

The architecture of the new regulatory framework

9 February 2026

Executive summary

The Independent Water Commission (IWC) recommended significant changes to England and Wales water regulation, including establishing regional system planners, creating an integrated water regulator, and adopting a more supervisory regulatory approach. Defra's Water White Paper, 'A New Vision for Water', recognises the need for enhanced regional water planning with better collaboration across sectors, though it remains open to alternative approaches beyond stand-alone regional planning institutions.

This paper outlines how the institutional arrangements could be structured to maximise the likelihood that the reform will deliver its objectives. The over-arching objective for the future arrangements should be **an approach to planning and regulating investment that enables effective trade-offs to be made at regional level, with investments phased in a manner which deliver greatest benefit to customers and the environment while recognising affordability constraints.**

We identify **eight principles** to underpin the new institutional architecture, as follows.

- 1 There should be a '**golden thread**' from national objectives to company investment plans in both the short and long term.

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- 2 Planning should be undertaken at the appropriate local level (e.g. environmental investment planning at the catchment level) and then aggregated at the **regional level**.
- 3 Planning should reflect a **multi-sectoral perspective**.
- 4 **Appropriate forums are needed** to make necessary trade-offs and decide how to prioritise or deprioritise potential investments.
- 5 Clarity is needed on **roles and responsibilities**, and this in turn should guide institutional arrangements and regulatory processes.
- 6 **Water companies should retain their central role** in investment planning and ownership of their plans, as well as accountability for financing and delivering them.
- 7 **Investment needs, benefits and costs** should be considered holistically so that agreed expenditure plans reflect affordability constraints while maximising benefits to customers and the environment.
- 8 The arrangements should seek to **minimise regulatory burdens and the associated costs to consumers**.

Roles and responsibilities

Under the new arrangements, the responsibilities of the main players should be as follows.

- **Government** should articulate the overall ambition for the water sector, defining the strategic objectives which regulators, water companies and other stakeholders should seek to achieve. It should also provide guidance on key policy questions, such as affordability versus investment ambition and how to balance competing policy objectives.
- Stakeholders should work collaboratively with **regional planning functions** to help inform regional contributions to national targets and investment programmes.
- A **national system planning function** (for England), which could be a small unit within Defra, should act as the interface between regional planning functions and government.
- **Companies** should retain ultimate responsibility for developing and delivering their plans, including their own water supply and water environment plans as well as their business plans for the price review.
- The **integrated regulator** should retain ultimate responsibility for setting companies' price controls, including by determining

funding allowances, price control targets and the allowance for the return on capital invested.

The approach to establishing regional planning functions

While the IWC recommended the establishment of new institutions to oversee regional system planning, there is an opportunity to consider whether other, more flexible arrangements could achieve the same aims at lower cost, and with a higher likelihood of success.

At the heart of the IWC argument for regional planning is the recognition that, from a water supply and water environment perspective, different parts of the country present very different challenges. This acceptance of diversity could be extended to organisational structures as well.

Specifically, while recognising that every region will need a planning body, Defra could set out clear principles for regional planning and allow each region to implement these principles as it sees fit, potentially by building on existing architecture and partnerships. For example, **the new regional planning functions could be based on existing stakeholder groups that already play a role in regional planning**, such as Water Resources East, Water Resources West or Water Resources North.

This approach has the potential to deliver the overall objective of joined-up regional planning with better collaboration across sectors but at lower cost and risk, by making the most of existing bodies with established expertise and stakeholder support.

Introduction

In summer 2025, the IWC recommended significant changes to the institutional arrangements underpinning England and Wales water regulation. Its recommendations included:

- establishing **regional system planning capability**: responsible for integrated and holistic water system planning at the regional level;
- **an integrated water regulator**: bringing together Ofwat, the Drinking Water Inspectorate, and the water environment functions of the Environment Agency and Natural England;
- the adoption of a more **supervisory approach to regulation**, with supervisors tasked with developing an understanding of each company's specific circumstances.

These changes have been proposed against a broader backdrop of reforms, including streamlining the strategic planning frameworks and introducing new frameworks for government to provide direction to regulators.

Defra's Water White Paper recognises the need for enhanced, more joined-up regional water planning with better collaboration across sectors.¹ However, it does not explicitly call for the establishment of new regional system planners as stand-alone institutions and appears to be open to alternative approaches that could deliver the same benefits of integrated regional planning.

Implemented properly, these changes have the potential to deliver more effective regulation, and better outcomes for customers, the environment and wider society. In particular, the new approach to regional planning can help ensure that water company investments are aligned with national objectives, reflect local considerations and deliver best-value solutions. It could also help to promote a longer-term focus and provide more clarity on trade-offs, both within the sector and across sectors.

¹ Defra (2026), '[A New Vision for Water](#)', 20 January, p. 14.

Importantly, however, **careful implementation is needed if this new institutional architecture is to deliver its intended benefits.**² Successful implementation hinges on ensuring that each organisation is allocated those responsibilities that it is best placed to discharge. Also, as noted in the Water White Paper,³ success will depend on there being clarity on roles and responsibilities, to ensure that the regulators and the water industry and beyond understand their roles and what is expected of them.

In this paper, we consider how the institutional arrangements should be structured to maximise the likelihood that the reform will deliver its objectives. Specifically, we outline:

- 1 the principles that should underpin the new approach to regional planning and regulation;
- 2 what role the main organisations should play under the new arrangements;
- 3 our view on how the regional planning body should be established.

1 The principles that should underpin the new arrangements

Before considering what the institutional arrangements should look like under the new arrangements, we outline specific principles we consider should guide the design of the new institutional architecture. These principles are anchored in the specific problems that the IWC identified with the existing arrangements, as well as our understanding of the government's aims for water reform and good regulatory practice.

We consider there are eight principles that should guide these reforms.

- 1 **There should be a 'golden thread' from national objectives to regional objectives, and from regional objectives to investment programmes.** This will ensure that investments deliver the

² It is worth noting that this point was made by the IWC itself. For example, the IWC highlighted multiple risks with the implementation of the supervisory approach, including the risk of blurred responsibilities between the supervisors and the companies; the risk of inconsistent approaches to supervision across companies; and the potential for the role of supervision to be diluted over time. See Independent Water Commission (2025), 'Final Report', 21 July, pp. 196–200.

³ Defra (2026), 'A New Vision for Water', 20 January, p. 46.

government's objectives, while also reflecting local needs and priorities.

- 2 **Planning should be undertaken at the appropriate local level, across water company boundaries (e.g. environmental planning should start from catchments),** but should be aggregated up into regional-level plans.
- 3 **Planning should be multi-sectoral**—so that water company plans take account of the impact that different sectors/stakeholders have on catchments—and promote cross-sectoral action.⁴
- 4 **To make any necessary trade-offs and decisions about investment prioritisation, appropriate forums are needed, with clarity on who is the ultimate decision-maker,** since difficult choices will need to be taken.⁵
- 5 **Clarity is needed on roles and responsibilities,** to ensure regulation is coherent and to avoid duplication and fragmentation.
- 6 **Water companies should play a central role in investment planning** and must retain ownership of their plans, while working collaboratively with other stakeholders to determine the right solutions.
- 7 **Investment needs, benefits and costs should be considered together** so that agreed expenditure plans reflect affordability constraints.
- 8 **The arrangements should seek to minimise regulatory burdens where possible,** consistent with the government's objective of cutting the administrative burden of regulation on businesses by 25% by the end of the current Parliament.

To achieve these principles, it is critical that there is alignment across the various institutions involved in objective setting, investment planning and regulation. This alignment is needed to ensure that investment

⁴ Fully multi-sectoral planning is likely to take longer to be phased in.

⁵ There may need to be multiple forums, covering both the regional and the national level. The exact arrangements may differ across regions or jurisdictions (e.g. there are already different processes in place in Scotland and Wales).

demands (from strategic and environmental plans) are aligned with funding allowances, and allow trade-offs to be made. This is core to investor confidence, since it reduces the risk of unfunded obligations and overall investment risk.

2 Roles and responsibilities of the key players

We now outline the roles and responsibilities each of the key players should have under the new arrangements.⁶ For the purpose of clarity, we start by describing the role of each organisation (in bold) before providing additional commentary, including (where relevant) where we consider that the entity's role should differ from that envisaged by the IWC.

Government should articulate the overall ambition for the water sector, defining the strategic objectives which regulators, water companies and other stakeholders should seek to achieve. This includes: setting out long-term objectives for the sector to deliver; providing direction to regulators on how they should discharge their duties; and taking decisions on the high-level trade-offs that the sector faces, including in relation to affordability, while allowing for regional variation where justified.⁷ Simply put, to execute the current suite of priorities across a range of legal and environmental outcomes, we expect these demands to not fall evenly across different regions with different challenges. As such, there will be necessary decisions to be made on various considerations such as affordability and the pace of delivery with regional variations a necessary outcome.

Regional planning functions should work collaboratively with stakeholders to help inform regional contributions to national targets and investment programmes. Acting as 'convenors' for the sector, these bodies—which we consider could be modelled on the existing Regional Water Resources Groups—would bring together water companies, other

⁶ In the interests of simplicity, we do not cover the role that each single entity proposed by the IWC should have under the arrangements (for example, we do not explore the role of the new Ombudsman under the new arrangements). Our focus here is on the role that the various entities should play in determining water companies' investment programmes.

⁷ We consider that regional variation in investment packages (and by extension bill increases) is likely to be warranted across companies for a variety of reasons. For example, some companies may have greater investment needs than others owing to environmental factors (e.g. higher drought risk), or might operate in areas where many new housing developments are planned.

delivery bodies (e.g. in the agriculture and transport sectors) and the regulator to jointly establish the investment needs in their area, and identify the best-value solutions to addressing local issues or achieving national ambitions. They would do this by encouraging data and information sharing between relevant parties, and aggregating water supply and water environment plans developed by companies into an overall regional plan for their area. The regional planning functions would manage the overall regional planning process, ensuring effective dialogue between all relevant stakeholders.

Note that—unlike the IWC's proposal for regional system planners—we do not consider that these regional planning functions should be responsible for determining the enhancements that water companies deliver, nor the capital expenditure elements of their base spend.⁸ There are a number of reasons for this.

- Asking one party to determine the investment need for one part of a company's investment programme while another entity determines the investment need for the remainder of it risks nobody assessing the package 'in the round'. This makes it difficult to determine whether resources are being allocated efficiently and whether the investment plan is affordable, since this requires a view of expenditure across all areas. It also risks investment in capital maintenance being 'squeezed', especially if decisions on enhancement need are taken before there is a clear view of base funding requirements.⁹
- On a related note, determining proactive maintenance needs separately from reactive maintenance needs is unlikely to result in optimal investment packages, since there are usually dependencies between the two.¹⁰ There are similar issues with splitting assessments of enhancement and base costs, since greater enhancement investment is likely to increase base costs in future (as operational costs rise to accommodate construction and management of new assets).

⁸ The IWC states that while system planners should not take a view on operational spend and day-to-day reactive maintenance, they should ultimately take decisions on water company enhancement expenditure, and potentially 'capital expenditure elements of base spend, including specified capital maintenance and asset renewal'. Water Commission (2025), '[Final Report](#)', 21 July, pp. 63 and 86.

⁹ This can occur if the regional system planner determines enhancement need and then later in the process the integrated regulator constrains base funding allowances to fit within an overall affordability envelope.

¹⁰ Since higher (lower) investment in proactive maintenance generally results in lower (higher) reactive maintenance.

- We also consider it unlikely that regional planning functions, even if well resourced, will have the necessary skills to determine the exact investments that water companies should deliver. The IWC concluded that Ofwat—an organisation with over 400 full-time staff and an annual budget of approximately £50m—is deficient in certain skills and capabilities, notably its lack of engineering resource and on-the-ground knowhow.¹¹ The IWC linked these deficiencies to a pattern of misdirected investment and deterioration in water assets and public confidence. Setting up new bodies for each region which can make these types of decisions would be tantamount to setting up new regulators for each region, which would bring to the fore the very same questions about skills and capabilities, and risk many of the issues with duplication noted in the IWC's report. Adding a new regional layer of regulatory decision-making would also bring with it an extra layer of costs, which would not be consistent with the government's objective to reduce regulatory burdens.
- Finally, it is important that companies ultimately have ownership of their proposed investment plans, since they are the ones that will need to finance and deliver them. Company accountability for this needs to be transparent and unambiguous.

The national system planner for England should act as the interface between regional planning functions and government. This should include reviewing regional plans aggregated by each of the regional planning functions, to ensure both that they are aligned with the government's long-term objectives and that they are compatible with the plans of neighbouring regions.¹² The national system planner should also act as a conduit between the sector and government, such that insights from the planning process can be fed back to government if new information suggests that national targets should be adjusted. (For example, if the government's initial ambitions for the sector are found to be more expensive than first envisaged and are therefore deemed unaffordable—this is a plausible scenario given that companies expect to invest £275bn–£300bn delivering network improvements over the next 25 years.)

¹¹ Employee numbers and annual budget based on Ofwat (2025), 'Annual report and accounts 2023-24', February.

¹² As part of this, the national system planner should develop an understanding of the contribution that the regional plans will make towards delivery of national targets.

Companies should retain ultimate responsibility for developing and delivering their plans, including their own water supply and water environment plans, as well as their business plans for the price review.

They should work collaboratively with other entities through the regional planning process, providing high-quality evidence regarding potential options for investment, the likely outturn costs of each option, and their relative merits. Where appropriate, companies should also work collaboratively with delivery bodies in other sectors to help implement joint solutions to challenges—for example, working with farmers to reduce run-off that might otherwise necessitate more expensive infrastructure solutions to mitigate. Companies should be held accountable for delivering their plans, and the new regime should not create ambiguity in this regard.

The integrated regulator should retain ultimate responsibility for setting companies' price controls,¹³ including by determining funding allowances, price control targets and the allowance for the return on capital invested.¹⁴ It should also be actively engaged in the regional planning process to ensure it understands the rationale underpinning proposed investment programmes and can provide initial views on likely outturn costs (noting, however, that their final decisions on investment cost allowances will be decided separately during the price review).¹⁵ Given the new regulator's role in ensuring that bills are fair and affordable, it will need to be involved in discussions regarding investment need and strategic plan development.

Importantly, the integrated regulator should use intelligence gathered through **the new supervisory approach** to set company-specific price control parameters, including funding allowances and performance targets (coupled with evidence from its own internal assessments, including comparative benchmarking and econometric modelling). It should separately determine aspects of companies' price controls that apply on a sector-wide basis, including (but not limited to¹⁶) the allowance for the return on capital.

¹³ The regulator's role would, however, benefit from an updated set of duties.

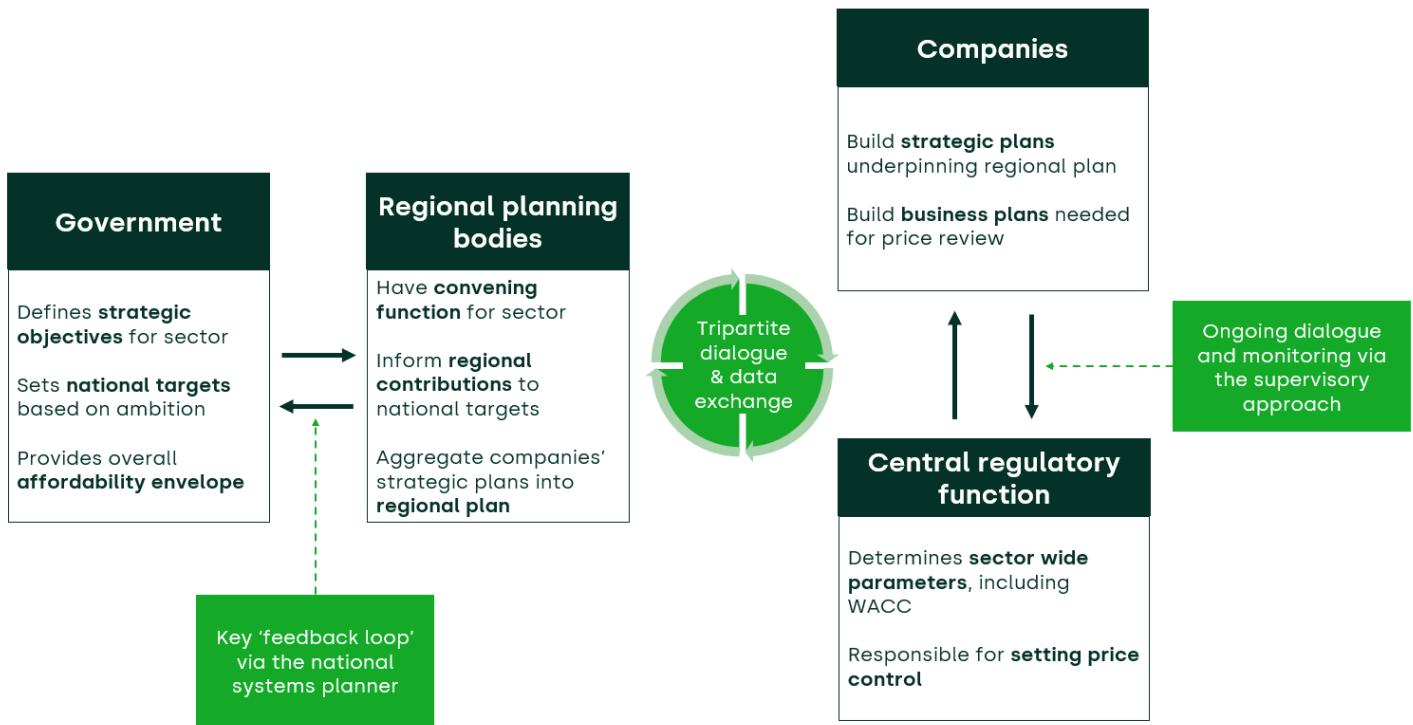
¹⁴ In other words, the allowance for the weighted average cost of capital (WACC).

¹⁵ The Water White Paper states that regulatory business planning should be framed within a 5/10/25 year planning horizon to allow the calibration of each five-year regulatory period to take account of longer-term investment needs and impacts. Embedding this will give greater long-term confidence relative to the current approach.

¹⁶ There are other aspects of companies' price controls that may be set sector-wide, such as the approach to indexing their regulatory capital values (RCVs).

Figure 2.1 summarises the role that each of these stakeholders should play in the new arrangements, including the core interfaces between them.

Figure 2.1 Summary of main responsibilities and core interfaces



Source: Oxera.

The above figure outlines what we consider to be the optimal institutional configuration, given known issues with the sector and the government's objectives for reform. Of course, there are many details which will need working through, including (for example) which entity is responsible for proposing any specific idea or scheme, which entity (or entities) is responsible for considering these proposals and which entity is responsible for making the final decision on each matter.¹⁷ Nevertheless, this framework provides the starting point for working through these issues.

¹⁷ Specifically, a RACI (Responsible, Accountable, Consulted, Informed) framework could be developed and populated to clarify these roles and decision-making responsibilities across all relevant entities.

3 Options for establishing the regional planning functions

The notion of promoting investment planning at regional level and integrating this planning across multiple sectors is likely to garner wide support from across stakeholders. However, this could be implemented in different ways. There are broadly two options.

- **Option 1:** establish new institutions with statutory objectives and powers—i.e. regional system planners—as independent, arm's-length government bodies.
- **Option 2:** provide each region the opportunity to shape its approach to regional planning, based on common principles set out by Defra. This could include building on and refining existing stakeholder groups/organisations that already play a role in regional planning.

The IWC recommended Option 1, but this was not backed up by a cost-benefit analysis of the alternatives. The establishment of new regional system planners adds a layer of complex institutional reform on top of an already wide-ranging set of regulatory reforms. This process is likely to be lengthy, meaning that the benefits could take several regulatory periods to materialise, and has the potential to create significant additional costs.

There is therefore merit in considering whether these same benefits could be achieved at lower cost and risk through Option 2.

In the East of England, this could involve building on the role currently played by Water Resources East (WRE), which was set up in 2014 as a collaboration between water companies and representatives of other (multi-sector) stakeholders. WRE is one of five regional planning groups that has been tasked with the development and publication of a long-term Regional Water Resources Plan. Unlike other regional groups, WRE is independent and has been multi-sectoral since its inception, making use of well-developed processes and tools to support collaborative decision-making.

Another example of such an approach is the Water Industry Investment Group in Scotland.¹⁸ This group (formerly the Investment Planning and Prioritisation Group) was set up to provide the company, government, economic regulator, environmental regulators and customer representatives with a forum to prioritise and de-prioritise investments, based on making trade-offs around the delivery of long-term objectives. The group has agreed governance arrangements without necessitating statutory change. The IWC itself noted how the Scottish framework enables a more agile approach to investment, where projects can be re-prioritised provided that overarching ministerial objectives are met.¹⁹

We therefore consider that building on and refining existing stakeholder groups is likely to be strongly preferable to setting up new separate institutions from scratch. This approach has the potential to deliver the same benefits at lower cost—with lower risk and at faster pace—while maintaining the overall objective of joined-up regional water planning with better collaboration across sectors. It also builds as much as possible on bodies with established expertise and stakeholder support, rather than discarding this foundation and starting over.

4 Conclusion

The IWC identified numerous issues that prevent water regulation and planning from reflecting regional needs and local priorities. The direction of travel set out in the Water White Paper—i.e. that planning and regulation need to take better account of regional circumstances and multi-sectoral issues, with improved collaboration across stakeholders—is a sensible one.

This paper has identified a set of principles intended to underpin potential reforms in this area. These principles could be achieved in different ways. While the IWC envisaged the creation of a set of new institutions to perform the function of regional system planners, there are alternative options that have the potential to deliver the same benefits at lower cost, with lower risk and at faster pace. These alternatives should be explored, while maintaining the overall objective

¹⁸ <https://www.gov.scot/groups/water-industry-scottish-government-investment-group/>.

¹⁹ Independent Water Commission (2025), 'Final Report', 21 July, p. 83.

of joined-up regional water planning with better collaboration across sectors.

Changes to the planning system will inevitably take time to implement in full and will need to be phased in across multiple price reviews, with priority actions taken ahead of the next price review in 2029 (PR29).²⁰

²⁰ We discuss the transition in a separate paper: Oxera and Anglian Water (2026), 'An effective transition: How to phase in the new arrangements', February.