

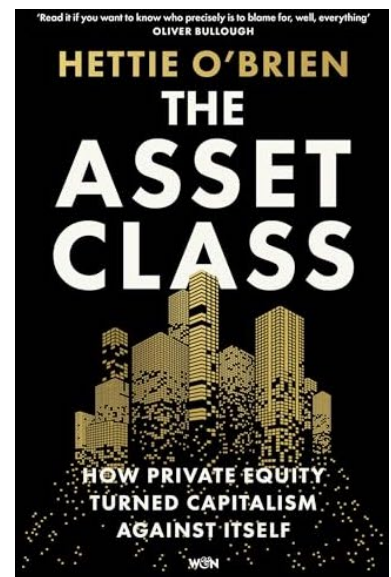
They were the less pleasant side of capitalism

Colin Challen

*The Asset Class:
How Private Equity Turned Capitalism Against Itself*
Hettie O'Brien
London: Weidenfeld and Nicholson, 2026, £20 h/b

I

I was about to order this book when I noticed it on the shelves of an airport bookshop. That such a book about a somewhat obscure part of the economy appeared amongst airport bestsellers seemed a bit odd. Is this evidence of increased public interest in the subject? O'Brien joins a small band of writers who diligently expose the shortcomings of the world of finance. Having said which it is hard to fathom what the subtitle means. Private equity hasn't turned capitalism against itself, it has merely become another iteration of the old constantly evolving mongrel. Her book could be one of the first to critically examine private equity, although to my mind she doesn't dig too deeply into the case studies she considers. Hers is more of a bird's eye view, not a granular examination of financial flows. I acknowledge that one would need to be an accomplished corporate accountant to disentangle the accounts of private equity enterprises.



One example O'Brien looks at is Yorkshire Water, privatised in 1989 along with the rest of the UK water industry. At length she writes about the impact of sewage pollution in the River Wharfe and the heroic campaign of local people to call the company to account. It is a tale of the parallel profiteering practices of a private equity owned business and the retreat from regulatory enforcement by government agencies (partially the result of reduced staff levels thanks to austerity). The latter was not accidental since light enforcement contributed to

a more congenial investment environment.

When it was privatised Yorkshire Water was made debt free. Now, approximately one third of customers' bills are spent paying down debt and dividends. (p. 191) An independent report commissioned by the Ilkley Clean River campaign group in 2025 showed that:

1. Despite strongly positive cashflows, after covering all operating costs and capital expenditure, amounting to £3.6 billion by 2024, Yorkshire Water has taken on £5.3 billion in net debt.
2. Since privatisation, total dividends paid by Yorkshire Water to its parent company, plus gross interest costs is £9 billion.
3. For every £100 Yorkshire Water have spent on infrastructure, another £85 has gone to pay interest and dividends.
4. Had no dividends been paid there would have been no need for this debt, or its related huge finance cost.
5. Yorkshire Water customers may think they are paying for infrastructure that will last long into the future, when in fact they are paying for dividends taken out long into the past.
6. Yorkshire Water, like most other privatised utilities, has papered over losses from its failing business plans with aggressive fixed asset revaluations – which in turn enable it to borrow more money signed off by The Water Services Regulation Authority (Ofwat).
7. Yorkshire Water has a number of parent companies Kelda Holdings, Kelda Finance and Kelda Eurobond. At March 2024 Yorkshire Water Services Ltd has £5.3 billion of net debt equal to more than 4 times revenue. Meanwhile Kelda Eurobond has net debt of £6 billion plus another £2.2 billion owed to its parent, Kelda Holdings, which can only ever be paid off by Yorkshire Water dividends.¹

The Kelda companies at the top of the Yorkshire Water food chain are registered, not unsurprisingly, in Jersey, despite Kelda Group in 2017 commencing the closure of three Cayman Island registered business 'in the name of transparency' according to a YW finance director: 'Complex financial structures only add to public concern as to the way in which companies are financed. We have some offshore companies in our structure which are no

¹ Ilkley Clean River Group, 'Yorkshire Water's Finances Exposed. There was no investment' <https://ilkleycleanriver.uk/yorkshire-waters-finances-exposed-there-was-no-investment/?utm_source=copilot.com>.

longer necessary or appropriate and we're taking steps to remove these as soon as possible.²

Except when it comes to Jersey. The more complex the structure, the harder it is to effectively challenge the business's financial model. That appears to have been a challenge for the regulator Ofwat in the past, as O'Brien recounts from a meeting she had with Ian Byatt, Ofwat's founding director:

When Byatt was in charge of Ofwat, some of the water companies were owned by French firms, and he used to travel down to Paris and discuss rules and regulations over dinner. 'It was quite clear, in my view, who was boss and they should do what they were supposed to do,' he recalled. But the relationship was less cosy with the private equity and infrastructure funds that later bought up the water companies. 'I'm inclined to think that they were rather more interested in the money than satisfying customers,' he said. 'In a sense they were the less pleasant side of capitalism.' Ofwat allowed these owners to produce long and complicated accounts, and the regulator was no match for such complexity, he told me. 'Essentially, they were throwing dust in the regulator's face.' (p. 201)

To its credit, the new Labour government of 1997 toughened up regulations affecting the water industry. By then the whole process of privatisation had become deeply unpopular with the public – higher bills and poorer services had become the norm. The reaction of some of the companies was to try to ditch the regulated side of their businesses in a manner which at first may have sounded almost benign but which in fact was quite the opposite:

In July 2000 Kelda, the owners of Yorkshire water, suggested handing back the water system to a consumer-owned 'mutual', not for profit, company. New price regulations meant that it would no longer be so easy to make profits from water – and Kelda had accumulated a lot of debts. Kelda proposed that the mutual should take over all the debts, and be subject to the regulator. The company argued that the mutual would be able to charge lower prices, because equity is more expensive than debt finance. This was described as 'a tacit admission that the private ownership of a capital-intensive business with limited demand is unviable'. Kelda/Yorkshire Water became a bad joke in the UK in 1995 when they failed to maintain piped water supplies to whole towns for months on end.

² 'Yorkshire Water to close Cayman Island subsidiaries'
<<https://www.ft.com/content/72a3c228-b59c-11e7-aa26-bb002965bce8?syn-25a6b1a6=1>>
(behind a paywall).

The customers will be expected to pay £2.5 billion for this mutual company; take on all the debt of the whole Kelda group, £1.4 billion; and guarantee to bondholders that they will maintain a high credit rating. The part of Kelda remaining private would hold an operating contract to run the system. Shareholders of Kelda are expected to benefit by about £1.5 billion.³

The 'mutualisation' proposal was met with a firm thumbs down in all quarters, greeted as the cynical proposal it was.

The current Labour government published in early 2026 a White Paper which claims to pave the way for more reforms of the regulatory regime, removing tiers of agencies and explicitly citing the need for a 'stable and sustainable' regulatory model for investors. In this the government has put its foot down firmly against any form of public ownership. This seems bizarre when one considers how a profitable monopoly like Yorkshire Water could lend £941 million to Kelda Group, a loan which Ofwat has now at least required Kelda to pay back. What the loans were actually *for*, at least to my mind, is not clear, although I assume it was to reward investors. At the time of Ofwat's loan payback demand in 2022 the *Northern Finance Review* reported:

In a stock exchange statement, Yorkshire Water said: 'Yorkshire Water announces today that it has agreed with Ofwat that intercompany loans owed by another Kelda Group company, totalling £941.3 million on 31 March 2022, will be repaid by March 2027.

It is anticipated that the repayment will include capital injections and cash generated in Yorkshire Water that could otherwise have been distributed to shareholders via dividends.

The intercompany loans were originally made in connection with the acquisition of Kelda Group plc in 2008 and are excluded from the calculations of reported gearing and interest cover for covenant purposes.⁴

The point here is that Kelda (in whatever manifestation) was essentially Yorkshire Water to start with. One of the few people who could perhaps explain how Kelda might operate *without* Yorkshire Water is the current Chief Executive

³ '1989-2001 UK water privatisation' <<https://libcom.org/library/uk-water-privatisation>>.

⁴ 'Yorkshire Water agrees £940m deal with regulator' – *Northern Financial Review* <<https://northernfinancialreview.com/2022/10/13/yorkshire-water-agrees-940m-deal-with-regulator/>>.

of Yorkshire Water and Kelda Holdings (based in Jersey) Nicola Shaw, who was paid £1.3 million in bonuses by Kelda Holdings on top of her near equivalent salary from Yorkshire Water. A group of Yorkshire MPs wrote to Ms Shaw asking for an explanation: 'When will you stop taking your customers, and us, for fools?' They asked a number of questions, including why Ms Shaw was paid £1.3m alongside her salary, how many hours she worked for the £1.3m, and how such payments help to build public trust. A Yorkshire Water spokesperson did not comment on the MPs' letter and pointed towards a previous statement, which said:

As part of her CEO role at Yorkshire Water, Nicola Shaw also does some work for the benefit of Yorkshire Water's parent company, Kelda Group, including investor engagement, financial oversight and management of the Kelda Group, which is recognised by a fee of £660k paid by shareholders. This is a conscious governance decision: we do not believe that work done on investor-related activities should be paid for by Yorkshire Water customers' bills. This fee, which has remained unchanged year on year, reflects the critical importance of the work during this period that was led by Nicola in securing long-term investment for Yorkshire Water.⁵

The way by which Ms Shaw was paid her bonus, of course, had nothing to do with a recent government ban on water company directors paying themselves obscene bonuses even when their companies are failing to satisfy regulatory and environmental standards. There is no earthly reason why investor related activity should not be a normal practice within the envelope of the main business itself. Yet it is likely in the midst of this confusion that Ms Shaw will have played a role in securing investment from the Sweden-based private equity group EQT which as of 2026 now owns 42% of the business. Of this acquisition the government's Minister for Investment, Department for Business and Trade and HM Treasury, Lord Stockwood, a former director of Grimsby Town Football Club as well as a dating app business, said:

I warmly welcome this commitment from a leading global infrastructure investor. EQT's decision to invest in the UK's regulated water sector underlines the strength of our investment environment and the trust international partners place in the UK economy. It demonstrates that the

⁵ *Bradford Telegraph and Argus*, 'Concerns raised over extra £1.3m paid to Yorkshire Water CEO' <<https://www.thetelegraphandargus.co.uk/news/25370143.concerns-raised-extra-1-3m-paid-yorkshire-water-ceo/>>.

UK remains one of the world's most attractive destinations for long-term, sustainable investment.⁶

Being a bit pedantic, it might be worth remembering that EQT have theoretically simply bought a stake in a Jersey-based company. The minister's remarks may not be sufficient to reassure Yorkshire Water's customers that their rivers and coasts will get any cleaner even if he thinks the 'investment environment' is so attractive, and they beg the question: Where are the British investors in such a good and sustainable prospect? From the minister's remarks and from the government more generally there is a marked reluctance to contemplate renationalising water, often because the 'cost would be too high'. This attitude perhaps ignores the fact that when the water industry was privatised, Thatcher wrote off £5 billion of debt, gave the industry a 'green dowry' of £1.6 billion and other sweeteners were thrown in – such as tax write-offs and huge profit-making opportunities.⁷ In effect, the industry was virtually given away. Any future renationalisation should factor in these facts. Perhaps it might be the turn of private equity to write off their debts and hand the industry back for as little as they paid for it. This I am sure would go down very well with the public, 73% of whom in an opinion poll said that would like to see water in public ownership as opposed to merely 13% who disagreed.⁸ Considering the £5 billion debt write-off at privatisation, I asked Chat GTP to answer the question 'what would that £5 billion be worth today?'

Short answer: If you had invested £5 billion in the UK water companies at privatisation in 1989, your shares today would be worth far less than £5 billion – likely close to zero in real terms – but you would have received very large dividends over the 35 year period, because the industry has extracted enormous cash while eroding shareholder equity. This is not a personalised investment recommendation – it's an evidence based reconstruction using published data.⁹

So, who says renationalising water would be too expensive? The public purse

⁶ 'EQT to invest in Kelda Holdings, the parent company of Yorkshire Water' <<https://eqtgroup.com/news/eqt-to-invest-in-kelda-holdings-the-parent-company-of-yorkshire-water-2026-03-09>>.

⁷ '1989-2001 UK water privatisation' <<https://libcom.org/library/uk-water-privatisation>>.

⁸ 'Most Makerfield voters say offensive posts would put them off candidate, poll finds' <<https://www.theguardian.com/politics/2026/jun/10/makerfield-byelection-voters-poll-social-media-posts-water-wealth-tax?>>.

⁹ Chat GTP accessed 18 June 2026.

should be *compensated* for doing it.

II

The United Kingdom has had a remarkable renaissance since Margaret Thatcher's decisive freeing up of market competition in Britain starting in the 1980s. The success was dramatic and to its credit, 'New Labour' under the leadership of Tony Blair and Gordon Brown embraced the new freedoms, tempering their party's historical Fabian socialist ethos with a fresh emphasis on opportunity. Britain has welcomed foreign investment and takeovers of British corporate icons. The current government recognised that aside from issues of national security and pride, the nationality of British corporate shareholders has little impact on the standard of living of the average citizen.¹⁰

One wonders how far 'national pride' can protect a British (though not yet *corporate*) icon, the NHS. Such a good and sustainable prospect for steady income has long been a target for private equity, and in this case the phrase 'vulture equity' may usefully be deployed. Hettie O'Brien is not the first to consider the growth of private equity in the provision of social care: Nicholas Shaxson identified its pernicious consequences back in 2018.¹¹ In both authors' examinations of the role of private equity in this growing market it soon becomes clear that vulnerable people face denuded services and cursory respect.

In recent years various political parties have spoken of the need to integrate social care with health care and with their experience in the former such integration points to new opportunities for private equity firms. Alan Milburn, a former Labour Health Secretary and advisor to both Labour and Conservative governments, illustrates the growing capture of public services by private equity:

¹⁰ Alan Greenspan, *The Age of Turbulence: Adventures in a New World* (Allen Lane, 2007) p. 499. It is worth noting that Greenspan was chosen by Ronald Reagan in 1987 to chair the U.S. Federal Reserve to replace Paul Volcker who 'Had a proposal, based on directly regulating the amount of leverage allowed to be used by shell companies in acquisitions. It has been suggested that this was amongst the reasons why the Reagan administration replaced him with Alan Greenspan in 1987.' Dan Davies, *The Unaccountability Machine* (Profile Books, 2024) p. 266.

¹¹ Nicholas Shaxson, *The Finance Curse: How Global Finance Is Making Us All Poorer* (London: The Bodley Head, 2018). This was reviewed in *Lobster* 63 at <<https://www.lobster-magazine.co.uk/article/issue/63/treasure-islands-tax-havens-and-the-men-who-stole-the-world-by-nicholas-shaxson/>>.

His advisory business has corporate and government clients across the world. He is senior advisor to PwC's government and health industries practice, to the leading private equity business Bridgepoint and to Mars Incorporated. He serves on a number of other corporate boards and chairs Huma the digital health business.¹²

Milburn's interests almost certainly point to where a good part of Blackstone's £100 billion (over 10 years) new investment in the UK economy is likely to take shape. The announcement of the private equity firm's commitment was made during President Trump's state visit to the UK in September 2025.¹³ A gushing government press release led with Blackstone's confident gesture and once again suggested how, in Lord Stockwood's words, the UK has a 'strong investment environment'. Blackstone has previously demonstrated its commitment to this environment as the one-time owner of Southern Cross Care Homes, which ended up in administration – although Blackstone has refuted the suggestion that its model of sale and leaseback, with its centrepiece of inexorably rising rents – had anything to do with Southern Cross's collapse. The sale and leaseback model is a common ploy for squeezing the value out of a real estate investment. But now it appears that Blackstone is taking a deeper interest in squeezing the value out of data, not least in health services. Here, Huma which Alan Milburn chairs, claims to be a leader.¹⁴ It seeks to streamline the connectivity of healthcare professionals and patients to speed up diagnosis and treatment, triage by data so to speak. I will take a risk here and ponder whether this relatively small London-based company, albeit with 500 employees worldwide, might not be a good catch for Blackstone. As a senior advisor to PwC, which in turn advises Blackstone, Mr Milburn will be well placed to promote the interests of private equity in our health care system. Increasingly the control of healthcare data management systems will fall into the grip of those with the deepest pockets and who will maximise their profits at the expense of taxpayers.

Blackstone's biggest commitment so far in the UK is funding a £10 billion data centre in the Northumberland town of Blyth. Data (and all it entails) is the source of a new gold rush, and private equity is making the most of it, especially with AI promising huge rewards. But it is a big, unanswered question

¹² <<https://www.socialmobility.org.uk/trustee/rt-hon-alan-milburn>>

¹³ <<https://www.gov.uk/government/news/record-breaking-150bn-investment-unveiled-during-us-state-visit>>

¹⁴ <<https://www.huma.com/about>>

as to how huge investments in AI data centres will pay off – not just for private equity but for the environment (they are enormous consumers of energy and water) – and for employment. We are led to believe that the scale of investment in AI is such that it is beyond the corseted budgets of government. Two significant issues emerge. First, given a common truth that technology precedes regulation, how will these data empires be controlled? Secondly, given the scale of investment, how will the financial rewards, particularly in the context of private equity, be distributed? The questions have yet to be answered but the government has entered a state of incontinence over the prospect of Blackstone's '£100 billion' investments. The government's approach, I think, misses an essential point. AI, like the internet, will become a new utility. But unlike the utilities we are familiar with, created towards the end of that great capitalist Nineteenth Century by municipalities, we now have to live with utilities designed from the beginning for the benefit of their corporate masters, and those masters, particularly in private equity see these new utilities as their next big win.

The government's attitude to private equity has unsurprisingly not followed early rhetoric about tackling abuses. One such 'abuse' (depending on your political viewpoint) was the tax breaks given to partners in private equity outfits. Labour's 2024 manifesto specifically referred to reigning in the tax loophole which has the somewhat misleading name 'carried interest'. This allowed (and allows) partners in private equity firms to claim income from 'long-term' investments at lower capital gains tax rates as opposed to income tax rates. This regime is based on the assumption that partners putting in their own money would have to wait quite a long time before they saw any returns. What 'quite a long time' might actually mean is variable, it could be as short as three years. Additionally, partners would realise income from their investors' contributions, which would likely be nine times greater than their own. The skill of private equity partners is to put in as little of their own money as possible towards a purchase. Labour's manifesto rightly recognised 'carried interest' as worthy of reform. But once in power, the private equity lobby set to work.

Many large PE firms are taking a multipronged approach, co-operating with trade bodies such as the BVCA [British Venture Capital Association] but simultaneously using their own advisers, including Global Counsel, the corporate advisory co-founded by former Labour minister Lord Peter Mandelson. Some have enjoyed direct access to the government at the highest levels. In August, after Labour had taken power, Reeves had

dinner in New York with Stephen Schwarzman, boss of Blackstone, which has spent more than £70bn acquiring UK assets from caravan parks to the London Eye. The next month, Prime Minister Sir Keir Starmer met Blackstone president Jonathan Gray and hailed an investment of up to £10bn by the firm as proof that “Britain is open for business”.¹⁵

Subsequently the government watered down its proposals for higher taxation on carried interest and the industry hailed this as a great success. Perhaps Rachel Reeves’ dinner with Stephen Scharzman unlocked the ‘tens of billions’ Blackstone promises to invest in the UK. At least we have learnt a little more about the good work Mandelson’s Global Counsel did.

This may not be germane to the gist of this article but I want to conclude with an insight into how one can best spend your riches made from private equity. Mr Scharzman has an estate in England and he – or it – can take credit for the following story appearing on the BBC and elsewhere:

Southern Water has warned tanker companies to stop delivering its water to the Wiltshire estate of an American billionaire.

Some of it was recently used, entirely legally, to help fill a lake, despite a hosepipe ban being in place locally for domestic users.

Multiple water tankers have been filmed both day and night by local residents filling up from *standpipes* in part of neighbouring Hampshire where a drought order is in place. [emphasis added]

The BBC has been told that those tankers went to Conholt Park, a 2,500-acre estate owned by Stephen Schwarzman – who is one of the world's richest men and a financial backer of US President Donald Trump.¹⁶

Colin Challen was Member of Parliament for Morley and Rothwell from 2001 until 2010. He blogs at <<http://www.colinchallen.org/blog>>.

¹⁵ ‘Private equity eyes a deal with Rachel Reeves on UK carried interest’ <<https://www.ft.com/content/d8ef8e50-8155-4953-ac3b-c3742959beb8?syn-25a6b1a6=1>>.

¹⁶ <<https://www.bbc.co.uk/news/articles/cq5jg9vy1n0o>>