

Are our water companies environmentally insolvent?

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Ofwat, which is the official water regulator in England and Wales, [issued a report on the financial resilience of the water companies that they regulate yesterday](#). As they note:

We expect resilient companies to be able to maintain headroom in the investment grade category and we expect all companies to keep their long term financial resilience under review.

Those companies with stronger levels of financial resilience include

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ur Cymru, Severn Trent and United Utilities who reported financial metrics and performance that supported a year end credit rating well within the investment grade.

Those companies more weakly positioned in the Dashboard, such as SES Water, Southern and Yorkshire, exhibit lower levels of financial resilience. At 31 March 2021, these companies had the lowest levels of headroom within the investment grade category and more leveraged positions particularly when taking into account derivative exposures. Some of these companies are also in our lowest service delivery category.

There are a number of points to note.

The first is that a lack of financial resilience and poor environmental performance appear to be correlated.

The second is that the financial resilience of some of these water companies looks to be poor.

Third, this is despite the fact that they are trashing our environment because they cannot or will not invest in the necessary sewage systems to protect our rivers and beaches from pollution.

Then let's note three other things.

The first is that environmental standards at water companies will have to improve, as net-zero will require it. I rather strongly suspect none of these companies are near that goal as yet.

Second, this will require considerable investment.

Third, with many of these companies already seriously indebted and without good credit ratings their ability to raise the funds for that investment programme must be in doubt.

Within the concept of [sustainable cost accounting](#) that leads me to ask the obvious question, which is whether these companies can really be considered to be going concerns now, since SCA requires that they must have the simultaneous ability to both settle their liabilities as they fall due and cause no adverse environmental harm when doing so. If ever there was a group of companies where this seems unlikely to be the case then these water companies would seem to be it. It is certainly an issue to consider.

And if they are not going concerns, then what should be done? If ever there was a case for nationalisation this is surely it? How else are we to have the clean and sustainable water that is essential for life?