[4] FT 27 Feb 2024 Thames Water lobbies for higher bills, dividend payouts and lower fines https://www.ft.com/content/eef78ecc-633b-4ea3-8f92-41a1ed0e6f6e

[5] This reserve was described in the 2023 annual report as: “Included in retained earnings are £479.5m of undistributable reserves (2022: £484.4m) created on first time adoption of IFRS when restating infrastructure assets to fair value” (WW AR23 p.148)

Total WASCs	5729	13629	6897	**2929**	-6733	72876

Note: Northumbrian value is for 1991

E. Original shareholder equity in 1989 – financed by dividends from retained public profits?

The original injection of shareholder capital also seems to have been less than straightforward. As shown in the tables above, in 1990 the newly privatized companies showed share capital and share premium of £3,767m. on their balance sheets. The companies were actually privatized during the second half of 1989, and the 1989-90 accounts straddle that transition period. They show that all of the companies paid out dividends to their new parents in November 1990, totalling £2,993m. That accounted for nearly all the £3,194m. in retained earnings which the public sector companies had built up by April 1989, as shown on the balance sheets. In the same month, those newly privatized parents paid £3,767m. for their shares in the water companies, which appeared as share capital or share premium. But since £2993m. had arrived in the parents' accounts as a result of being extracted from the retained earnings of the water companies, the real 'new' shareholder equity injected by the new owners was only £774m. The pattern can be seen in most of the companies: Anglian Water, for example, appears to have acquired shareholder capital of £860m. by the end of that year– but it had already paid £905m. in dividends to that same parent. Overall, retained earnings at the end of 1990 nevertheless showed a big rise to £5,729m. – but that is accounted for by the injection of £4,953m. of public finance by the government to make the companies debt-free.

Table 5. From public retained earnings to private shareholder equity

Company	Retained earnings March 1989 (£m.)	Dividends paid 1989-90 (£m.)	Share capital + share premium March 1990 (£m.)
Anglian Water	360	-905.5	860
Dŵr Cymru	60	-38.7	276
Northumbrian Water	53	-157.4	123
Severn Trent Water	414	-90.6	400
South West Water	214	-34.6	266
Southern Water	322	-320.8	46
Thames Water	1141	-440.0	360
United Utilities	181	-750.0	1080
Wessex Water	158	-55.1	81
Yorkshire Water	292	-200.0	275
Total WASCs	**3194**	**-2993**	**3767**

F. Net contribution/extraction of funds by shareholders since 1990

These results provide answers to the original questions set out earlier:

- After the original injection of equity as part of the initial privatisation process, the shareholders of 8 out of 10 companies have invested less than nothing in the subsequent 33 years. Overall, they have reduced the value of the initial equity by £5.6billion.
- the original retained earnings on the balance sheet, inherited from the public companies, has also been reduced in real terms by 8 out of 10 companies, reflecting the companies' preference for distribution rather than reinvestment of profits. Overall, they have reduced the value of retained earnings by £6.7billion

We can now make a quantified assessment of what the shareholders have contributed or extracted from the English and Welsh water companies since the 1990 privatisation, by combining the results for equity, retained earnings, and dividends. The table below shows, for each company, the real value of the three key items: change in the real value of shareholder equity since 1990; change in the real value of retained earnings since 1990; and the cumulative real value of dividends extracted since 1990.

- Overall, the shareholders of the WASCs have extracted £85.2 billion since privatisation

- The owners of each of the WASCs have taken out billions over the period. The largest extractions have been made by the largest companies – United Utilities (£14.9bn.), Severn Trent (£13.4 billion), Anglian (£13.0bn.), and Thames (£12.9bn.).

Table 6. Net real contribution/extraction by shareholders 1990-2023

Company	Change in real value of s'holder equity 1990-2023 £m. 2023 prices	Real change in retained earnings 1990-2023 £m. 2023 prices	Cumul dividends 1990-2023 revalued to £m 2023 prices	Net shareholder contribution/extraction 1990-2023 **£billion** @ 2023 prices	*Memo: Net debt accumulated as at March 2023 £m.*
Anglian Water	-849	450	-12638	**-13.0**	*6602*
Dŵr Cymru	-347	-1374	-2692	**-4.4**	*4172*
Northumbrian Water	-170	-674	-4104	**-4.9**	*3484*
Severn Trent Water	-701	-968	-11773	**-13.4**	*7015*
South West Water	76	-585	-4515	**-5.0**	*2429*
Southern Water	327	-421	-2279	**-2.4**	*4494*
Thames Water	-727	-1779	-10362	**-12.9**	*14676*
United Utilities	-2339	101	-12668	**-14.9**	*8886*
Wessex Water	-193	-424	-4250	**-4.9**	*2752*
Yorkshire Water	-643	-1058	-7596	**-9.3**	*6118*
Total WASCs	-5565	-6733	-72876	**-85.2**	***60629***

Source: company accounts, previous tables, and OFWAT for net debt

4. Conclusions

The conclusions on the original questions are fairly clear.

- The shareholders of the companies invested over £3.7bn. in the initial privatisation in 1989-90, but from 1990-2023 they have actually reduced their equity, and in real terms reduced its value by £5.6bn. (@2023 prices), 62%.

- There is no net positive investment over the period, whilst £72.9bn. (@2023 prices) has been extracted in dividends. So the dividends have failed completely to attract new investment from shareholders.

- The retained earnings in 2023 are £6,897m., which is 20% more than in 1990 in cash terms; but this represents a reduction in value in real terms of -£6.7bn. ((@2023 prices).

- The shareholders who made the initial equity injection in 1989 of £3.8bn. had benefited the same month from £3.0bn. in dividends paid out of the surplus from the previous public companies. The net injection could arguably be considered as a more relevant figure, at £0.8m. There was also £5.0bn. in government subsidies for the write-off of debt, which helped obscure the impact of the dividends, which would otherwise have cut retained earnings to a much lower level.

The policy conclusions seem equally clear. The idea that a privatized system can deliver new capital from shareholders for investment is a dangerous illusion: it does not happen. After 33 years it is not plausible to argue that there can be some 'better' regulation that will transform this situation. A rapid transition to public ownership is needed to end the large-scale extraction of money, as well as providing long-term advantages of democratic oversight and transparency. Other countries, and other sectors, should take careful note of these results, carry out similar analyses on remaining privatisations – and resist any attempt to introduce any more privatisations.

This evidence from England and Wales is consistent with international evidence on the failure of the private sector to invest in water services in the global south and elsewhere. A global review by PSIRU in 2006, Pipe Dreams – failure of the private sector to invest in water , concluded that cutbacks in aid in the vain hope of private investment, meant that: "The net contribution of 15 years of privatisation has thus been to significantly reduce the funds available to poor countries for investment in water."

Annexe A: Consumer equity funding the Thames Tideway Tunnel

The biggest example of companies avoiding investing their own equity is the biggest sewerage works project in England, the Thames 'super sewer'.

When the tunnel was first planned, Thames' shareholders refused to invest more new equity in the tunnel, which the NAO explained as: "Thames Water's difficulties in paying for the tunnel result from a 'recent strategy to increase its borrowing and pay substantial dividends to its owners'…" . Former OFWAT CEO Sir Ian Byatt thought that this refusal was itself a breach of statutory duty, which should have triggered taking Thames into special admin: "If Thames is unwilling to make a rights issue, the owners, Macquarie, should be expected to return funds to the utility. If they do not, Thames should go into special administration (allowing for continued service to customers) and another company or financier allowed to take over its activities." [6]

A separate project company was set up, not owned or participated in by Thames. The shareholders put up a total of £507m. in equity, but they key trick was to get Thames Water customers to provide upfront finance for the construction - paying before the tunnel is completed and so actually making the investment – not paying for reaping the benefit of an investment by the company. Customers have already been obliged to pay over £540million upfront capital to finance the construction of the Thames 'super-sewer' - more than all the equity invested by Thames Tideway's shareholders. [7]

The Thames Tideway shareholders, in addition to their equity, have issued shareholders' loans of £836mn, on which consumers also have to pay interest for another 40 years, until 2064. [8]

Table 7. Consumers as equity investors: charges to consumers for capital works on Thames sewer

Year	£m.
2016-17	33.6
2017-18	28.6
2018-19	49.2
2019-20	63.4
2020-21	76.5
2021-22	87.0
2022-23	86.3
2023-24	117.9
Total to date	**542.6**

Sources: Tideway revenue statements 2023-4 , 2019 and 2015 ;Thames Water Annual Report 2022-23 p.137

Annexe B: Gearing: OFWAT ratios and normal debt to equity ratio

This note was written in response to an enquiry about the difference between normal 'gearing' ratios and the gearing ratios used by OFWAT. It is included here as it also shows the unusually minor role of shareholder equity.

The formula OFWAT uses to calculate its published 'gearing' ratios is net debt as a % of 'Regulatory Capital Value' (RCV). This produces ratios of between 58% and 77%, with an average of 68% for the WASCs. RCV is a figure constructed by OFWAT to estimate the market value of companies to investors, and so to ensure an adequate return

[6] (*"Thames Water is obliged to fund big projects". Financial Times. 11 November 2012)*

[7] FT 26 April 2024 Thames Water customers will have paid £540mn for London's 'Super Sewer' https://www.ft.com/content/1b58a0f7-cf7a-4d39-9ebb-93db7172ece3

[8] FT 26 April 2024 Thames Water customers will have paid £540mn for London's 'Super Sewer' https://www.ft.com/content/1b58a0f7-cf7a-4d39-9ebb-93db7172ece3

for the owners of the companies.[9] This is defined by OFWAT as the 'return on regulatory equity' (RORE), and 'regulatory equity' itself is defined as RCV-net debt. This concept of 'regulatory equity' has no relation to the actual shareholder equity on the balance sheet.

However, the normal way of calculating the gearing of a company is to use net debt as a percentage of shareholder equity on the balance sheet. This is used to indicate the resilience of a company to external shocks such as a rise in interest rates. Applying this 'normal' gearing formula to the water companies generates much larger ratios than the OFWAT ones - an average of 459% for all the WASCs, and a range of 250% to 1023%.

For most private companies, such ratios indicate high levels of risk for investors. For natural/statutory monopolies like the English water companies the risks for the companies are much lower, as long as the regulator ensures a flow of income based on prices which are index-linked, as OFWAT does. Under such friendly regulation, increasing debt allows the companies to increase the returns to shareholders, whose own capital injection can remain very small. This security for investors comes at the expense of the consumers, who carry all the interest rate risks by paying higher prices when interest rates rise.

For the public, therefore, the extremely high debt/equity gearing ratios are more relevant, measuring the risk of higher bills as a result of high debt levels.

Table 8. Gearing ratios of WASCs, 2023: OFWAT gearing vs Normal gearing

Company	RCV Apr 23 £m.	Total shareholder funds £m.	Net debt £m.	**OFWAT gearing ratio (=net debt/RCV)**	**Normal gearing ratio = net debt/ Total shareholder funds**
Anglian Water	9959	2256	6602	**66.3%**	**286%**
Dŵr Cymru	7161	1545	4172	**58.3%**	**270%**
Northumbrian Water	5097	347	3484	**68.3%**	**1005%**
Severn Trent Water	11299	2310	7015	**62.1%**	**305%**
South West Water	4002	972	2429	**60.7%**	**250%**
Southern Water	6434	865	4494	**69.8%**	**520%**
Thames Water	18945	1825	14676	**77.5%**	**1023%**
United Utilities	13414	1630	8886	**66.2%**	**545%**
Wessex Water	4076	636	2752	**67.5%**	**452%**
Yorkshire Water	8715	1215	6118	**70.2%**	**504%**
Total WASCs	89101	13601	60629	**68.0%**	**459%**

Sources: company accounts and OFWAT financial resilience report https://www.ofwat.gov.uk/wp-content/uploads/2023/10/The-Monitoring-Financial-Resilience-Report-2022-23.pdf

About PSIRU

Established in 2000, the Public Services International Research Unit (PSIRU) is based in the Faculty of Business, University of Greenwich. PSIRU investigates the impact of privatisation and liberalisation on public services, with a specific focus on water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services, narratives on public services spending and provision, not-for-profit partnerships for capacity development, and public sector alternatives to privatisation and Public-Private Partnerships. PSIRU's website is at: https://blogs.gre.ac.uk/psiru/. PSIRU Reports and academic publications by PSIRU staff can also be found in https://gala.gre.ac.uk/. For information on PSIRU's work on water, contact Emanuele Lobina e.lobina@gre.ac.uk , David Hall halldj@gmail.com, or Vera Weghmann v.weghmann@gre.ac.uk

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[9] In accordance with the original core role of OFWAT as defined in the 1991 Water Industry Act: "to secure that companies are able (in particular, by securing reasonable returns on their capital) to finance" their functions