

ESTIMATING THE COST TO THE UK GOVERNMENT OF NATIONALISING THE ENGLISH WATER COMPANIES

29 July 2026

The cost to the government of nationalising the water sector is a critical question for public policy and for water company investors. In September 2025, the Department for Environment, Food and Rural Affairs (Defra) published a technical note explaining its £100bn estimate of the costs of nationalising the water sector¹.

The Thames Water group of creditors has asked Frontier Economics to use this methodology to estimate the potential cost of nationalising English water companies in 2030. **Our forecast of the estimated nationalisation cost in 2030 under Defra's methodology is £144bn² in 2029/30 prices.** We assess the cost at 2030 because nationalisation will take time and water companies are currently delivering a 5-year investment programme that ends in March 2030. The 5-year regulatory cycle in the water sector also gives us robust, publicly available information on company regulatory investment allowances up to 2030.

Costs falling to the public sector will not end at the point of nationalisation. In 2023 water companies estimated that meeting government targets and environmental obligations in the context of climate change and population growth over the 20 years from 2030 to 2050 would cost £270bn³. While these are sector costs, not nationalisation costs,

Box 1: Differences in the estimated cost of water sector nationalisation

A wide range of estimates exist for the cost of nationalisation and many of the differences between them can be explained by what specifically the estimate considers. For example, estimates may focus on (1) different scopes and dates of nationalisation, (2) only the equity value rather than the enterprise value (i.e., debt + equity), (3) different time-periods in which costs are incurred, e.g., the day one costs versus the ongoing liabilities, and (4) the impacts on the public sector balance sheet or on key measures used to assess UK fiscal health.

This report includes an estimate at 2030 in line with Defra's methodology, focussed on English water companies. Defra's methodology relies on the regulated capital value (RCV), financed through debt and equity to estimate enterprise value and aims to reflect the full cost without commenting on the timing of cash flows. We have also included a discussion as to how the actual cost of nationalisation in practice may be higher or lower than the Defra methodology. For clarity, we have not estimated the costs and benefits of a transfer into public ownership but have solely focused on the cost to the government.

¹ Defra (2025) "Nationalising the water sector: how we assessed the cost" [Link](#).

² This headline cost of nationalisation is estimated according to the Defra methodology and would be different if outturn RCV is different from forecasted RCV published in Ofwat's financial models, which uses an assumption about inflation up to 2030. While we do not quantify them individually, given the range of factors identified we think the outturn RCV is more likely to be higher than our estimate than lower and therefore that £144bn is a conservative estimate. We set out some of these reasons in appendix 1.

³ This estimate is derived from company's published Long Term Delivery Strategies. Further detail is contained in Appendix 2.

under public ownership this investment would need to be financed by government spending or other forms of public debt before potentially being recouped through customer bills over the lives of these assets.

While there are many reasons why the ongoing investment requirement may ultimately be higher or lower⁴ (for instance, £270bn makes no allowance for maintaining and improving the health of the existing asset stock), the value is substantial under any scenario. As a cost specific to England, it also takes no account of any consequential expectation to allow additional expenditure under the conventions governing devolution. As a point of comparison, the Office for Budget Responsibility (OBR) expects the government to spend £138bn on capital investments in 2029-30 across all departments⁵.

Defra's methodology estimates the enterprise value of the water sector using the regulated capital value (RCV) as a proxy. However, the RCV is unlikely to be sufficient on its own to estimate fair value. Corporate finance theory defines fair market value for an asset as the sum of all its future cash flows discounted to present value. Conceptually, the RCV is a promise from the economic regulator to allow investors a fair opportunity to recover their original investment from customers in the future indexed by inflation plus a reasonable real rate of return. Ofwat has recently pointed to the "regulatory commitment" to the RCV as a key support it provides to companies in raising efficient financing⁶.

Evidence from water sector transactions shows a clear relationship between the RCV and enterprise value, as standard market convention is to value water companies in relation to the RCV. The RCV is therefore a helpful starting point, but a more precise estimate would reflect various factors that would influence the valuation.

Defra's assessment methodology includes the cost of acquiring equity and repaying existing debt. In practice, if the government nationalises water

Box 2: How is the Regulatory Capital Value (RCV) calculated?

Beyond being a regulatory commitment, the RCV can be thought of as a ledger of the net investment made into each water company not yet recovered through customer bills. In that sense RCV is an objective value calculated by the regulator that reflects net investment into the company.

Upon privatisation, the starting RCV was estimated based on the average market value for the first 200 days shares were listed plus the total value of debt for public companies. The RCV has since been updated every year for investment spend net of the value returned to investors through bills. The RCV is then indexed by outturn inflation each year to maintain its real value over time.

To give companies appropriate incentives Ofwat has not fully allowed spend into the RCV that it considered inefficient. Similarly, if companies make savings, they are allowed to retain a proportion of this in their RCV with the remainder reducing customer bills.

RCV is a much lower value than the replacement cost of the assets held by each water company, for instance, Ofwat reported as part of the PR19 consultation that RCV for the sector was 12% of net asset replacement value⁷.

⁴ We set out some of these reasons in Appendix 2.

⁵ Office for Budget Responsibility (2026) "Economic and fiscal outlook" [Link](#), p. 62.

⁶ Ofwat (2024) "PR24 final determinations, Aligning risk and return" [Link](#), p. 15.

⁷ Ofwat (2015) "Water 2020: Regulatory framework for wholesale markets and the 2019 price review" [Link](#), p. 19.

companies by purchasing the existing equity shares, repaying the debt may not create an immediate cash outflow. However, there may be cases where water sector creditors could demand compensation immediately upon a change in ownership. The total amount of debt needed at the time of nationalisation and the impact of that debt on public finances are complex and dependent on the valuation of the water sector, the mechanics of nationalisation and the agreed terms of the existing debt in the water sector.

Government debt raised to nationalise the water sector and debt held by the water companies themselves will likely be treated differently post-nationalisation. The Treasury typically includes debt held by government owned companies in the measures of government borrowing that govern assessments of fiscal prudence, while credit rating agencies can consider this debt separately. In 2025, the OBR separately considered the impact of the reclassification of water company debt on the public sector balance sheet to increase net debt by £78bn (2.8% of GDP)⁸. Financial markets would also be expected to take account of the substantial future investment requirement the public sector balance sheet is taking on. While it could be argued that, from a balance-sheet perspective, nationalisation could be close to net neutral (as the government would issue debt to pay for an asset: the rights to an income stream from bill-paying water and sewerage customers) governments, lenders and rating agencies do not currently, however, look at government debt issuance in this way. The cost of nationalisation is therefore likely to have real-world consequences for views on the UK's fiscal health, a point recognised in a recent report by think tank, Mainstream, that acknowledges gilt rate risk beyond "accounting treatment alone"⁹.

In the remainder of this paper, we briefly explain the calculation we have made using the Defra methodology. We then describe some of the considerations that would affect the assessment of fair value for English water companies in more detail.

Appendix 1 provides more detail on our calculation of illustrative nationalisation costs under Defra's approach.

Appendix 2 explains how we have derived the potential 2030-50 future investment requirement and the factors that could affect outturn values.

For clarity, we have not estimated the costs and benefits of a transfer into public ownership but have solely focused on the cost to the government. However, we hope the evidence within it is informative for any wider debate.

How we have derived the 2030 costs aligned with Defra's approach

Under Defra's methodology, the cost of nationalisation is estimated using the regulated capital value (RCV) as a proxy for each company's enterprise value. We have used the 2030 estimated RCV published by Ofwat as part of its PR24 Final Determination to update Defra's estimate. In practice, there are many reasons why the future RCV may differ from Ofwat's

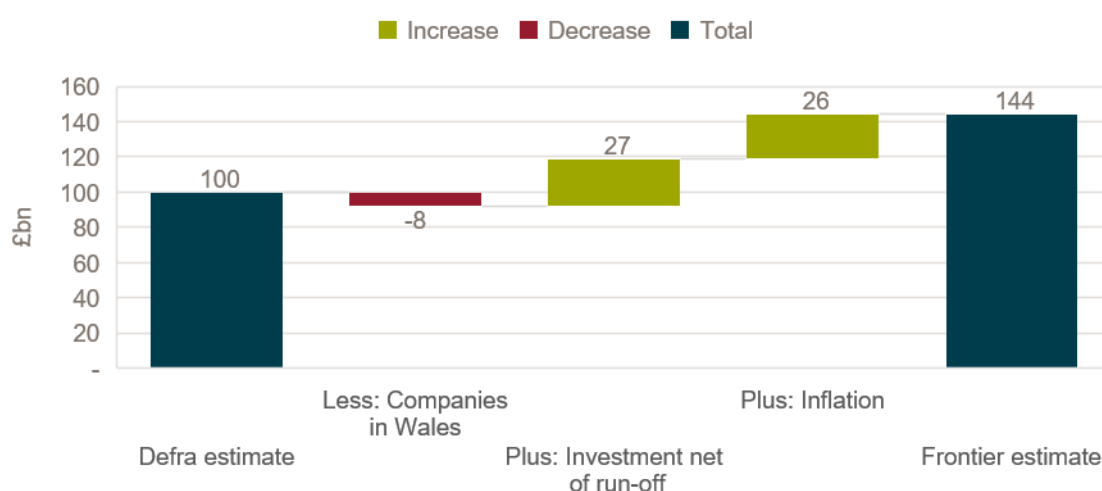
⁸ OBR (2025) "Financial risks and sustainability, July 2025" [Link](#). p.87

⁹ Mainstream (2026) "A framework for Manchesterism" [Link](#). p.55

estimate, including contingent allowances and under- or overspending against allowances. Appendix 1 explains how Ofwat estimates future RCV and why the outturn future RCV may differ from the estimate, but Ofwat's estimates provide a consistent approach that is based on the approved 5-year investment programme ending in 2030.

Our estimate of the cost of nationalisation using Defra's methodology is materially higher than Defra's estimate of £100bn¹⁰. Defra's estimate considered Ofwat's published RCV tables for 2023/24 of £99.3bn and 2024/25 of £106.7bn, with its estimate falling between these figures. Our estimate removes companies operating mainly or wholly in Wales and includes Ofwat's estimate of net RCV additions and its indexation by CPIH inflation through 2030. The chart below illustrates the key differences between Defra's and Frontier's estimates.

Figure 1 Reconciliation of the cost of nationalisation estimate between Defra and Frontier



Source: Frontier analysis

Additional considerations for an assessment of fair value

Timing of nationalisation

Nationalisation, other than through a special administration regime (SAR), would require primary legislation and compensation to investors is itself a matter for legislation, subject to principles of fairness and proportionality.

This makes it difficult to estimate the cost of nationalisation at a particular point in time. There will be significant capital expenditure (capex) by the sector, and hence additions to RCV, over the next 10-15 years. There may also be several price reviews, including PR29 and PR34, alongside substantial regulatory and institutional reform. The valuation of individual companies

¹⁰ Defra (2025) "Nationalising the water sector: how we assessed the cost". [Link](#).

at the time of nationalisation will depend on the industry context, each company's characteristics, spending and revenue profiles, and the exact transfer date.

For the purposes of this report, we have used the RCV at 2030, as companies are currently in the middle of delivering a 5-year investment programme and nationalisation would clearly take time.

Defra's method of cost estimation makes no allowance for transaction costs at the point of nationalisation. Given the potential for legal challenges these costs would be unlikely to be trivial, but they would not be a material proportion of the overall bill.

Basis for valuation

While the Defra approach relies solely on the published RCV, the actual enterprise value would likely be a multiple of the RCV. There has been significant merger and acquisition (M&A) activity in the water sector. It is common in the sector to report transaction valuations as a multiple of the RCV.

Beyond this, the government may wish to express the cost of nationalisation in terms of the RCV to more clearly illustrate how it has maintained the regulatory commitment to the RCV. RCV-based models are used to finance infrastructure investment across the UK, with an approximate total value in 2025 of c.£133bn¹¹. RCV-based infrastructure investment in the UK is also expected to grow significantly driven by investment in the Net Zero transition in the existing energy network, major projects in the transportation sector and the emergence of new sectors. For example, this includes Heathrow's third runway, the Lower Thames Crossing and Sizewell C. Maintaining the relationship between the cost of nationalisation to RCV is likely to be critical in maintaining investor confidence.

Assessing the appropriate multiple of RCV for an enterprise valuation can rely on a combination of valuation methods commonly used to estimate fair value in M&A transactions. The multiple to RCV of the enterprise value should be assessed on a company-specific basis, as a sector-wide approach can only be relatively simplistic and illustrative. There are three main reference points for considering an appropriate multiple for a given company:

- market value of publicly traded comparators;
- precedent transaction multiples; and
- discounted cash flow analysis.

Each valuation methodology seeks to estimate enterprise value from a different perspective and may provide helpful insight into an appropriate multiple of RCV for each company in the

¹¹ The estimated size of RCV-based infrastructure investment in the UK is based on published financial models from the relevant regulators for the electricity transmission, electricity distribution, gas transmission, gas distribution sectors as well as Heathrow Airport Limited, NATS (En Route) Plc and Bazalgette Tunnel Limited (Tideway) with limited adjustments for comparability.

water sector. A combination of methodologies is therefore likely to be appropriate in arriving at the best estimate of enterprise value for the sector.

Market value of publicly traded comparators - At present, there are three publicly traded water businesses: Severn Trent, United Utilities and Pennon. According to Ofwat, the publicly traded companies traded at an average 10% premium to RCV between 1993 and 2024¹². Most recently, these companies have continued to trade at a positive premium to their RCV value¹³. Equivalent metrics could be applied to the privately held water companies to approximate their values, although this methodology is limited to cases where the comparator set is a good proxy for the valuation target.

Precedent transaction multiples - These are not always placed in the public domain, and it is therefore difficult to make accurate like-for-like comparisons. Historically, these multiples have tended to range from around 5% to 30% above RCV, i.e. 1.05x-1.30x RCV, although there are a small number of cases where even higher multiples have been reported¹⁴. However, it has been suggested that some private transactions have been at a discount to RCV.

Discounted cash flow (DCF) - Key assumptions in any DCF analysis of a regulated water company will mirror those used in setting and assessing performance against the regulatory price review, such as:

- the future paths of capital expenditure (capex) and operating expenditure (opex), as allowed by the regulator, and company and investor expectations of spend against allowances potentially including rectification of under-performing assets or opportunities for efficiency savings through innovation;
- performance incentives, for example outcome delivery incentives (ODIs), as set by the regulator, and company and investor expectations of performance against the incentives;
- any expected costs associated with enforcement of failures to meet licence conditions or legal obligations; and
- the allowed return on capital compared with prevailing market conditions, embedded debt costs and other sources of financial out- or under-performance.

As in all DCF analyses, assumptions about the longer-term operating and regulatory environment, terminal values and discount rates can have a significant upward or downward impact on valuation. However, a DCF analysis has the advantage of explicitly capturing expected performance and liabilities into the valuation. The results of any company-specific

¹² Ofwat (2024) "PR24 draft determinations: Aligning risk and return: Allowed return appendix" [Link](#), p.57

¹³ Based on Frontier Economics analysis.

¹⁴ For instance, Pennon group's announcement of the acquisition of SES Water was at 1.06x RCV ([Link](#)), whereas for Bristol Water the acquisition multiple was 1.44x RCV ([Link](#)).

DCF analyses are therefore unlikely to exactly match a simple assessment of company RCVs and may offer a complementary view of fair value when translated into a multiple of RCV.

Under any of these methodologies, care would need to be taken to avoid the expectation of nationalisation distorting an assessment of fair value or undermining the government's commitment to the RCV. As well as the specific costs of any company separation and integration required, there could be substantial transition costs associated with the move to any new institutional and governance arrangements for the sector. These factors therefore become endogenous to a DCF valuation approach and would be expected to be reflected in the traded share prices of listed entities.

A key question when using publicly traded valuations as a comparator is therefore what the "event period" for the assessment should be. International investment treaties may explicitly provide for the price to be based on that observed just prior to the nationalisation becoming public knowledge.

What is being nationalised

Consistent with Defra, we have assumed that nationalisation would apply to private-sector water and sewerage companies (WASCs) and water-only companies (WOCs). In contrast to Defra, we have applied this to companies operating in England only, and not to entities operating wholly or mainly in Wales.

However, it is not clear whether other entities would be subject to nationalisation. If so, this would increase the overall cost. These could include:

- Thames Tideway and other infrastructure special purpose vehicles (SPVs). By 2030 or beyond, there are also likely to be a number of other major infrastructure projects completed or under way that have been procured by individual water companies, or groups of water companies, under DPC, SIPR and related arrangements. There would likely be SPV entities set up to finance, deliver or operate these projects, in which water companies may have ownership or other financial interests;
- non-regulated businesses that primarily provide services to individual water companies, or groups of water companies, on a commercial basis and that are owned outside the regulated ring-fence, i.e. at group level;
- non-appointed activities that sit within the licensed entity and rely on the appointed assets, but operate in other markets, for instance providing search information to solicitors or laboratory testing services;
- water supply licensees providing retail services to the non-household market;
- new appointments and variations providing services largely to new housing developments;

- jointly owned service companies, for example UKWIR, and market operators, for example MOSL; and
- joint ventures in bioresources and energy production.

For the publicly traded companies — United Utilities, Severn Trent and Pennon — each has interests in companies outside the regulated ring-fence, for example a stake in a non-household retailer. It would therefore be necessary to deduct the value of these other entities from the observable market value of the group if they were not being nationalised.

The treatment of debt

The treatment of debt is central to the cost of nationalisation. Even where debt is not repaid immediately, the government would inherit or need to address the associated obligations. Impairment of creditor claims can be expected to increase legal risk and affect the cost of accessing private capital across UK-regulated infrastructure, especially for otherwise previously financially stable companies. The ultimate cost of nationalisation would be influenced by a number of complex issues around the debt valuation:

- For the purposes of a simple valuation, the size, nature and value of such liabilities can be determined from the carrying value on the balance sheets of the companies at the most recent reporting date. The fair (mark-to-market) value of debt may, however, be higher or lower depending on gilt yields and forecast interest rates at the time of nationalisation. We note that in the case of financially distressed companies, debt may have a market value below carrying value and may trade at a discount.
- The government could seek to leave debt in place, with the nationalised entities continuing to bear the ongoing obligations. However, that could leave the government implicitly bearing debt with interest rates above the cost of government financing, so it may make sense to refinance.
- There may be change of control or similar provisions which require immediate repayment or acceleration of payments. Long-dated or fixed rate loans and bonds may have formula-driven early redemption terms that are penal, hence increasing the cost of redemption above the balance sheet value of the debt.
- Similarly, companies may have entered into hedging arrangements, for example currency swaps. If the debt were repaid, the swaps would no longer be a hedge and should also be terminated. Depending on whether the swaps were in or out of the money at the time, termination payments from the company to the swap providers would be triggered, adding to the cost.
- There may be a further complexity where companies are held within a securitisation structure. Nationalisation or a change of control could itself trigger an early unwinding of the financing arrangements, with associated costs as described above. Even where that was not to be the case, government may determine that the operating and financing metrics in the covenants underlying the securitisation did not align with how it wished

water companies to be run under government ownership. In this case, it could choose to unwind the securitisation voluntarily and bear any associated short-term costs.

- The calculation of tax at the regulated business level can be complex. There may be group tax effects that need to be attributed or unwound. Tax losses or allowances in one part of a group may no longer be used to offset tax liabilities elsewhere. The nationalised entities' future tax liabilities may be different under government ownership than private ownership. These issues would all need to be assessed in determining company valuations at the transfer date.

Pension schemes

Another source of uncertainty around the valuation is pension schemes. Company defined benefit pension schemes would be transferred to the public sector. There is a question as to how any deficits or surpluses at the point of nationalisation would be treated, namely whether any deficits would be deducted from the sum paid to water company owners or surpluses credited, and how such deficits or surpluses would be determined. There is a separate question, which would affect the future cost to government after nationalisation, of whether past and current employees' future retirement benefits would be preserved, worsened or improved.

The scope for deductions from fair market value

During the 2018/2019 political debate around water company nationalisation, some suggested that it would be appropriate to make deductions from the RCV-based enterprise value of compensation given to shareholders.

Potential deductions mooted included: pension fund deficit and alleged excess dividends (each items that do not themselves contribute to the RCV); rectification of perceived past under-investment or the state of repair of assets (noting that as an alleged failure to spend enough this will not itself have been added to the RCV, had expenditure been higher, the RCV would also have been higher today); state subsidies since privatisation (noting that if any government grants or incentives have reduced expenditure by the company the RCV would now be lower as a consequence) ; and alleged "asset stripping" since privatisation (asset sales would have been deducted from the RCV). Some campaigners have also suggested compensating at the book value of shareholder equity because it reflects how much shareholders have actually put into a company, rather than future expectations of value based on the regulatory commitment to the RCV.

Ultimately, the level of compensation is a decision for Parliament in light of its legal obligations and considering the interests of investors in water companies within the public interest more generally. The application of any such deductions from compensation which deviate from accepted principles of fair market valuation would also likely be the basis of legal challenge by investors. Investors would demand compensation at fair market value. International

investors could seek to enforce this through, for example, international investment treaties, which typically include provisions for such circumstances¹⁵.

Leaving aside the legitimacy or otherwise of these deductions, ultimately, any policy choice would also need to weigh the public interest of making them against the potential for harm, including the future availability and cost of private investment to fund UK infrastructure. The UK relies on private sector investment to finance critical national infrastructure in many other sectors, most notably energy and transport. If the government deviates materially from the RCV in their nationalisation of the water sector, global investors may interpret this as the government moving away from its regulatory commitment to the RCV. This in turn could drive the cost of capital in these related sectors materially higher to account for this new risk – a cost that would be borne by consumers of these services.

Conclusion

This paper aims to provide information that is informative to any wider debate about nationalisation of the English water companies.

The Defra methodology for estimating the cost is useful as an illustration of the likely scale of the cost to the UK government. Our higher value at 2030 of £144bn (which we consider is likely conservative) is driven primarily by the very substantial investment programmes that companies are undertaking and that private investors are financing. This is not meant to imply that the solution is to nationalise more quickly. Investment will still be required and a greater amount of it will need to be financed through public rather than private sector provision. The ongoing elevated need for investment however is also relevant to a consideration of the long-term impact on measures of UK government's fiscal health.

The RCV alone is however unlikely to be sufficient to precisely estimate the enterprise value of any individual water company at nationalisation. While RCV can be a helpful approximation for enterprise value, it likely needs to be adjusted for a variety of factors for a more reliable estimate. We show in this paper the methodologies and factors that could vary the number up or down from the RCV estimate (potentially substantially) at the individual company level. Ultimately, any nationalisation process and the fair value compensation that is calculated from it will be a matter for primary legislation and will likely be tested in the courts.

¹⁵ See for instance the Malaysia United Kingdom BIT, 1981 which specifies that compensation must equal the value of the investment immediately before the expropriation or impending expropriation became public knowledge, [Link](#).

Appendix 1: technical factors that could affect our estimate of the cost of nationalisation under Defra's methodology

Under Defra's methodology, the cost of nationalisation is estimated using RCV as a proxy for each company's enterprise value.

The estimate of RCV at 2030 was derived using Ofwat's published financial models, which were included as part of their PR24 final determination¹⁶. The financial models include an estimated future RCV for each company. To estimate future RCV, Ofwat first estimates the real value of the RCV, considering opening balances, additions to RCV from new capital expenditure and reductions from RCV run-off, or return of principal to investors. Ofwat then inflates real RCV to nominal terms using inflation assumptions from 2023 to 2030. These assumptions reflect outturn inflation up to March 2024 and use 2.00% for future years, which is Ofwat's long-term inflation assumption.

Our application of Defra's methodology relies solely on the forecast RCV at 2030 in 2029/30 prices published by Ofwat in their PR24 final determination. The aggregate RCV for the sector provides an indicative estimate, but it will not reflect actual RCV in 2030 due to: (1) additional expenditure funding awarded by the Competition and Markets Authority (CMA) to the companies that appealed Ofwat's PR24 final determination; (2) contingent expenditure allowances that Ofwat may award during the current regulatory cycle and any interim determination allowing additional expenditure before 2030; (3) the impact of regulatory reconciliation mechanisms; (4) outturn inflation varying from Ofwat's assumed inflation embedded in the 2030 RCV calculation; and (5) the limitation that RCV covers wholesale businesses only and excludes the value of the household retail business also held by water companies.

1. The CMA awarded £543m¹⁷ of additional enhancement funding as part of its PR24 final determination, compared with Ofwat's original determination.
2. The PR24 final determination included contingent allowances that Ofwat may grant to companies within the period. If granted, these additional allowances would increase companies' RCV. For example, in AMP8 Ofwat used a variety of mechanisms to provide contingent allowances, including the Delivery Mechanism that may result in RCV at 2030 being £1,311m higher¹⁸ and a large scheme gated contingent allowances covering

¹⁶ The Ofwat PR24 Final Determination company-specific financial models can be found [here](#).

¹⁷ CMA awarded an additional £447m enhancement funding in 2022/23 real prices, which if inflated to 2029/30 prices using the inflation assumptions embedded in the RCV at 2030 calculation equates to £543m. Net increases to 2030 RCV include enhancement expenditure and capital maintenance which are partially offset under the current regulatory framework by RCV run-off. Current levels of capital maintenance are broadly equivalent to RCV run-off leaving enhancement expenditure as a good proxy for net increases to 2030 RCV.

¹⁸ As part of their PR24 Final Determination, Ofwat published financial models for Thames Water and Southern Water including and excluding the contingent allowances from the Delivery Mechanism introduced at PR24. The additional RCV is derived by comparing the financial models including and excluding the Delivery Mechanism contingent allowances. Thames Water and Southern Water may request Ofwat to release these allowances during AMP8 and Ofwat may grant some or all of the contingent allowances subject to these companies meeting delivery milestones on the initially funded capital programme.

£2,161m¹⁹ additional expenditure. Companies can also, under certain circumstances, request and trigger in-period redeterminations of cost allowances under Ofwat's cost change process and interim determinations before 2030. United Utilities, for instance, has requested an additional £1,020m²⁰ RCV adjustment²¹ through the recent cost change process.

3. Ofwat incentivises companies to operate efficiently and deliver good service to customers through a series of reconciliation mechanisms, which can adjust 2030 RCV based on company performance during AMP8. For example, companies may overspend or underspend relative to allowed costs, under-deliver against price control deliverables, or deliver schemes early or late, realising a time-incentive reward or penalty. In addition, some elements of the total expenditure allowance are indexed to market prices and changes in market prices can result in changes to the RCV.
4. Outturn inflation may be higher or lower than Ofwat's estimate included in the PR24 financial models, which can create differences in future nominal RCV at 2030.
5. Water companies operate in two main business areas: wholesale and retail. The wholesale business includes the provision of drinking water and the removal of wastewater, while retail includes customer service and billing functions. Ofwat regulates the wholesale and retail businesses differently. The wholesale business generates returns through the RCV and an allowed return on the RCV, while the retail business generates returns from a direct allowance for profit. The retail²² business within a water company would also need to be acquired in the nationalisation process because of the licence restrictions on providing this service and the difficulty of separating the business in a short timeframe.

Appendix 2: technical factors that could affect our estimate of the potential 2030-50 future investment requirement

The future investment needed between 2030 and 2050 is estimated using companies' published long-term delivery strategies (LTDS). Ofwat requires each company to publish these reports as part of the price review process. The future investment estimate relies on total enhancement expenditure included in each company's core pathway scenario. However, total future investment needs will include both enhancement expenditure and capital maintenance, which are partially offset under the current regulatory framework by RCV run-off. Conceptually, enhancement expenditure is a reasonable proxy for future net investment needed (and

¹⁹ Ofwat outlined in their PR24 Final Determination 'Table 42: Large scheme gated approach allowances' the total contingent funding awarded was £1,777.90m in 2022/23 prices, which if inflated to 2029/30 prices using the inflation assumptions embedded in the RCV at 2030 calculation equates to £2,161m. This estimate is subject to change as more accurate information becomes available related to project costs. Table 42 can be found at: Ofwat (2025) "PR24 final determinations; Expenditure allowances". [Link](#). p. 332-333

²⁰ United Utilities (2026) "Asset Health and Growth Cost Change 2026" [Link](#). p.3

²¹ The quoted RCV adjustment is in 2022/23 prices. The impact to 2030 RCV will be higher due to inflation.

²² There are two types of retail businesses: household and non-household. The household retail business is referred to above as it is not currently separated from the licensed water company and would very likely be included in any future nationalisation. The non-household retail business operates in a competitive market and can be separated from the licensed water company. The non-household retail business can be spun off from the appointee and may not need to be included in a nationalisation effort; however, several water companies have an equity stake in a non-household retail business.

therefore RCV growth) because over the long-term the investment required to maintain the assets (capital maintenance) should net-off against the RCV run-off funded through bills. The core pathway reflects only low- or no-regret investment options available to achieve the water sector's long-term objectives. The LTDS was reported in 2022/23 real prices, and these values were inflated using Ofwat's inflation assumptions to 2029/30 prices to provide a more reliable estimate of future investment.

The estimate is likely conservative due to: (1) inflation over the 20-year period; (2) companies expecting to spend more than is reflected in the core pathway; (3) future capital maintenance likely being higher than current levels; and (4) downside risks that may materialise and require additional investment to manage.

1. The estimate is in forecast 2030 prices, in line with Ofwat's assumptions, and would be subject to inflation over the 20-year investment period. Given that deflation is very unlikely to persist over 20 years, this will very likely increase the outturn cost.
2. The estimate is taken from each company's LTDS. Ofwat's guidance to companies in estimating the core pathway is to reflect only no- and low-regret options. Where companies believe additional investment is beneficial, but the need is uncertain, Ofwat requires this in a separate scenario, which is not reflected in this estimate.
3. The LTDS values do not include costs to improve the health of the asset stock. Capital maintenance is a particular focus under the water sector reform agenda. The Independent Water Commission found that "[t]he planning cycle often prioritises short-term compliance over longer term asset lifecycle needs, leading to inefficient capital use over time, prioritising short term solutions when more expensive but longer lasting solutions may be better value in the long term"²³. This suggests that capital maintenance investment may have been insufficient due to systemic pressures. To address this, the Independent Water Commission recommended "improvements to the Price Review methodology to support maintenance spending"²⁴. If capital maintenance requirements are higher in the future than current levels this could impact the investment needed from government.
4. In the LTDS planning framework, companies are required to consider adverse scenarios where investment may be higher than the core pathway. For example, companies need to consider adverse scenarios where climate change is worse than expected or demand grows faster than forecast. These costs are included in each company's LTDS and can at times reflect materially more investment than the core pathway.

²³ Independent Water Commission (2025) "Final Report" [Link](#), p. 56

²⁴ Independent Water Commission (2025) "Final Report" [Link](#), p. 10