

# Nationalising water shouldn't cost taxpayers anything

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Labour claims taxpayers would face a massive bill for nationalising the water industry. But that's not true. If a fair price is paid for the businesses and their debts, nationalising should impose no cash cost on the Treasury at all.

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This is the transcript:

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Nationalisation does not cost taxpayers money. Now, that isn't, of course, what Keir Starmer says. He would have you believe that nationalisation is a cost which is borne directly by every person in the UK. But when he says so, he's talking complete nonsense. And my evidence for saying so is very simple and very straightforward.

I only have to look at what happened when very large parts of the UK economy were nationalised after the Second World War to find out what really happened and what really happened then was that the railways, the steel industry, and a whole host of other activities from canals to bus companies to transport companies and the mines, were all paid for with bonds.

Now, a government bond is simply an IOU, a promise to pay. It's issued by the government via the Treasury and, in this case, was issued to the people who previously owned shares in the businesses that were nationalised. A commission was set up to work out what the fair value of the railways, the mines and so on were, and once that fair value had been determined - and it was a lengthy exercise because there were a lot of companies involved - the payment due was not settled in cash. Nothing, in fact, was paid in cash to those who had to give up their shares to the government because their businesses had been nationalised. They were all paid in bonds.

The normal interest rate paid on those bonds at the time was around 3%, and the bonds were issued for periods of at least 30 years or so, and many of them were subsequently extended in length.

My point is quite simple. No cash changed hands.

Therefore, when Keir Starmer says, and I have heard ministers claim it, that to nationalise the water industry might cost £80 to £90 billion, and taxpayers can't afford to settle that, and there are other priorities for spending, he is talking complete nonsense because the government would not as such spend anything to nationalise the water industry.

It's also nonsense to claim that they would pay £80 to £90 billion for the water industry because, quite simply, the water industry is not worth £80 to £90 billion.

Even if you take into consideration the fact that it has significant debts owing within the companies that would be acquired, they are not worth the face value at which they are recorded on their balance sheets because a fair value commission would make it clear that in practice the water industry is very largely bankrupt.

The amount that would be paid would be the fair value of the assets acquired for their current use. And we know, for example, that the water industry is clearly not performing as we require. It is pumping large quantities of effluent into our rivers and streams and onto our beaches in ways that are quite contrary to the law. And it is not guaranteeing that they will even supply us with clean drinking water. The consequence is that those assets that are owned by those companies at present are not performing, and therefore, as any corporate financier would know, they are going to be valued at significantly less than the figure that is on their accounts if they were acquired by a third party - in this case, the government.

And, therefore, the people who have lent money, knowing that there was always a risk implicit in that loan structure, will have to take what is called a haircut. In other words, they will be repaid less than they lent. So, there is, firstly, no chance that the water industry is worth what their accounts claim them to be valued at, and, secondly, even if they were, there would be no cash paid to the shareholders to acquire these companies.

That is, I stress, because bonds would be issued in place of the assets acquired. And that will, in fact, be true for not just the shares that will be acquired, but also for the debts within those companies that might be acquired. They, too, could be replaced by government bonds.

Now, people have a paranoia about the value of bonds in issue because we have all been told that this represents the national debt that is a burden on our grandchildren.

How is having clean water a burden on our grandchildren?

How would also having guaranteed safe electricity supplies into the future, and by safe I mean climate-sustainable electricity supplies into the future, be a threat to our grandchildren?

It isn't a threat to our grandchildren. It would be an asset for our grandchildren and the price would therefore be worth paying.

But let's also be clear, they won't be paying for this either. Why is that? That's because if we look at the history of the national debt ever since it was first created in the 1690s - in other words over 320 years ago - the national debt has always risen in value, and it always will for two good reasons.

First of all, all governments need to run deficits to provide the additional money that a growing economy requires, and we are a growing economy, and we will be a growing economy for some time to come, and they need to issue new debt, which is represented by new money in practice, to cover the costs of inflation, which requires that new money be in existence.

So, there is never going to be a need to repay this debt. All that happens when, after 30 or 40 years, the redemption date for the debt came up, it will simply be rolled over. In other words, the existing debt will be repaid but it will be repaid by the issue of a new debt, which will literally just change the interest rate owing on it.

So, the only cost of nationalizing water is the interest charge on the bond that is issued, and let's be clear that to date the water companies have been able to pay all the interest owing on the borrowings on their own balance sheets. They are not technically insolvent in that sense. In fact, they have always been able to settle their liabilities as they fell due. And therefore, replacing those debts that they now have with new bonds, which will be issued at a lower rate than the rate at which the water company's borrowed because the government is now guaranteeing that debt, therefore meaning that the interest charge will be lower, is something that the water industry can already afford to pay.

In other words, the nationalisation will pay for itself out of the water revenues that we all provide to the water industry already by paying our water bills as they fall due.

There is therefore no net cost to nationalising water or to nationalising other industries which are already borrowing heavily and which are settling their bills as they fall due.

The claim that Keir Starmer has made that we cannot afford to take these industries back into public ownership is, therefore, completely and utterly wrong. Not only can we afford to take these industries back into public ownership, but we won't even necessarily suffer a cost from doing so because they are already covering the cost of the interest payments due on the borrowings that they have and the borrowings required to actually nationalise these companies could be less than the borrowings that are already in place in the companies in question.

Keir Starmer is making a false claim to support the idea private industry knows best. But it doesn't in this case because clean water is more valuable than anything else that we can just about require. We can't live without it.

To, therefore, suggest that we cannot afford to nationalise the water companies in England to guarantee that supply of clean water to the people of the country is straightforwardly wrong.

And the real question is, why does Keir Starmer keep telling us nonsense about this? Or does he simply not understand how finance really works?