
PRIVATE VS PUBLIC OWNERSHIP OF WATER AND SEWERAGE COMPANIES

John Earwaker

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1. INTRODUCTION

Political developments during 2026 have reignited familiar debates about the appropriate ownership arrangements for England's water companies (as well as companies in the energy and transport sectors). This paper is intended to be a contribution¹ to the debate about the merits of private versus public ownership. It is organised into six main parts as follows:

- section 2 provides a summary of current company ownership arrangements;
- section 3 looks at the cost of financing investment on private-sector balance sheets;
- section 4 examines the evidence that there is on the relative efficiency of private- and public-sector water companies;
- section 5 contemplates other consequences that ownership structures can have;
- section 6 examines the lessons that can be learned from the recent renationalisation of one of Britain's other major infrastructure companies; and
- section 7 offers some concluding observations.

2. BACKGROUND

Up until the late 1980s, most² customers' water and sewerage services in the United Kingdom were provided by publicly owned regional water authorities. After the privatisations of the likes of BT and British Gas in the mid-1980s, the government moved on to a major restructuring of the water authorities in England & Wales, which culminated in the creation of ten new water and sewerage companies. In 1989, shares in these companies were sold by the government in a public flotation which raised more than £3 billion in proceeds for the public purse.

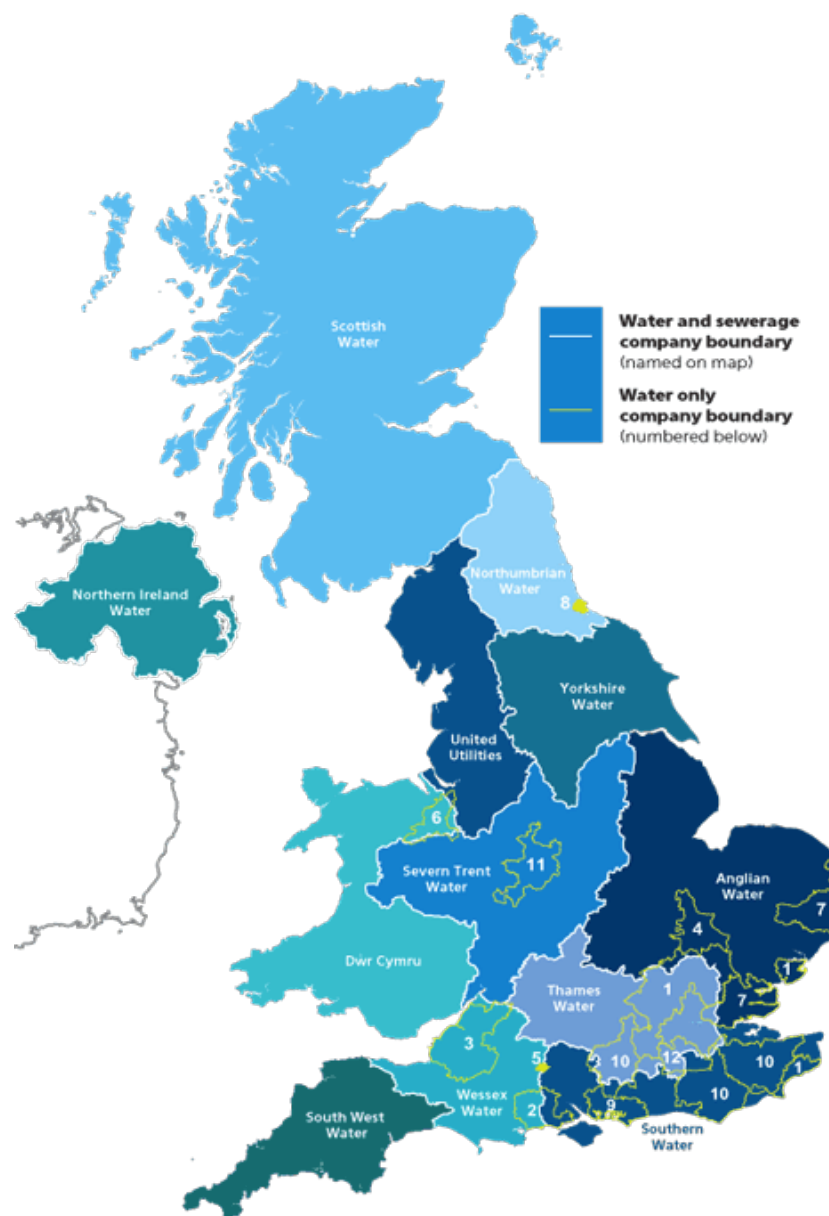
Almost 30 years later, the privatised firms continue to operate in broadly their original form (albeit, in a majority of cases, with an array of new shareholders following several rounds of acquisition activity). The notable exception is Welsh Water, which converted from a company limited by shares to a not-for-dividend company limited by guarantee³ in 2001. The water and sewerage industries in Scotland and Northern Ireland have remained in public hands: in Scotland, services are provided to customers by a public corporation; in Northern Ireland, services are provided by a central government body.

¹ I am an economist who has 30 years experience advising regulators, government and companies on the economic regulation of the utility and transport sectors. This is a contribution of my own initiative and draws on my interactions with the UK's water companies and other regulated sectors during the 1990s, 2000s, 2010s and 2020s.

² In some parts of the country, water services were provided by small, privately owned water-only companies.

³ The appointed business Dwr Cymru is a company limited by shares. Its owner, Glas Cymru, is a company limited by guarantee.

Figure 1: The UK's water companies



Note: 1 = Affinity Water, 2 = South West Water, 3 = South West Water, 4 = South Staffs Water, 5 = Wessex Water, 6 = Severn Trent Water, 7 = Northumbrian Water, 8 = Anglian Water, 9 = Portsmouth Water, 10 = South East Water, 11 = South Staffs Water, 12 = Sutton & East Surrey Water.

3. THE COST OF PRIVATE SECTOR CAPITAL

As private-sector firms, the companies in England & Wales rely on lenders and shareholders, rather than government, for financial capital. The sector has been investing heavily in environmental and other quality improvements in recent years, meaning that the total amount of capital that the privatised companies have taken from investors has grown from less than £5 billion at privatisation to around £120 billion as at April 2026.

The lenders and equity holders that make capital available to companies do so in exchange for a financial return. In the case of lenders, this return takes the form of annual interest payments. Shareholders, in turn, have a claim on the after-tax profits that companies earn, which may be paid out as dividends or retained within the company.

The water industry regulator, Ofwat, recognises the cost of capital as a legitimate and unavoidable cost of doing business when it sets companies' regulated revenue entitlements. This means that customers ultimately pay for private-sector financing costs. In its most recent analysis, published in March 2026, the Competition & Markets Authority (CMA) factored a 4.2% real (i.e. after stripping out CPIH inflation) weighted average cost of capital into allowed revenue calculations for the period 2025-30.⁴ This is equivalent to an expected total nominal return of up to 6.7% per annum. As a consequence of this decision, and a not dissimilar prior determination by Ofwat in late 2024, the average household customer will have to pay around £150 this year to cover the cost of the England & Wales companies' external financing.

In any assessment of the costs and benefits of different ownership models, a first consideration has to be the difference that there is between the private-sector cost of capital and the financing costs that companies would pay in alternative world in which investment was/is financed by government debt. The arithmetic is broadly as follows:

- the yield on 10-year⁵ government gilts averaged approximately 4.7% since the start of 2025;⁶
- the difference between the private-sector cost of capital and the public-sector cost of capital is therefore approximately 2 percentage points; and
- 2 percentage points multiplied across £120 billion of outstanding capital is approximately £2.4 billion per annum.

Seeing this arithmetic, proponents of renationalisation argue that private ownership imposes a significant cost on consumers. The proposition is that there would be a sizeable saving if companies are taken back into public ownership and if private-sector capital were to be swapped for new government debt. The £2.4 billion of avoided cost could translate directly into a reduction in customers' bills, or, alternatively, the government, as owner, could decide to retain a surplus to pay for other public expenditure. In either case, so the argument goes, society as a whole would be better off not having to pay interest costs and dividends to the providers of private-sector capital.

4. PRIVATE SECTOR EFFICIENCY

The argument is an 'all other things will be held equal' argument. The voices that have argued for renationalisation take the position that there is no reason to think that company operations would be adversely affected by a change of ownership arrangement – i.e. that efficiency, investment, service quality and environmental performance would be no worse than, and possibly better, under public or not-for-profit ownership.

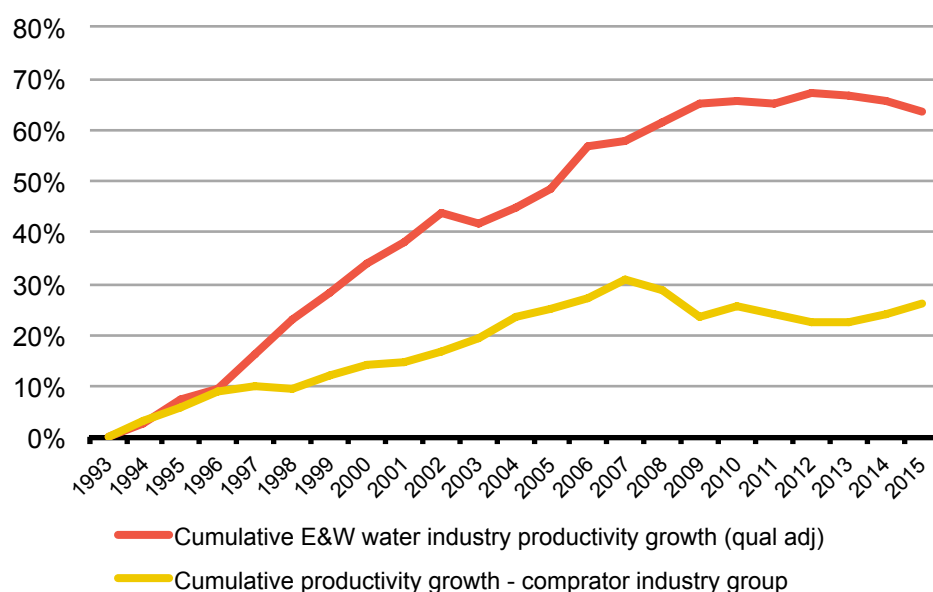
⁴ CMA (2025), Water PR24 references: final determinations.

⁵ The average maturity in the UK government's recent gilt issuance has been approximately 10 years.

⁶ The average yield in November 2025, the reference month for the CMA's calculations, was 4.5%.

Historical experience does not tend to support this point of view. Across most of the privatised infrastructure industries, there is evidence that the switch to investor ownership and incentive-based independent economic regulation led to step-changes in companies' performance. In the particular case of the water industry, a key piece of evidence is a 2017 study by Professor David Saal and Frontier Economics⁷ which compared rates of productivity growth⁸ in the England & Wales water and sewerage industry to productivity growth in the wider economy. The results of this analysis are summarised in figure 2.

Figure 2: Water industry productivity growth



Source: Frontier Economics.

The chart shows that productivity growth averaged more than 3% per annum during the first two decades after privatisation. This is more than double the productivity growth achieved in comparable sectors of the UK economy during the same period, or more than 30% more productivity improvement in cumulative terms.

The contrast with public-sector productivity growth is even more stark: during the same period, productivity was flat or slightly declining across the government-run public services, giving the water sector a productivity lead of more than 60%.⁹

⁷ Frontier Economics (2017), Productivity improvement in the water and sewerage industry in England since privatisation.

⁸ The measure of productivity improvement is total factor productivity growth, inclusive of allowance for the quality improvements achieved by the England & Wales companies.

⁹ ONS (2017), Public service productivity estimates.

Another way of drawing out the benefits that privatisation has brought for customers is to look at the experiences of the full range of water companies in England, Wales, Scotland and Northern Ireland during the last 35 years. As highlighted in section 2, this is a petri dish that contains:

- England & Wales – a set of companies that have been operated wholly by the private sector since 1989;
- Scotland – a public corporation, Scottish Water, created out of the merger of three regional water authorities in 2002,¹⁰ and
- Northern Ireland – NI Water, created in 2007 as a corporate entity within central government to take over services that were up until then provided from within the NI Department for Regional Development.¹¹

It is also possible to expand the comparator set one stage further to include the water provider in the Republic of Ireland:

- Republic of Ireland – a semi-state corporation, Irish Water, which was formed in 2014 to take over responsibilities previously discharged by local authorities.

Benchmarking of these different structures has repeatedly corroborated the picture that figure 2 gives. It has shown, in particular, how the privatised companies in England & Wales stole a considerable march on their peers in the years that followed their transfers from the public to the private sectors. This is set out in detail in Annex A to this paper. Table 1 offers an overall summary by highlighting the efficiency gaps that the regulators found immediately following the creation of Scottish Water, NI Water and Irish Water, as well as how much of those gaps have since been eliminated.

(Note: the percentage figures indicated how much more a company was/is spending in comparison to the best-performing companies in England & Wales, e.g. a figure of +80% indicates that the company was spending £1.80 for every £1 spent in England & Wales.)

Table 1: Comparisons to the privatised companies

Company	Date of creation	Calculation of initial inefficiency versus leading England & Wales companies at the point of creation	Current position
Scottish Water	2002	+80% in 2001	Scottish Water now ranks 'in the pack' with English companies
NI Water	2007	+95% in 2010	Latest estimated inefficiency gap = 6%
Irish Water	2014	+100% in 2014	Latest estimated inefficiency gap = 10%

Sources: see Annex A.

¹⁰ The three authorities themselves took over responsibility for water and sewerage services from the Scottish Regional Councils in 1996.

¹¹ The Department took over responsibility for water and sewerage services from an Executive Agency within government, the Northern Ireland Water Service, in 1999.

It follows that the superior efficiency of the England & Wales companies can be shown to have more than offset the expense of the higher private-sector cost of capital. Specifically, the England & Wales companies nowadays manage annual expenditures totalling around £24 billion every year, so **the level of productivity growth shown in figure 2, and the avoided inefficiency that table 1 highlights, by any analysis exceeds the £2.4 billion per annum that we earlier identified that private ownership adds to customer bills.**

The final column of table 1 is also then important, in that it shows the strides that Scottish Water and NI Water have made in recent years, with Scottish Water's current efficiency and performance, in particular, now standing up very favourably to comparisons with private-sector peers. All industry participants will readily verify how the key to this turn-around was benchmarking, benchmarking and more benchmarking, year after year, to the standards that the England & Wales companies were and are setting.¹² In effect, privatisation in England & Wales can be said to have had spillover benefits, through which customers in Scotland and Northern Ireland, and latterly in the Republic of Ireland, are getting lower bills at least in part because governments and regulators have been able to use comparisons to the privatised England & Wales companies to spur their own industries to greater efficiency and better performance.¹³

The question that naturally follows in the light of this experience – indeed the central question in any debate about private vs public ownership – is: what confidence can there be that costs across the whole of the UK will continue on an efficient trajectory if private ownership, and the scope to make comparisons between public-sector companies and private-sector companies, were to be eliminated? If the historical evidence is that the old regional water authorities imposed large avoidable costs on consumers, it feels, on the face of it, a backward step to return companies to public ownership, at a considerable cost, at least without being clear as to how it might be possible to compensate for the removal of some of the enablers of private-sector efficiency improvements (e.g. the profit motive, hard budget constraints, a market for corporate control).

5. OTHER DIFFERENCES BETWEEN PRIVATE AND PUBLIC OWNERSHIP

There are also other factors to consider.

Service levels

The evidence on service quality and other performance metrics after privatisation is very similar to the evidence on costs. A large part of the original rationale for privatisation was that the government had been investing too little and that private-sector balance sheets could support a scale of investment in service standards, drinking water quality improvements, and cleaner rivers and beaches that was unthinkable in a public-sector setting. There has never been an argument that the England & Wales companies of the 1990s and 2000s disappointed on this front – Annex B gives the relevant facts and figures.

¹² The Scottish Water regulator, for example, has frequently stated that “comparisons with water and sewerage companies in England and Wales are critical in helping assessments to be made of the scope for further improvement and the challenge that Scottish Water should be set.” WIC (2009), staff paper 6.

¹³ This ‘comparative competition’ has also been harnessed by Welsh Water in numerous way since its creation in 2001 – e.g. in the design of management remuneration packages.

This is an important additional consideration because customers place considerable value on the improvements that have been delivered and are still being tasked with achieving. In the same way that one has to think carefully about the impact that different ownership structures would have on cost efficiency, so it is also important to think through the implications for ongoing improvements in consumer and environmental outcomes.

Investment levels

In privatised industries, investment levels are determined through a process of engagement between companies, government, regulators and consumers, in which end user preferences as regards performance and affordability shape the improvement programmes that companies take on in each five-year regulatory period. In the public sector, customer preferences can be pushed to one side in government spending reviews.

A transfer of the privatised water and sewerage companies back to the public sector would reverse a conscious decision made 40 years ago to take water industry investment outside of politics and outside of public expenditure rules and constraints (a decision that is widely acknowledged to have contributed to the unlocking of more than £250 billion (in real terms) that the England & Wales companies have spent on their networks since 1989). If, in the future, companies' investment expenditures were once again to impact on public-sector borrowing numbers, governments might well be willing to endorse the plans that companies and planners come up with. But there might also be situations in which governments decide to constrain companies' borrowing for outside fiscal reasons.

Risk transfer

On first inspection, the calculations in section 3 and annex B of the difference between the private- and public-sector cost of capital looks like a deadweight cost. There are, however, two sides to this coin: on the one side, private-sector capital is (relatively) expensive; but this is because risks around costs and performance have been transferred out of government and are being managed and borne by investors. This means, in particular, that if the privatised companies within each five-year control encounter difficulties with the performance of their networks or asset replacement programmes or major projects, the cost falls on the investor and not on taxpayers.

The benefits of paying for this transfer of risk to the private sector can be seen by looking at the real-world experiences that customers in different parts of the country have had during recent years.

Starting during 2022, water companies throughout the UK suffered from the global input price shock in which the prices of electricity, chemicals and other materials all suddenly increased by sizeable amounts. Companies also at around the same time encountered heightened expectations as regards the outcomes they deliver, particularly in relation to pollution. As a consequence:

- companies in England & Wales began spending significantly more than Ofwat assumed would be the case when it set price limits in 2019.¹⁴ The additional funding for these expenditures was provided by shareholders, many of whom shouldered losses and/or injected additional

¹⁴ Ofwat (2025), Water company performance report, pp.39-41.

equity into the businesses that they owned in order to ensure that companies carry on with the job of delivering their business plans; while

- Scottish Water and NI Water have not been provided with additional financial resources by their government owners and have had to cut their cloth accordingly. This has been a particular problem for NI Water, where the government has, in fact, responded to the wider contemporaneous budget challenges it has been facing by *cutting* the amounts that it permits NI Water to spend, forcing NI Water to choose which statutory and regulatory obligations it wishes to fulfil (a situation that the Chair of the Board described last year as an “untenable position”¹⁵).

Impact of renationalisation on government borrowing

There is then a final, over-arching observation about the very substantial cost of buying existing investors out of water companies. (The term “buying out” here means the government paying existing investors fair value¹⁶ to cancel the capital that they have put into the sector over the last 30 years.)

On its own terms, a swap of private capital for government borrowing involves issuing debt to acquire an asset of matching value. There is neither an improvement or a deterioration in the public-sector balance sheet. Unfortunately, governments, lenders, rating agencies, etc. do not necessarily look at debt issuance in this way. Rather, there will be those that are concerned about the sheer scale of the new debt that the government will have to issue in a short space of time, the impact on debt-to-GDP ratios and other commonly quoted measures of fiscal health, through to possible consequences for government borrowing costs and the UK’s credit rating.

It may not be realistic, therefore, to think that the government can borrow tens of billions of pounds of new debt to pay for the acquisition of water companies (plus, potentially, tens of billions more to acquire energy companies and other privatised businesses), and then take over the financing of continuing investment programmes, without crowding out other government spending. If there are constraints on government debt levels, it then becomes reasonable to ask if finite borrowing capacity is best allocated towards renationalisations or to other investments that have the potential to improve living standards and societal well-being, like the expansion of other infrastructure and/or government spending priorities like health and education.

6. LESSONS FROM THE RAIL INDUSTRY

When thinking about the above-mentioned factors, it makes sense to look at the outcome of the most recent renationalisation of a major infrastructure company: the 2014 transfer of Network Rail back to the public sector.

¹⁵ NI Water (2025), Annual integrated report and accounts 2024-25.

¹⁶ While this paper is not meant to a contribution to the debate about what ‘fair value’ might be, the accumulated worth of companies’ RCVs – i.e. the aforementioned figure of £120 billion – would be a logical starting point for any future conversation. As noted by others, if lenders and shareholders were to feel that their assets were expropriated by the government, this would lead to a significant chilling of investors’ willingness to finance future UK infrastructure projects and potential to invest money in the UK more generally.

(Between 2002 and 2014, Network Rail operated as a private-sector company. Then, in late 2013, following new guidance from Eurostat on the interpretation of European accounting rules, the Office for National Statistics announced that Network Rail would be classified as a public-sector company in the national accounts with effect from 1 September 2014.¹⁷ The reclassification prompted the Secretary of State for Transport to exercise rights that he had under Network Rail’s Articles of Association to terminate the appointments of the company’s owner members and to take control of the company. Network Rail also at this point had to adhere to Parliament’s and HM Treasury’s public expenditure rules including, among other things, the adherence to expenditure and borrowing limits.)

The charts below record what happened to Network Rail’s service quality and efficiency after renationalisation.

Figure 3: Network Rail delay minutes

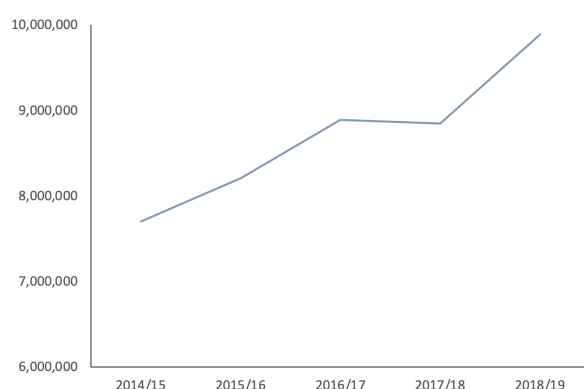
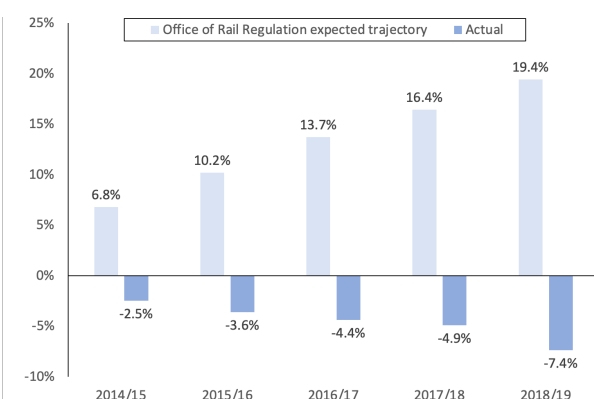


Figure 4: Network Rail’s efficiency



Source: ORR.

The left-hand panel shows a >25% increase in delay minutes over a five-year period. The right-hand panel shows that Network Rail’s efficiency declined by 7.4%, whereas the regulator, the Office of Rail and Road, had tasked the company with delivering cumulative efficiency improvements of 20% over a five-year period.

The loss of efficiency was not without consequences. The government was, by and large, unwilling to allocate additional financial resources to the railway in the face of the cost escalation shown in figure 4, meaning that Network Rail deferred significant quantities of renewal and enhancement work from the 2014-19 control period to later years. The backlog of renewal has grown still further in recent years as government has chosen to impose “constrained” funding settlements on the industry, and accept a decline in asset condition, as part of the PR18 and PR23 periodic reviews.¹⁸ There has also been a noticeable scaling back in business-as-usual railway enhancement projects.

Not all of the backward steps that Network Rail has taken since its transfer back to the public sector can be attributed directly to renationalisation. Among other things, the company prepared poorly while in the private sector for the work that it was to take on in the 2014-19 control period and has

¹⁷ ONS (2013), Classification of Network Rail under European System of Accounts 2010.

¹⁸ ORR (2023), PR23 final determination.

suffered from constraints in engineering hours on an increasingly busy network. However, the Office of Rail and Road has made it clear that renationalisation has been a key part of the story:¹⁹

[Network Rail] was affected by its reclassification into the public sector with the introduction of fixed borrowing limits. Inefficiency at the start of CP5 led to cost pressures and repeated re-planning of renewals projects, reducing the volume of work to keep spending within the borrowing limits. This re-planning created further cost pressures, leading to a downward spiral of deferred work and higher costs for the work done.

7. CONCLUDING REMARKS

The evidence set out above – from the former water authorities, from places where water companies have remained publicly owned, and from Network Rail – is that the renationalisation of England & Wales’ water companies would not be, as some have claimed recently, a sure-win, no-lose move for consumers. Looked at in isolation private capital has a definite cost, but private ownership has brought significant efficiency benefits and provides consumers with safeguards around service and future investment that are hard to replicate in public-sector organisations. A purchase and transfer of companies back to the public sector could result in an immediate and tangible reduction in ongoing financing costs, but it also necessitates a sizeable upfront expense and presents both short- and long-term risks around costs and performance that, although more difficult to quantify, could come to outweigh the cost of capital savings.

That is not to say, however, that there is no room to refine and improve the privatisation model. One clear takeaway from the analysis set out in this paper is that the amount of private capital has grown very substantially since privatisation. This means that it is crucial that the private-sector cost of capital – i.e. the bottom-line returns that investors require in order to finance past and future investment – is optimised so that it is not a single basis point higher than it needs to be. This in turn highlights how important it is that Parliament and Ofwat keep under review the packaging of the risks that are transferred to investors, as well as investors’ perceptions of risk (which can sometimes differ from the perceptions of policymakers), with a view to assuring themselves that consumers are getting the best possible value for money from the continuing use of private financing mechanisms.

Proponents of continued private-sector involvement in the sector also want to be sure that responsibility for essential services are vested in the right private companies. While it would be wrong to think that public ownership would create a natural alignment to the interests of consumers (for the reasons set out in section 5, in particular), there needs also to be a recognition that many in society are distrustful of privatised companies and their profit motives and want greater assurance that their interests permeate through companies’ decision-making. This requires that companies run their businesses, and are seen to run their businesses, at all times in the public interest.

Water companies have made strides in recent years in their customer engagement, but there is arguably more that could be done to make private-sector provision more palatable to the public. When one compares the ‘standard’ company limited by shares model to other, more explicitly consumer-focused structures like community benefit societies and community interest companies, it is open to water companies to embrace innovations like asset locks, community purpose statements,

¹⁹ ORR (2018), Annual efficiency and finance assessment of Network Rail 2017-18.

community interest reports and open membership schemes voluntarily, so as to more visibly embed their community orientation into all stakeholders' consciousnesses.

In this observer's assessment, this is the natural response to make to recent calls for a switch away from private-sector ownership and financing. Private ownership can be shown to bring real benefits, but there should be no complacency about either the scale of the current stock of private capital or the opportunities that there might be in the future to adapt and improve existing private-sector structures.

ANNEX A

The story behind table 1 in the main body of the report is best told through the words of the sectoral regulators and other independent bodies that the governments in Scotland, Northern Ireland and the Republic of Ireland have appointed to examine the performance of their water and sewerage providers.

Scotland

The Scottish Executive was the first government to introduce major reforms to its water and wastewater industry following the England & Wales privatisations. The changes culminated in the appointment of a new independent regulator, the Water Industry Commission for Scotland (WIC), and then the creation of Scottish Water.

Writing in 2001, the regulator described Scottish Water's starting position in the following terms:²⁰

The record of the water companies in England and Wales is one of improved delivery of ... outputs, whilst at the same time consistently and significantly reducing their operating expenditure ... The water authorities [in Scotland] do not compare well with their peers in England and Wales ... If the Scottish authorities and the proposed Scottish Water were added to [the efficiency league table for the privatised water companies], they would take the bottom positions.

He went on to compare the trajectories that the industries were then on as follows:

The water authorities are currently positioned well behind their potential competitors in England and Wales. Unfortunately, the gap has been widening ... [The figures show] that, generally, underlying operating expenditure ... has, until recently, increased even after adjustments to remove the effects of annual inflation. Overall, the underlying real increase between 1996-97 and 2000-01 is 10%. Comparable figures reported by the water and sewerage companies in England and Wales show a marked reduction, averaging 18%, over the same period.

This assessment triggered the first of a series of hard-hitting regulatory reviews built around benchmarking to companies in England & Wales. In his first decision, the regulator estimated that the efficiency gap to the leading companies in England was 44% (i.e. Scottish Water was spending £1.80 for every £1 spent by the English companies) and challenged Scottish Water to eliminate four fifths of this excess by 2006. He also expected Scottish Water to move towards the quality and service standards being achieved by leading companies in England. Subsequent reviews in 20005/6 and 2009/10 were cut from the same cloth as Scottish Water's attention was constantly directed to better-performing peers in England via benchmarking targets of:

- SR06 – estimated efficiency gap = 25-30%;²¹ and
- SR10 – estimated efficiency gap = 10%.²²

²⁰ Water Commissioner for Scotland (2001), Strategic review of charges 2002-06.

²¹ WIC (2006), The strategic review of charges 2006-10 – the final determination.

²² WIC (2009), The strategic review of charges 2010-15 – the final determination.

By SR15, the Commission was able to report that:²³

In 2009 we set Scottish Water the challenge of matching upper quartile performance of the private water and sewerage companies in England and Wales by 2015. Scottish Water accepted, and is now on track to meet, or possibly to outperform, this challenge.

The Commission is scheduled to provide an updated assessment of Scottish Water's relative efficiency later this year as part of the SRC27 review of charges.²⁴

Northern Ireland

The Northern Ireland government commissioned an independent review of NI Water just after its creation in 2007, which provides a useful snapshot of the divergent paths that the industry in Northern Ireland had taken from the industry in England & Wales over the preceding 15-20 years. The panel's report stated that "we have found that there has been and still is enormous scope for improvement in NIW's efficiency". Drawing on benchmarking to England, Wales and Scotland, the panel recommended that the NI government needed to double a previously agreed efficiency target of 20% to a new, much more challenging target of 40%.²⁵

The Northern Ireland Utility Regulator subsequently took over responsibility for regulation of NI Water and completed its first periodic review of the company in 2010. The regulator in this review identified a 49% efficiency gap to the frontier in England & Wales (i.e. NI Water was spending £1.95 for every £1 spent by the leading English companies) and challenged NI Water to close two thirds of this gap within five years.²⁶ Subsequent reviews in 2013, 2015 and 2021 required further catch-up, with the long-term ambition that NI Water will eventually push its costs down towards the level seen in England & Wales:

- PC13 – estimated efficiency gap = 38%;²⁷
- PC15 – estimated efficiency gap = 22%;²⁸ and
- PC21 – estimated efficiency gap = 6%.²⁹

The Utility Regulator's most recent published assessment stated that:³⁰

Our analysis showed a continued improvement over time, with NI Water closing the efficiency gap to the 'frontier', or best performing comparator company ... This shows the significant progress that NI Water has made over recent price controls.

Republic of Ireland

The structure of the Republic of Ireland's water industry became a hot economic and political issue following the country's EU/IMF-led bailout from the global financial crisis. The government

²³ WIC (2013), Our initial expectations: Note 1 for the Customer Forum.

²⁴ WIC (2024), Strategic review of charges 2027-2033: final methodology.

²⁵ Independent water review panel (2007), Strand one report.

²⁶ Utility Regulator (2010), Water and sewerage service price control 2010-13.

²⁷ Utility Regulator (2012), Water and sewerage price control 2013-15 Northern Ireland Water: PC13 final determination.

²⁸ Utility Regulator (2014), Water and sewerage price control 2015-21 Northern Ireland Water: final determination.

²⁹ Utility Regulator (2021), Water and sewerage services price control 2021-27: PC21 final determination.

³⁰ Utility Regulator (2026), Water and sewerage services cost and performance report for 2022-24.

commissioned an independent expert to review the industry's performance and possible future operating models, which led to the finding that:³¹

When the 2010 data for the local authorities is compared against the UK Water Companies, the results indicate that the current model for providing water services has not achieved the potential levels of efficiency and service delivery for customers evidenced by the data from UK water companies.

The expert observed that:

Efficiency levels do not compare well against international benchmarks. Some of the key metrics include:-

- Operating expenditure per connection is more than twice the average of UK water companies;
- The level of "Unaccounted for Water" (largely due to leakage) at 41% is very high against international benchmarks [e.g. nearer 20% in England]
- Staffing levels are higher than comparable UK water companies on an employee per population served basis ...

Irish Water / Uisce Éireann started taking over responsibilities from 34 local authorities in 2015. It is regulated by the Commission for Regulation of Utilities (CRU), which has followed the lead of its counterparts in Scotland and Northern Ireland by investing considerable effort into benchmarking to companies in England & Wales. The first benchmarking results three years ago showed that Irish Water's inherited costs were double the frontier level of expenditure in England.³² A subsequent assessment in 2016 resulted in a revised assessment of a 40-50% efficiency gap (i.e. Irish Water was spending £1.70 to £2.00 for every £1 spent by the most efficient companies in England). The CRU's most recent analysis is that planned expenditure remain about 10% above efficient levels:

- 2016 – estimated efficiency gap = 40-50%;³³
- 2025 – estimated efficiency gap = around 10%.³⁴

³¹ PwC (2011), Irish Water phase 1 report.

³² NERA (2014), IW interim review assessment – annex econometric benchmarking.

³³ CRU (2016), Irish Water second revenue control 2017--18.

³⁴ NERA (2025), UE's RC4 (2025-29) look forward submission assessment: revenue and opex.

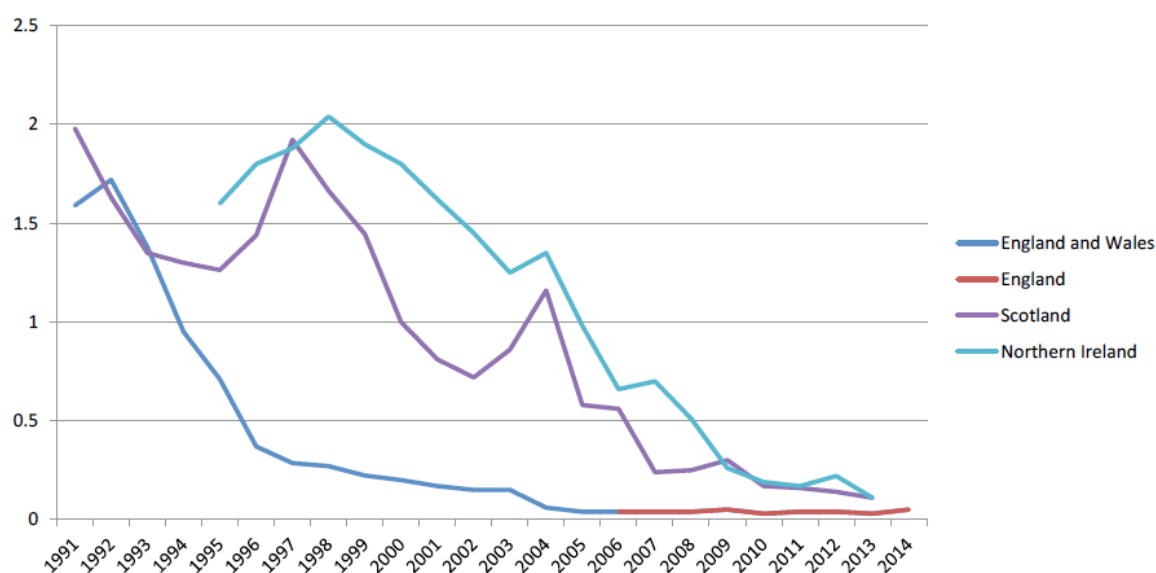
ANNEX B

This annex outlines the quality, environmental and service quality improvements that the England & Wales companies have made since privatisation.

Drinking water quality

Industry-wide improvements in drinking water quality are comprehensively documented in the 2015 Drinking Water Inspectorate (DWI) report: *Drinking water quality in England: the position after 25 years of regulation*. Problems that were apparent in 1990 particularly with regards to lead in water, trihalomethane concentration, pH levels and water discolouration have been substantially reduced or, in some cases, almost entirely eliminated. As a result, the DWI reported that only 0.04% of tests failed to meet standards in 2016 compared to failed tests in more than 1.5% of samples at the start of the 1990s.

Figure 5: Percentage of failed drinking water quality tests (England & Wales)



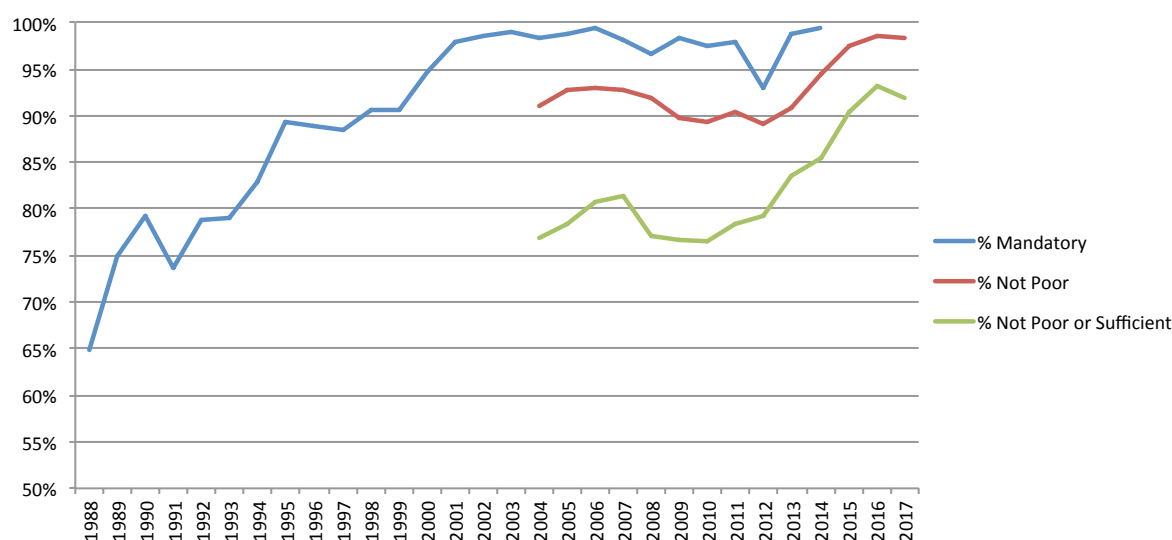
Source: DWI.

Environmental impacts

The percentage of the population that is connected to both primary and secondary treatment has increased from less than 80% at privatisation to 100% today.³⁵ This has led to step changes in the quality of the country's beaches and rivers. Figure 6 overleaf shows the proportion of beaches that comply with the mandatory standards in the European Commission's 1976 Bathing Water Directive, as well as the higher standards introduced by the 2006 Bathing Water Directive. Figure 7 plots the percentage of total river length that was judged to be of good biological quality and good chemical quality by the Environment Agency prior to the discontinuation of these indices in 2010.

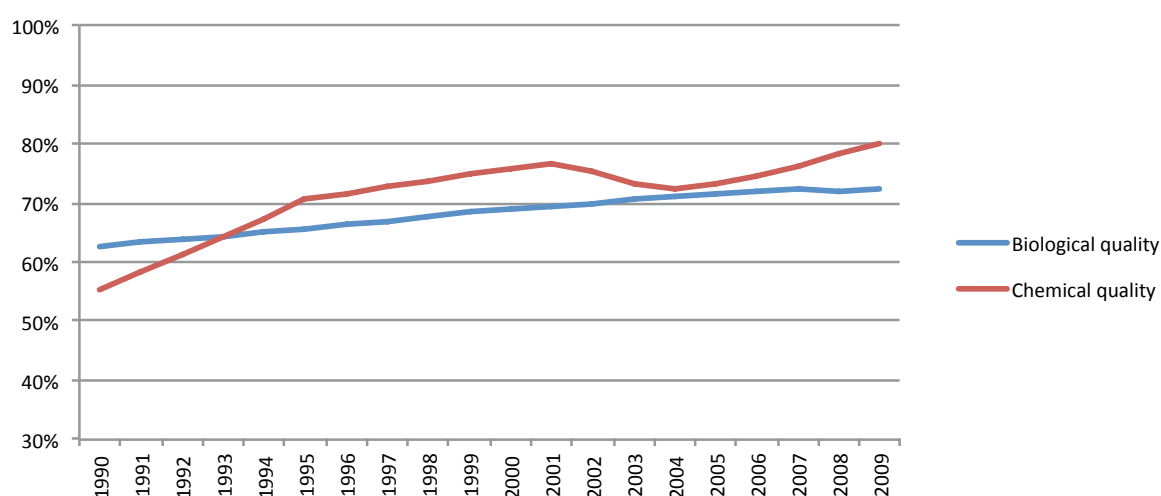
³⁵ <https://www.eea.europa.eu/data-and-maps/indicators/urban-waste-water-treatment/urban-waste-water-treatment-assessment-4>

Figure 6: Compliance with bathing water mandatory standards (England & Wales)



Source: Defra.

Figure 7: Percentage of total river length that is good biological/chemical quality (England)



Source: Environment Agency.

Service quality

Improvements in service quality are documented in detail in the annual performance reports that Ofwat published during the first two decades after privatisation.³⁶ The table overleaf gives a summary of performance improvements across eight key metrics.

³⁶ See, for example, Ofwat's 2010 report at:

http://webarchive.nationalarchives.gov.uk/20110110112513/http://www.ofwat.gov.uk/publications/los/rpt_los_2009-10

Table 2: Industry performance against Ofwat Indicators (England & Wales)

Description	1990-95 %	1995-00 %	2000-05 %	2005-06 %	2006-07 %	2007-08 %	2008-09 %	2009-10 %
DG2: Properties at risk of low pressure	1.33	0.35	0.07	0.03	0.02	0.02	0.03	0.01
DG3: Properties subject to unplanned supply interruptions of 12 hours or more	0.33	0.21	0.09	0.08	0.15	0.69	0.08	0.06
DG4: Population subject to hosepipe bans	14	15	0	7	30	0	0	0
DG5: Properties subject to sewer flooding incidents (overloaded sewers and other causes)	0.03	0.03	0.02	0.02	0.02	0.03 ²	0.02	0.03
DG5: Properties at risk of sewer flooding incidents (once in ten years)	–	0.07	0.05	0.02	0.02	0.02	0.01	0.01
DG5: Properties at risk of sewer flooding incidents (twice in ten years) ¹	0.08	0.05	0.02	0.01	0.01	0.01	0.01	0.01
DG6: Billing contacts not responded to (within five working days)	21.78	5.39	0.71	4.44	5.08	2.71 ²	1.08	0.44
DG7: Written complaints not responded to (within ten working days)	21.42	3.22	0.34	3.15 ²	3.71 ²	6.82 ²	0.38	0.62
DG8: Bills not based on meter readings	–	1.51	0.39	0.52	0.86	0.32	0.21	0.21
DG9: Received telephone calls not answered within 30 seconds ³	–	16.16	7.01	–	–	–	–	–
DG9: Telephone call handling:								
Calls abandoned		5.40	2.27	6.69	9.76	7.63	7.03	4.96
All lines busy ⁴			5.17	3.91	5.66	3.23	0.45	0.49
Call handling satisfaction ⁵				4.50	4.47	4.58	4.60	4.60

Source: Ofwat.

Since 2010, the regulator has been updating and expanding the original post-privatisation indicators to capture the full range of outcomes that today's customers now want their companies to deliver.

The regulator's dashboard for the period 2020-25 is shown overleaf.

Table 3: Ofwat's 2025 service performance report

		2019-20 sector average ¹	2024-25 sector average ¹	Sector average change, 2019-20 to 2024-25 ²
Sewer collapses	per 1,000 km of sewer	9.78	6.29	36% ↓
Water quality compliance	score	3.21	2.11	34% ↓
Internal sewer flooding	per 10,000 sewer connections	2.56	1.83	29% ↓
Priority services register reach	percentage	2.0	12.8	11% ↑
Leakage (three-year average)	sector total megalitres per day	3,272.1	2,966.5	9% ↓
Mains repairs	per 1,000 km of main	136.7	128.9	6% ↓
Per capita consumption (three-year average)	litres per head per day	141.0	138.3	2% ↓
Unplanned outage	percentage	3.72	1.80	2% ↓
Treatment works compliance	percentage	98.65	98.81	0.2% ↑
Water supply interruptions	hr:min:sec	00:09:17	00:10:00	8% ↑
Customer satisfaction	Score	82.35 ³	74.74	9% ↓
Pollution incidents	per 10,000 km of sewer	36.29	45.91	27% ↑

Source: Ofwat.

Note: ¹ The table records median rather than average for customer satisfaction, water quality compliance and treatment works compliance. The figures for leakage are sector total.

The table records continued progress over a five-year period in 9 out of 12 areas.