

## The water industry is bust: it is time that Ofwat said ...

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The [FT has reported this morning](#) that:

*UK regulator Ofwat has warned about the financial health of four water suppliers in England: Thames Water, Southern Water, South East Water and SES Water.*

They added:

*The regulator said on Thursday that more debt and equity would be needed given lower credit ratings, the potential for fines and the scale of investment required. It also criticised the complexity of water companies' financial structures, and their lack of transparency on reporting.*

I would agree with all that, but as usual, a spineless regulator has utterly missed the key issue facing the industry with which it is supposed to be familiar.

The requirement facing the water companies is to deliver us with clean water without simultaneously polluting the rivers and seashores of this country. It's a task that was beginning to happen, just to prove it was possible. And then the Tories relaxed regulation, ignored the needs of a growing population, and turned a blind eye to blatant profiteering. The result was the mess we are now in.

I [wrote this report in June](#):



**Cut the crap:**  
accounting  
for clean water

In it I did three things.

First, I noted that the House of Lords, using government-published data and reports, estimated the cost of achieving the goal of clean water without pollution was £260bn of investment.

Second, I assumed we needed that in ten years at most, not the 27 the government is allowing.

And third, I showed as a result that there was no way on earth the water companies could achieve this, for three reasons:

- \* They could not afford the cost of the investment in terms of interest or returns on capital and keep water prices affordable.
- \* No one would lend the funds for this investment to them as a result.
- \* They would be bust long before they could deliver as a consequence.

The decision every business has to make when preparing its accounts is whether or not it is a going concern. To put it another way, it has to decide if it can survive.

Unfortunately, accountants have decided, with their usual lack of wisdom, that the test for survival is over a twelve-month horizon. On that basis the water companies and the regulators can pretend that all is well in the water sector when in reality the whole structure of the industry as it now stands is totally bankrupt.

If only we had people who could do three things when undertaking regulation we would be a lot better off. Those three things are to:

- \* Ask awkward questions.
- \* Research the issues appropriately.
- \* Come to difficult conclusions.

But it seems the comfortable life is more important to regulators, and so they live within the land of make-belief that accountants have created for them. And so the disaster in the water industry will continue.