

Labour's ducking water nationalisation

<https://www.taxresearch.org.uk/Blog/2024/08/21/labours-ducking-water-nationalisation/>

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As regular readers of this blog will know, I have taken some interest in the activities of the English water companies in recent years.

I am, of course, not alone in doing so, but I am aware [that the report that I wrote on the financial affairs of these companies in 2023](#) still attracts quite a lot of attention from those interested in ways in which the financial mess that these companies have created, largely as a result of their incompetent management of the water system, can be resolved.

In this context, I keep an occasional eye out for what is happening in Parliament with regard to this issue, as a consequence, [I noted this House of Lords question and answer](#)

Question

 Lord Sikka
Labour
Life peer >

Lords

To ask His Majesty's Government, further to the remarks by Baroness Hayman of Ullock on 23 July (HL Deb col 364) that nationalisation of water companies "would cost billions of pounds", whether they plan to provide details of that calculation.

Answer

 Baroness Hayman of Ullock
Labour
Life peer >

Lords

Answered on

8 August 2024

The cost of nationalisation was calculated in a report published by the Social Market Foundation titled 'The cost of nationalising the water industry in England'. The report estimated the costs of nationalising water companies would be £90 billion. This research draws on a range of existing academic studies, as well as publicly available data from Ofwat, the London Stock Exchange and the annual accounts of the water companies. The research can be viewed on the Social Market Foundation's website www.smf.co.uk.

The question was posed by my old friend and tax justice colleague, Lord Prem Sikka. The response was provided by a former Labour MP who served for four years before being appointed to the House of Lords and who would appear from her CV to have no relevant skills in this sector or with regard to anything to do with corporate finance or economics.

As will be noted, Baroness Hayman avoided the question Prem asked by simply referring him to a report by a right-wing tank, the Social Market Foundation.

The claim made by that Foundation that it will cost £90 billion to nationalise the water industry is quite absurd. Firstly, this presumes that an asset purchase would take place, and that would be very surprising. The likelihood is that at least some of the debt obligations of these companies would have to be taken over in any such nationalisation, which would mean that the actual cost of nationalisation would be lower.

This valuation also presumes that these companies are going concerns, which is by no means the case. In particular, if the £260 billion investment programme that the House of Lords have themselves identified to be necessary to bring the water systems managed by these companies up to an acceptable standard takes place, as is very obviously necessary given the importance of water as the basis for life in the UK, then not one of the companies in question can in any meaningful sense be considered to be viable going concern.

In addition, on the basis of current acceptable levels of water charging, there is no chance whatsoever that these costs can be covered without resorting to state support and for the government to pay for a company that can only maintain its business with substantial government financial support makes no sense at all.

I should also add all these companies do, of course, need to become net-zero compliant. None would appear to have any meaningful provision for the cost of doing so included in their accounts. In that case, this further factor needs to be taken into account when undertaking an evaluation exercise for the purposes of nationalisation.

Put all these factors together, and the valuation provided by the Social Market Foundation is not just wrong; it is ludicrously inaccurate. The standard assumption that most economists make that is implicit within it, which is that the current reported state of these companies will continue into the future, is obviously wrong. The whole question of nationalisation arises precisely because that is very clearly not the case. No one would even consider nationalisation if these companies were fulfilling the task that they were expected to fulfil at the time that they were privatised, but they are not doing that. The Social Market Foundation has, therefore, undertaken its work on the basis of a wholly incorrect assumption and for the government to rely upon their work to justify the continued private ownership of these environmentally bankrupt concerns appears to me to be an act of gross negligence on their part.

I cannot be alone in having hoped that Labour might have brought a different perspective to the consideration of issues like this. Instead, it is clear that for practical purposes, they are continuing to deliver a program that is Tory in all but name.

Many people will not have appreciated this yet. They, perhaps wisely, pay less attention to what is happening in Westminster than I do. However, in due course, this realisation will sink in. When it does, this government is going to be in very deep trouble.