Elphinstone Research Group

Macro Research

Policy & Markets Brief

Starmer Steps Down

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Executive Summary

After a series of dire poll ratings and mounting cabinet resignations, Kier Starmer resigned his position as Prime Minister of the United Kingdom on June 22, leaving the door open for former Mayor of Greater Manchester, Andy Burnham, to take his place. Burnham's more left-wing politics looks to usher in a period of revitalization for the struggling British economy, with failing sectors like the water industry gearing up for a period of immense change through the use of Special Administration.

Key Judgement
Despite Burnham's optimism for stronger government regulation, ongoing political turmoil and political division throughout Great Britain are likely to stymie much of Burnham's optimism, limiting the extent to which Burnham can enact policy, and the extent of his tenure in office. In terms of risk, Thames Water faces the biggest challenges. Shareholders face substantial losses and creditors face likely restructuring, given Burnham's public support for Special Administration on the struggling company. FTSE-listed utilities Severn Trent and United Utilities face near-term share price pressure from regulatory tightening even in the absence of outright public ownership, as stricter dividend controls and mandatory capital expenditure requirements directly compress the predictable returns that have historically justified their valuations.

Investment Implications
Our call is to underweight Severn Trent, United Utilities, and Pennon Group until the Autumn Spending Review is released and clears up the regulatory and fiscal position the government is looking to take. In the context of broader political turmoil within the UK, along with the appointment of a more moderate chancellor, a large-scale overhaul of the water industry is unlikely. Despite this, the existing investment case for FTSE-listed water utilities is still likely to deteriorate under a Burnham administration. This underweight is a reflection of the widening variability of possibilities for the water industry under the Burnham administration, which once offered a more narrow and predictable set of outcomes.

What to Watch
- **Chancellor Appointment:** Burnham has appointed John Healey as Chancellor for his new administration. While a more center-left figure, his stance on the water industry is not very well-known, so tracking his future actions and plans are crucial to investment decisions within the industry.
- **Autumn Spending Review:** The review will decide the budget for the new administration as well as how their capital will be allocated across the various departments of Government. If Special Administration were to be used on Thames Water, they would have to explain how they would finance the venture on the Review.
- **Bid on Thames Water:** On July 18th, a group of investors placed an approximately £10 billion rescue bid to take control of Thames Water in case Burnham tries to vie for nationalization. If accepted, the company would stay in private control instead of being placed under Special Administration.

Macroeconomic & Political Landscape

Current situation

Following losses around the UK, with the Labour Party only receiving around 17% of the vote in England, 19% in Scotland, and 11% in Wales, and resignations from senior members of his government, Keir Starmer announced on June 22, 2026, that he would be stepping down as Prime Minister of the UK. This follows the UK's recent political turbulence, as they have had 6 Prime Ministers in the past 10 years. On July 20th, Andy Burnham, the former Mayor of Greater Manchester, was elected as leader of the Labour Party and is now the current Prime Minister.

Analysis

Andy Burnham has stated in recent public speeches that he intends to bring about many positive economic reforms to the UK in order to target its inequality-related issues. He has not yet named a chancellor, the figure in charge of writing the budget, which will almost certainly move gilt markets. The Labour Party has been set on certain issues that require raising cash and may be funded through new taxes and issuing debt.

Housing

One such issue he mentioned is the housing market, and he has proposed to build more homes, a problem his predecessor Keir Starmer had tried to address with a lofty goal of 1.5 million homes built over the 5-year parliamentary term. Burnham has been adamant about home building, saying that he wants "the biggest council house building programme in the postwar period". The most crucial aspect is how this project will be financed. In the past Burnham has shown public support for two major potential strategies, the first being issuing new debt, and the second being a land or property tax on higher value assets. With around £19.9 billion in headroom, the budget's margin for error essentially, the previously proposed £40 billion in investment means that the government is going to need to raise substantial amounts of cash to fund this project.

Bond Market and The Pound

Concerns about fiscal policy and debt will be most apparent in the UK gilts and in the British Pound. The debt management office hasn't listed any debt that matures in 15 years or more this fiscal year, as investor confidence in political stability will not increase until the Chancellor is appointed and the budget is announced. The yield on the 30-year gilt jumped to its highest level since 1998 following calls for Keir Starmer to resign. Bloomberg reports that funds like Royal London Asset Management and Insight Investments do not have confidence in the long-dated gilts until the budget plans are finalized, and do not expect the DMO to sell their £22.4 billion of long-term debt this year. The risk being that investors may demand higher rates due to the uncertainty in fiscal spending and may drive up already high rates even more. In this scenario the short-term gilts hold much less risk than the long-term gilts do, a position many hedge funds have already taken. The British pound also holds the same kind of risk as the long-term gilts and is also waiting for the chancellor and budget announcements. As the 30-year gilt yields rose, the pound had fallen, something that wouldn't usually happen as higher rates means higher foreign investment, and more demand for the currency.

Longer-dated gilts and the pound are sensitive to the fiscal uncertainty around the corner. Andy Burnham's plans are pushing for stronger government control of sectors that have been privatized, as seen in his push for new public housing, but also in his push to nationalize other industries. With the recent nationalization of British Steel, Burnham will also push for further nationalization of industrial firms, with the likely next target to be Thames Water, who supplies 16 million customers London and the greater area.

Sector Spotlight: The Water Industry

Key Findings

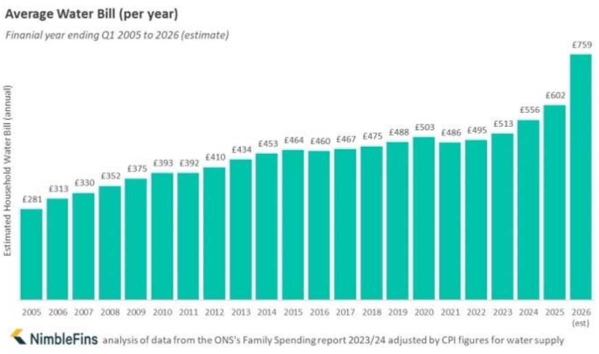
- Thames Water and other financially distressed companies are likely to experience the greatest degree of government intervention and shareholder risk. Thames is currently £17.6 billion in debt and with multiple environmental violations, existing shareholders face substantial losses and creditors face likely restructuring regardless of whether full public ownership materializes

- FTSE listed water utilities including Severn Trent, United Utilities, and Pennon Group face share price pressure from regulatory tightening under a revitalized Burnham administration.

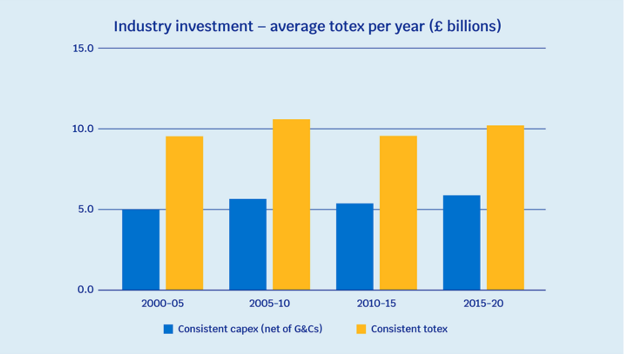
- If the markets conclude that further regulation of water is a sign of broader public ownership beyond to other regulated industries, investor sentiment toward the UK could continue to deteriorate, amplifying the gilt and pound weakness that caused Starmer’s resignation.

Background & Industry Overview

England's water industry has become one of the most politically contentious sectors of the British economy, with growing public concern over environmental pollution, rising household bills, aging infrastructure, and the financial stability of several major water companies. In 1989, under Prime Minister Margaret Thatcher, England privatized its regional water authorities with the intention of attracting private investment and improving efficiency, which has remained the status quo. The water system is operated by regional monopoly providers (regulated by the Water Services Regulation Authority) that are all responsible for millions of customers. This method has begun to deteriorate; over the past decade, reports of sewage discharge into rivers and coastal waters have become sparks of national debate; several water companies like Severn Trent have faced investigation and financial penalties from environmental organizations. At the same time, a majority of consumers have experienced steadily increasing water bills despite concerns that infrastructure has not improved at the same pace. The most prominent example has been Thames Water, which has been struggling financially, accumulating £17.6 billion of debt thanks to heavy borrowing by owners to pay out dividends and extreme underinvestment in infrastructure (which led to high environmental fines). These factors have encouraged them to impose heavier prices on English citizens that are around four times more than the global average price of water in order to slowly diminish the debt, ultimately raising serious questions about the long-term sustainability of England's existing regulatory framework and whether or not it can accommodate the interests of the consumers and environment. As a result, the possibility of direct government intervention in the water sector has shifted from a largely theoretical discussion to a realistic policy consideration.



Source: Clearsource



Source: Ofwat

Burnham's Position on Water

Andy Burnham has emerged as one of the Labour Party's strongest advocates for increasing public control over the sector, arguing that access to clean, reliable water should be treated primarily as a public service that acts in the interest of the general population rather than a commercial enterprise that focuses on shareholder returns. Although Burnham has not proposed the immediate nationalization of every water company, he has repeatedly stated that public ownership remains a strong front-running option in place of companies that struggle financially or lack environmental sustainability. More broadly, he supports strengthening general government oversight of the industry while encouraging greater long-term investment in infrastructure and environmental protection. Burnham's political philosophy suggests that industries operating as natural monopolies should be governed differently from ordinary private markets. In sectors such as water, consumers cannot simply choose an alternative supplier if the quality or management of a service deteriorates, meaning that traditional competitive pressures simply do not exist. Burnham therefore argues that the government has a greater responsibility to ensure that these industries do not take advantage of citizens against their own will. His proposals consequently represent not simply a debate over ownership, but a more expansive reconsideration of the relationship between markets, regulation, and the public interest within Britain's mixed economy.

If implemented, Burnham's reforms would be one of the most significant structural changes to England's water industry since privatization more than three decades ago. While supporters argue that increased public oversight could improve environmental conditions, public accountability, and infrastructure investment, critics contend that it could impose substantial, possibly unnecessary, fiscal costs upon the state and create great uncertainty amongst financial markets. This debate revolves around the economic consequences and benefits of these proposals, the challenges the potential Burnham administration would face in implementing them, and their likely effects on public opinion, financial markets, and England's major water companies.

Burnham's Path to Implementation

If Andy Burnham were to become Prime Minister, reforming the entire English water industry that has stood for twenty-eight years would require more than a simple policy announcement of greater public control. The Burnham government would need to establish an in-depth legal framework that could remedy many challenges before any structural changes could occur. The government's first priority would likely be determining the extent to which individual companies should remain privately owned. Although Burnham has stated that public ownership of all companies is a possibility, he has generally framed his proposals as increasing public control being his primary choice.

Several of his close allies have signified that beginning with financially distressed companies, such as Thames Water, before gradually expanding public ownership if needed is the most likely process Burnham aims to take. This type of incremental approach would reduce rapid fiscal burden on the Treasury while allowing Burnham and the government to evaluate the effectiveness of public ownership before implementing broader reforms. Burnham's strategy would have to involve the use of the Special Administration Regime (SAR) in order to be carried out effectively. SAR is an existing legal mechanism that allows the government to assume temporary control of an essential industry company if it becomes unable to continue operating safely or efficiently. The SAR was designed to ensure uninterrupted water services while administrators tend to a failing company or determine its long-term future. In terms of Thames Water, many policymakers and legal experts have argued that special administration could provide the government with the opportunity Burnham is looking for in reorganizing the company without purchasing every privately owned water utility in England.

Beyond ownership, Burnham's government would likely pursue substantial regulatory reforms. Although Ofwat would almost certainly remain England's primary water regulator, parliament could expand its legal responsibilities by placing great emphasis on environmental protection, consumer affordability, and infrastructure investment that Burnham wants to achieve. Such reforms may include stricter limits on dividend payments, which would prevent companies from siphoning bill revenue to shareholders instead of investing it in critical infrastructure, and stronger penalties for repeated sewage discharges, which would create more incentive against taking such actions. Although these measures can carry many progressive effects, they can also lead to funding shortcomings as they discourage future private investment. Financing his plans would be the greatest problem for Burnham. Things such as wastewater treatment facilities, flood resilience projects, and reservoir pipelines would require a large sum of money, specifically around £20.8 billion every year. If companies entered public ownership, the government would have the responsibility of playing a large role in this funding, which would be completed through higher taxation and increased government borrowing, both of which have serious political and economic trade-offs. Balancing investor confidence with public accountability would also affect funding. England's water companies have historically relied on private capital markets to finance large infrastructure projects. Consequently, any reforms that are seen as weakening shareholder rights or increasing political uncertainty could discourage future investments across all regulated industries. To minimize such a great risk like this, the Burnham government would likely need to provide clear legal guarantees regarding compensation and long-term implementation strategies. Predictability would be essential if the government wished to maintain private investment while expanding public oversight.

Economic Effects

Andy Burnham's proposed reforms of the water industry would also undoubtedly produce economic effects beyond solely the water sector. Water utilities comprise a fundamental component of Britain's infrastructure and, as mentioned previously, rely heavily on private investment, meaning that any significant expansion of government ownership or regulatory authority would influence the general economy. Supporters tend to argue that greater public control will improve long-term economic efficiency by prioritizing infrastructure investments over shareholder returns. This thought stems from the idea that it will lower operational costs while still attracting private investment thanks to a reliable system, somewhat working towards a solution to Burnham's challenge of investment discouragement. However, one of the most immediate economic considerations would be the fiscal cost of Burnham's proposals. If the potential administration chooses to acquire struggling companies through a SAR before transitioning them into permanent public ownership, the government would, again, assume responsibility for maintaining operations while determining its long-term financial structure.

Although some analysts argue that the poor financial positions of companies such as Thames Water could reduce the eventual acquisition because existing shareholders have already suffered large losses, the government will still inherit responsibility for the future of the company, leading to great amounts of public borrowing.

These initial fiscal costs should always be evaluated alongside their potential long-term economic benefits. Under public ownership or strong regulatory oversight, a greater proportion of money would be directed towards Burnham's goals of repairing aging infrastructure, modernizing wastewater treatment facilities, reducing leakage, and improving environmental performance rather than servicing debt or distributing dividends. This would ultimately lead to reduced maintenance costs due to the improved quality of the infrastructure, strengthened environmental care with a more sustainable pollution plan, and increased reliability of an essential public service that supports households and businesses throughout the United Kingdom.

Market Implications

Nevertheless, financial markets would likely respond cautiously during the initial stages of implementation. Investors generally value regulatory stability because infrastructure projects require large capital commitments that often extend over several decades. Any type of perception that the government is willing to increase state ownership or alter the regulatory framework could lead investors to reassess the level of political risk associated with regulated utilities. As a result, share prices of publicly traded companies could experience increased volatility while markets evaluate the extent and permanence of Burnham's reforms. Although these firms operate as regional monopolies with relatively predictable revenues, uncertainty surrounding future regulation often has a significant influence on investor expectations.

The broader British stock market would most likely experience more limited effects. Water companies represent only a small proportion of the overall FTSE equity market, meaning that changes affecting individual utilities would be unlikely, by themselves, to trigger widespread declines across British equities. Instead, market reactions would depend largely upon whether investors interpreted Burnham's reforms as part of a broader shift toward increased government intervention across multiple sectors of the economy. If markets concluded that similar ownership reforms could eventually extend to additional regulated industries, investor sentiment toward the United Kingdom could weaken rapidly. This would have global trickle-down effects such as financial contagion and global funding costs, ultimately disrupting the state of the global economy for the worse. Conversely, if Burnham successfully communicated a transparent implementation strategy that clearly distinguished between failing utilities and financially healthy companies, market uncertainty could diminish relatively quickly.

An increase in government borrowing could also produce broader economic consequences beyond the immediate costs. If the potential Burnham administration partially financed public ownership through gilt issuance, the United Kingdom's debt burden would increase. Although borrowing to finance productive infrastructure investment can generate long-term economic benefits, higher public debt may also raise concerns regarding fiscal sustainability, particularly if investors perceive that government liabilities are expanding more rapidly than economic growth. Increased borrowing could place upward pressure directly on government bond yields by requiring the Treasury to offer higher returns to attract investors, thereby increasing the long-term cost of servicing public debt. High borrowing costs would also reduce the government's fiscal flexibility during future economic downturns, ultimately limiting its ability to finance other priorities such as healthcare and education without raising taxes further or increasing borrowing further, sending the government into a poor loop.

While public ownership of water utilities could potentially improve infrastructure over the long run, its overall economic success would depend in part upon whether the additional borrowing generated sufficient economic and environmental returns to justify the associated increase in public debt.

As an alternative or addition to increased borrowing, the potential Burnham government could expand public ownership via higher taxation. Although Burnham has emphasized that economic growth should remain the primary means of improving the United Kingdom's fiscal position, additional public spending on the water sector could increase pressure to raise government revenues as well. This could involve increases in corporation taxes or taxes on wealthier individuals. From an economic perspective, higher taxation presents both advantages and disadvantages. If the administration decided not to use the strategy of public borrowing at all, financing public investment through taxation rather than borrowing could reduce pressure on public debt and limit increases in government borrowing costs, thereby improving long-term fiscal sustainability. However, high taxes can also lower consumer spending and discourage private investment if businesses anticipate lower after-tax returns. Economists tend to claim that the magnitude of these effects depend upon both the type of tax implemented and the overall economic environment. Taxes targeted towards higher-income earners or sectors generating economic rents may have relatively modest effects on aggregate demand, whereas broader tax increases could place greater pressure on household consumption and business investment. The economic implications of Burnham's reforms would not only depend on whether taxes increased but also on how any additional revenue was raised and whether the long-term benefits of improved public infrastructure outweighed the potential short-term costs of higher taxation.

Company-Level Analysis

When narrowing down, it's important to note that Andy Burnham's proposed reforms would not distribute effects evenly throughout the water industry. The magnitude of their impact would depend largely on each individual company's financial condition, ownership structure, regulatory performance, and direct relationship with the government. As mentioned previously, companies experiencing financial instability or are repeatedly culprits of harming the environment would face substantially greater intervention than firms demonstrating stronger financial management and regulatory compliance. The proposals would therefore create both risks and opportunities throughout the sector rather than producing a uniform outcome for every water provider.

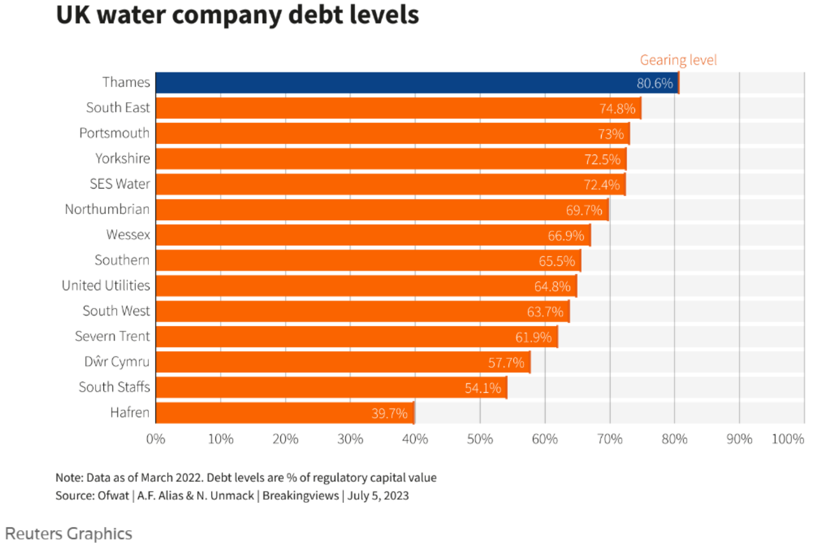
UK Water Companies: Financial & Regulatory Overview

Company	Market Cap	Net Debt	Recent Fines	Listed	Burnham Administration Risk Level
Thames Water	Private	£17.6bn	High	No	**Critical**
Severn Trent	~£9.26 billion	~£10–11 billion	Medium	FTSE 100	**Elevated**
United Utilities	~£10.21 billion	~£8–9 billion	Low-Medium	FTSE 100	**Elevated**
Pennon Group	~£2.33 billion	~£3–4 billion	Low	FTSE 250	**Moderate**

Source: Company filings, Market data (as of May 2025)

Thames Water

When compared to all other English water companies, Thames Water would most certainly experience the most significant effects from the Burnham government. As England's largest water service, providing to around 16 million people across London and the Thames Valley, the company has become the headline of national debate over the future of the water industry thanks to its substantial debt burden, repeated environmental violations, and constant financial instability. Burnham has already publicly argued that Thames Water should enter a SAR and has suggested that public ownership should remain a realistic option if the company cannot be restructured effectively through private markets, which it has proven time and time again that it is not capable of doing. In this case, existing shareholders could experience substantial losses, while creditors might face debt restructuring or negotiated write-downs depending upon the eventual ownership model adopted by the government.



Source: Shift Action for Pension Wealth & Planet Earth

Severn Trent, United Utilities, & Pennon Group

Publicly traded companies with stronger financial positions, such as Severn Trent, United Utilities, and Pennon Group, would experience a different set of challenges. Unlike Thames Water, these companies have generally remained financially stable while continuing to attract private investment, although they have also faced increasing regulatory scrutiny regarding environmental performance and wastewater management. Under Burnham's proposals, these firms would likely remain privately owned in the short term but operate within a stricter regulatory system emphasizing infrastructure investment and environmental compliance. Such reforms could require companies to devote a greater proportion of operating revenues toward capital expenditure while reducing flexibility to distribute profits through dividends or share buyback programs, ultimately discouraging investors. From an investor's perspective, these regulatory changes could influence company valuations even without outright nationalization. Water utilities have traditionally attracted investors because of their predictable returns. If Burnham's government imposed stricter controls on debt levels, executive compensation, dividend distributions, or allowable rates of return, investors might assign lower valuations to water companies as future profitability became more uncertain. In the short term, this would place downward pressure on share prices. However, if stronger regulation ultimately improved financial resilience and restored public confidence in the sector, valuations could stabilize over the longer term.

Regional Private Operators
Privately owned regional companies could also experience meaningful operational changes despite not being publicly listed. These firms would face tighter environmental standards and greater government scrutiny regarding debt management, executive remuneration, and infrastructure investment. Companies carrying large sums of borrowed money or weaker environmental records could be required to reduce debt levels more rapidly or accelerate investment programmes. This would potentially reduce short-term profitability while strengthening long-term financial sustainability, a seemingly general effect. More financially resilient operators, however, might be better positioned to adapt to the new regulatory environment and could benefit competitively (with the little competition occurring) if weaker firms required government intervention.

Investment Implications

We project that the investment case for UK listed water utilities will deteriorate materially under a Burnham administration. Our call is to underweight Severn Trent, United Utilities, and Pennon Group until the Autumn Spending Review is released and clears up the regulatory and fiscal position the government is looking to take. While we do not believe nationalization will occur on a broad scale and doubt Burnham's ability to enact serious change due to wider political instability, we underweight these companies because Burnham is looking to shake up what was originally unshakeable. The water industry under its current form is no longer safe to a small set of predictable outcomes and is now vulnerable to a wider range of possibilities. Therefore, these companies deserve to be underweighted regardless of the specific outcome.

UK water stocks have traditionally traded at a premium due to their predictable revenue streams and consistent dividend distributions. Water itself is a source that is inelastic in demand as it's a resource everyone needs. The highly concentrated nature of the water industry only contributed to these stocks being traded at a premium, but Burnham's proposed reforms could reduce the valuation premium investors have historically assigned to the sector. Ofwat has already signaled accelerated dividend controls under the Burnham administration which would in turn reduce the income return for investors in these stocks. Additionally, stricter regulations means more capital expenditure on infrastructure maintenance which then means less free cash flow and tighter margins. These factors thus diminish an investment case for these companies regardless of if they do not enter public ownership.

Thames Water is central to understanding future investment risk in the water industry. The company has had repeated environmental violations, remains over £17 billion in debt, and has had calls for special administration from Burnham himself. While not publicly traded, how Burnham chooses to handle the UK's largest water supplier will set the precedent for how portfolio managers and investors should look at the rest of the industry.

The most important detail for future investment decisions will be Burnham's recent appointment of Chancellor, John Healey. Healey is a more business-friendly and a pragmatic appointment than other more interventionalist choices, which likely means that he will push back on Burnham's more left-wing instincts, and instead seek more realistic solutions.

Healey's appointment also needs to be viewed within the larger context of the United Kingdom's political instability since Brexit. With a prime minister turnover rate of now seven in the past 10 years, any long-term policy agenda is likely to be deadlocked in further instability. Therefore, a large-scale overhaul on Severn Trent, United Utilities, & Pennon Group is unlikely.

Burnham's appointment of Healey only adds further proof of this pattern continuing. As a more moderate Chancellor, Healey is likely to slow any large-scale changes to the water industry.

We conclude that the most practical implication for investors is to treat the water industry with patience rather than immediate action. The underweight of the FTSE listed water utilities is not a reflection of a belief in dramatic government action, but instead a widening of the risk within the industry. Keeping track of Healey's decisions and statements, along with the Autumn Spending Review will be the most important events in determining future plans within the industry.

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