

## How to phase in the new arrangements

9 February 2026

### Executive summary

The government's water reform programme represents the most ambitious reset of water regulation since privatisation. The implementation programme will require time and care to ensure that the intended benefits are delivered while unintended consequences are minimised.

The Water White Paper has set out the government's intentions for reform, but remains light on the detail as to how this will be implemented. The Transition Plan, which is expected later this year, will need to provide this detail in order to give stakeholders confidence that the reforms are implementable and will deliver positive and demonstrable change relative to the past.

**A transition plan and governance framework that clearly sets out the immediate next steps for reform and the roles of stakeholders is vital for restoring investor confidence in the regulatory system.** Companies are raising equity now to finance investments in future years—including over AMP8—so signals that are issued to investors in the coming months will be key to ensuring that the sector can address the issues that matter to the public. The government's transition plan must therefore provide confidence that the journey towards the new arrangements will be consistent with the principles that the policy and regulatory framework should adhere to in order to promote investment over the longer term. This will be ensured by:

- **providing clarity over the direction of long-term policy and how trade-offs will be managed;**

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- giving confidence that the **returns on offer** for investors will be competitive;
- making clear that the new arrangements will provide a balanced incentive package with **appropriate levels of risk exposure**;
- giving confidence that the framework will properly account for **regional variations and company-specific factors**;
- ensuring that future **business planning frameworks** promote openness and transparency;
- giving confidence that the approach to **asset health investment and longer-term infrastructure resilience** will be improved.

## Priority actions for PR29

Given standard price review timescales, work on PR29 will need to commence soon, with draft methodology consultation expected in H1 2027.<sup>1</sup> Earlier guidance will be needed on priority areas (such as the incentive package, the approach to capital maintenance, and the blend of supervision/benchmarking). This would benefit from cross-industry working during the transition period, both to build the methodology for the next price review and to shape the sector's investment programme for the future.

The government must prioritise the most urgent reforms for the transitional price review. **There are several critical areas that require immediate attention at PR29, and where clear direction is needed in the government's upcoming transition plan, as follows.**

- 1 **Strategic priorities.** The government must clearly rank competing priorities in its upcoming interim Strategic Policy Statement, while avoiding issuing a long and unfocused 'wish list' that fails to provide direction on managing trade-offs between affordable bills, investment needs and environmental standards. The government should also signpost to regulators what it is willing to deprioritise, as well as how regulatory processes can be streamlined to create capacity for reform.

<sup>1</sup> In this paper, we do not comment on the duration of the next price control as we consider that the duration of the price control is less important than putting in place the right regulatory framework that supports investment. However, the industry is in a growth phase, rather than steady state, with a further step change in investment expected at PR29. This means that a simple 'roll-over' of the current price control is unrealistic. There is also an important consideration around proportionality, given the high costs of running price reviews, for both companies and regulators.

- 2 **Investment signals.** With companies needing to attract unprecedented equity investment, the government should: i) streamline and de-risk the package of regulatory incentives; ii) instruct regulators to resolve the 'double jeopardy' issue as a priority; and iii) signal to investors that full CMA re-determinations will be retained at PR29, to manage the inevitable additional risk that is perceived by investors through the transition period. Negative investment signals should be avoided, including overly critical public messaging around water company performance and changes that would increase the scope for political or regulatory interventions in future board decision-making.<sup>2</sup> Ongoing regulatory processes—such as Ofwat's change control process—also provide an opportunity to signal to investors a shift towards a more investable regulatory framework.
- 3 **Leadership clarity.** Government must clarify how PR29 will be redesigned and who will deliver it—either a Shadow Regulator providing a clean break from the past, or by government issuing very instructive guidance to existing regulators on expectations for resetting regulation and executing the government's Water White Paper expectations.
- 4 **Early testing of supervision.** The transition to a supervisory model will entail a fundamental change in the culture of water regulation. This culture will take time to develop, as supervisory teams become accustomed to developing their own view of the circumstances in which the company operates. To help the sector transition to the new arrangements in advance of the new regulator being established, we consider that the existing regulators could set up joint supervisory teams—comprising officials from Ofwat, the Environment Agency (EA), the Drinking Water Inspectorate (DWI) and Natural England—to begin monitoring and engaging with companies.
- 5 **A new framework for monitoring progress.** Given that the challenges facing the sector will require sustained investment over multiple regulatory periods, a framework is needed to assess the progress being made by companies and whether the

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<sup>2</sup> In this context, the Independent Water Commission called on the government to reset its approach to strategic communications regarding the water industry, noting stakeholder concerns 'that government has had a significant and adverse impact on investor sentiment and the perceived risk profile of the sector'. Independent Water Commission (2025), 'Final Report', p. 320, para. 749.

sector is on track to deliver the government's long-term objectives. We consider that this can be achieved through a balanced scorecard framework, which—by reporting progress against high-level themes—would also deliver the added benefit of improving public confidence.<sup>3</sup>

- 6 **Regional planning reforms.** The shift towards a more coherent, cross-sectoral approach to regional planning will take time to implement. As noted in our paper on 'Aligning Institutions', rather than implementing new bodies as proposed by the Independent Water Commission (IWC), each region could be given the opportunity to shape its approach to regional planning (based on common principles set out by Defra). This would allow planning to build on and refine existing stakeholder groups/organisations that already play a role in regional planning, allowing early benefits to be unlocked in PR29.

Focusing on these priority areas in the transition plan will help to provide a clear roadmap for the sector, and maximise the likelihood of delivering a successful transition to the new arrangements.

**Importantly, the transformative nature of the reforms that the government is implementing means that not all changes can be introduced immediately.** Therefore—in addition to providing clarity on the PR29 priorities outlined above—the government's transition plan should also set out a clear path towards implementing other reforms over a longer time horizon. This should include, where appropriate, implementing changes in part over AMP8 and then in full during AMP9. The PR29 price review will therefore need to be recognised as transitional.

Areas where this two-AMP transition is likely to be relevant include the full development of the supervisory approach and regional system planning. In both of these areas, there are opportunities to realise early benefits in PR29, while allowing for evolution and learning in PR34 and beyond. Given the time pressures in establishing supervision ahead of PR29, and the well-known tendency in regulation for addition to be easier than subtraction, it would be prudent for the initial role to be narrower in focus, with the option to expand for subsequent price

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<sup>3</sup> See Oxera and Anglian Water (2026), 'Monitoring progress: A balanced scorecard for the water sector', 30 January.

reviews. The transition plan could set out how this phasing will be achieved.

### Effective governance and industry working

Finally, an effective transition programme requires structured collaboration and clear governance arrangements to provide confidence that the new arrangements will materially differ from the historic approach. We recommend establishing a two-tier governance structure to help deliver this, comprising:

- **an overarching senior steering group**—bringing together senior stakeholders and decision-makers, including CEOs of regulators and companies, and representatives from investor and consumer groups. The steering group would be tasked with ensuring effective decisions on future policy reforms, the design of PR29, and effective implementation;
- **a core 'engine room'**—of working-level representatives from companies and other bodies, and government officials, which would undertake detailed analysis and design of policy and implementation options to drive forward the reform programme. This would ensure effective development of the urgent PR29 priorities and the phasing of subsequent reforms.

## 1 Introduction

The new regulatory arrangements envisioned by the Water White Paper represent the most ambitious reset of water regulation since privatisation. Implementing such a wide-ranging set of reforms will take time, and care must be taken to ensure that the intended benefits are delivered and to minimise the risk of unintended consequences.

**Not all of the reforms proposed by the Water White Paper can be implemented immediately.** Based on 'standard' price review timescales, work on PR29—which will set prices for AMP9 (i.e. 2030–35)—will need to commence soon, with a consultation on the draft methodology issued around summer 2027. This means that the government will need to prioritise the most urgent reforms while phasing in others more gradually.

The government rightly recognises the importance of implementing an effective transition to the new arrangements, noting in its White Paper that the transition should:

- deliver a clear and straightforward roadmap;
- provide clarity on roles and responsibilities;
- secure buy-in from regulators and the water industry and set out practical guidance on how to create capacity; and
- provide robust governance processes.<sup>4</sup>

This paper seeks to inform the government's approach to transition. Specifically, we outline:

- 1 priority actions for PR29—which the government should make clear in its transition plan and other guidance to regulators;<sup>5</sup>
- 2 how the government should work with industry to deliver a smooth transition.

## 2 PR29 priorities

Ensuring a successful PR29 will require the government to prioritise the most urgent reforms, while phasing in others more gradually.

**Given the investment needs of the sector, there is a strong case for prioritising reforms that improve investor confidence as much as possible.** It is important to note that the case for reform is indisputable. The intrinsic uncertainties associated with the direction of reform will weigh on investor sentiment—we note that Moody's has indicated that its default position would be to downgrade the stability and predictability of the regime to Baa until it sees evidence of how the system works in practice.<sup>6</sup>

We now highlight those areas where government should set clear direction in its transition plan, so that regulators, companies and industry have clarity regarding immediate priorities and the arrangements for PR29.

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<sup>4</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 46.

<sup>5</sup> Including the interim Strategic Policy Statement for Ofwat and Ministerial guidance to the EA.

<sup>6</sup> Moody's (2025), '[UK Water 2025: Fixing Water](#)', 16 October.

## 2.1 How does the government rank its priorities for the water sector?

The IWC noted how clear direction from the government regarding its overarching objectives for the water sector is critical to ensuring the reform's success. It also noted how **many issues affecting the sector today stem from a lack of clarity from governments historically on how to balance trade-offs**. Specifically:

**[regulators] are not getting the vital strategic direction they need to manage the sector and deliver government's priorities**, particularly how the regulatory system should balance affordable bills for customers with enabling water companies to deliver the investment needed to meet required environmental standards<sup>7</sup>

and

The 2022 UK SPS set 4 high-level 'strategic priorities', which were broken down into around 50 specific requirements; the Welsh SPS set 5 strategic priorities, covering 29 requirements. **Neither government provided clear detailed direction on how regulators should balance priorities or manage trade-offs**.<sup>8</sup>

**It is vital that the government addresses this, to avoid the mistakes of the past.** The issues currently facing the sector—including the asset health deficit and the recent spike in bills—could have been substantially mitigated by providing clear direction to regulators.

Note also that providing earlier clarity on how the government views these trade-offs is likely to significantly affect the investment package that is determined at PR29, which will affect consumers and the environment in both the short and long term.<sup>9</sup> This is because PR29 will be significantly shaped by the methodology for the price review, which will need to be finalised in 2027.

In light of this—in the upcoming interim SPS from the UK and Welsh governments for Ofwat and ministerial direction to the EA—the government should set out clearly how it ranks competing priorities. In particular, **the government must avoid repeating the experience of the**

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<sup>7</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, p. 26 [emphasis added].

<sup>8</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, pp. 38–39 [emphasis added].

<sup>9</sup> These priorities may differ across regions. Our paper on 'Aligning Institutions' discusses potential structures and processes for planning and regulating investment in a manner that allows for trade-offs to be made at a regional level: Oxera and Anglian Water (2026), 'Aligning Institutions: The architecture of the new regulatory framework', February.

**2022 SPS, which effectively amounted to a long ‘wish list’ without providing any sense of which priorities mattered most.**

## **2.2 Priority actions for attracting investment**

To address the challenges facing the sector, companies need to deliver investment on a scale that is unprecedented relative to historic norms. To deliver this, they will need to attract considerable sums of new equity investment.

**Decisions taken by the government and regulators this year will have a major impact on companies’ ability to attract investment.** Companies are raising equity now to finance investments in future years—including over AMP8—so signals issued to investors in the coming months will be key to ensuring that companies can address the issues that matter to the public. This warrants significant focus on promoting investability via upcoming government publications and regulatory decisions (such as Ofwat’s asset health cost-change process).

There are several specific areas where the government should send clear signals to regulators in its upcoming publications. These are as follows.

### **2.2.1 Streamlining and de-risking the regulatory incentive package**

As recognised by the White Paper, and discussed in more detail in our ‘Attracting Investment’ paper, the regulatory framework needs to be de-risked and investable in order to attract investment and achieve the sector’s objectives. Investors are seeking visibility on the parameters of the next price review, how these differ from PR24, and what this means in terms of their future returns and risk exposure. A simpler, more targeted price review—with removal of some of the unnecessary complexity and an overall de-risking of the regulatory mechanisms—is desirable from the perspective of attracting investment.

### **2.2.2 Addressing the ‘double jeopardy’ problem.**

A key issue with the existing regulatory framework relates to the interplay between regulatory incentives and non-price-control incentives (e.g. enforcement action). This issue arises because companies can be simultaneously penalised across separate, disjointed regulatory frameworks, such that investors do not face a ‘fair bet’—something that the government is rightly seeking to deliver through its



reform programme.<sup>10</sup> The White Paper acknowledges that this is not in customers' interests.<sup>11</sup>

The integration of the economic and environmental regulators provides a unique opportunity for resolving this matter, although we recognise that it will take time to set up the new regulator. **Given the salience of this issue for investors, the government should send a clear instruction to regulators to work together over the course of 2026 to address the 'double jeopardy' problem, such that the challenge is rectified in time for PR29.**

### 2.2.3 Retaining price control re-determinations for PR29

The government has outlined its intention to replace the existing redetermination process with an appeals process, to bring the water sector into line with other utilities.

As highlighted in the IWC's final report, CMA re-determinations are seen by investors as providing a necessary cross-check on critical regulatory decisions,<sup>12</sup> while moving towards an appeals-style regime would mean a more limited route of appeal, particularly in relation to the setting of allowed returns. In light of this, we consider that there is a strong argument on investability grounds for retaining full re-determinations.

**Nevertheless, if the government wishes to move to an appeals framework for water, this should take place *after* PR29.** This is because such a transition to new arrangements would bring with it intrinsic uncertainty, which would invariably lead to a higher perceived risk for investors.<sup>13</sup> Therefore, to ensure that investor uncertainty does not hamper companies' ability to attract new equity investment, the government should indicate to investors this year that any requests for CMA referrals at PR29 will be managed under a full re-determination process.

### 2.2.4 Avoiding negative investment signals

An important finding of the Independent Water Commission report was that negative political messaging around water industry performance has had a significant adverse impact on investor sentiment and the

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<sup>10</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 8.

<sup>11</sup> 'Where poor performance has been subject to enforcement through other means, it is not in customer interests for companies to also be penalised a second time through the incentive framework for the same offence.' UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 26.

<sup>12</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, p. 190.

<sup>13</sup> Moody's (2025), 'UK Water 2025: Fixing Water', October.

perceived risk profile of the sector.<sup>14</sup> In addition to sending positive investment signals through the transition plan and associated communications, it will also be important for the government to avoid sending signals that could harm investor sentiment, including overly critical public messaging around water company performance and actions that could increase the scope for political or regulatory interventions in future board decision-making.<sup>15</sup> In this context, it is notable that the IWC called for a reset of government strategic communications relating to industry performance in order to begin reshaping the narrative around the industry.

### 2.2.5 AMP8 cost-change process

Existing regulatory processes also provide an opportunity to signal a change in regulatory mindset. For example, Ofwat's forthcoming cost-change process—in which it will decide whether to provide companies with additional allowances for asset health expenditure—provides an opportunity for it to demonstrate a positive shift towards securing sustainable levels of investment in asset maintenance and other areas supporting government priorities (such as enabling economic growth and wider investment in areas such as reducing PFAS and lowering the risk of cyber threats to the sector).

## 2.3 Who is delivering PR29?

In light of the government's decision to accept the IWC's recommended merger between the existing regulators, a key question for water sector stakeholders is who will deliver the next price review. This is an important decision—**it will be important for the government to signal a clear break from the past in order to provide confidence to companies, investors and wider society.**

Given its criticism of Ofwat within the IWC's final report, it seems to be untenable that this responsibility should fall solely on Ofwat. At the same time, there is a risk of a vacuum in decision-making around key regulatory design decisions unless there is a body with a clear mandate to take forward the design and implementation of the price review.

We see broadly two options for PR29, as follows.

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<sup>14</sup> In this context, the Independent Water Commission called on the government to reset its approach to strategic communications regarding the water industry. Independent Water Commission (2025), 'Final Report', p. 320, para. 749.

<sup>15</sup> Such as increased powers of direction over boards.

- 1 One option would be to stand up a **Shadow Regulator**—with the combination of skills and capabilities envisaged by the IWC—to lead development of the new regulatory framework. This would provide a clean break from the past, while ensuring that critical work on regulatory design is taken forward.<sup>16</sup> If parliamentary and fiscal conventions prevent the creation of such a body, an appropriately resourced **implementation group** could be established to play this role on a non-statutory basis. A key benefit of these approaches is that they would provide an avenue for integrating the government's early leadership appointments into the regulatory landscape.
- 2 **Alternatively, Defra would need to be very instructive towards existing regulators during the transition phase.** This means giving detailed guidance on how the regulators are expected to interact with the industry, expectations for a reset in the regulatory relationships and mindset, and how the regulators are expected to take forward reform initiatives to deliver meaningful change and restore confidence in the regulatory system. This would need to be clear on what the PR29 priorities are to support investability, and how the regulators will work with industry to achieve positive reform.

Under either option, **it will be important for the government to clarify when the new regulator will be fully set up and operational, and what role it will have in the delivery of PR29** (e.g. whether the government expects the regulator to deliver the PR29 Draft Determinations).

## 2.4 Early testing of the new supervisory approach

A key plank of the government's reform programme relates to the implementation of the new supervisory approach.<sup>17</sup> This approach, which will see teams with company-specific expertise build a better understanding of the unique characteristics of each company through ongoing engagement, will represent a significant departure from the existing arrangements, which are largely reliant on evidence from comparative benchmarking to set price controls.

Importantly, as well as representing a major change in the approach to setting price controls, **the transition to a supervisory model will entail a**

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<sup>16</sup> There are numerous precedents for shadow bodies being set up to prepare for regulatory reform in advance of legislation—such as Ofcom, the Digital Markets Unit within the CMA, and (most recently) the Shadow Football Regulator.

<sup>17</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 19.

**fundamental change in the culture of water regulation.** This culture will take time to develop, as supervisory teams become accustomed to developing their own view of the circumstances in which the company operates, while balancing these insights against analysis obtained through comparative benchmarking. Importantly, we consider that the required change in culture represents such a significant departure from the existing approach to regulation that it cannot be delivered through incremental changes in Ofwat's approach to engaging with companies.<sup>18</sup>

Therefore, to help the sector transition to the new arrangements in advance of the new regulator being established, we consider that **the existing regulators could set up joint supervisory teams—comprising officials from Ofwat, the EA, DWI and Natural England—to begin monitoring and engaging with companies.** This would both help to facilitate the planned integration of these regulators, and help to embed the new culture of supervision across both the regulators and the companies.

## **2.5 A new framework for monitoring progress**

As noted in our paper on 'monitoring progress', the challenges facing the sector are long-standing and will require sustained investment spanning multiple regulatory periods. As these activities will take years to deliver tangible outcomes, a framework is needed to assess companies' progress and whether the sector is on track to deliver the government's long-term objectives for the sector. This could be achieved via a **balanced scorecard approach**.<sup>19</sup>

The key benefit of this approach is that—by assessing short-term progress towards long-term goals and anchoring the assessment in the government's strategic objectives for the sector—**the balanced scorecard approach can help to build confidence that bill increases are actually paying for outcomes that society values.** Public confidence would be especially supported by reporting progress against high-level themes, since this approach is likely to be more accessible to wider stakeholders.

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<sup>18</sup> Following publication of the IWC report, Ofwat has made some changes to the way it monitors and engages with companies. However, while these changes might be seen as reflecting a 'more supervisory' approach than Ofwat's historic approach to regulation, they are too incremental to deliver the significant changes envisaged by the IWC and which the government is seeking to implement through its reform programme.

<sup>19</sup> See Oxera and Anglian Water (2026), 'Monitoring progress: A balanced scorecard for the water sector', 30 January.

Changing the way in which the sector's performance is communicated to improve public trust is of critical importance, given that trust in the water sector remains at a historic low. We therefore consider that, in its upcoming publications, **the government should instruct the regulators to begin developing this scorecard as soon as possible, with a view to setting it up by the end of this year.**

## 2.6 A new approach to regional planning

As noted in our paper 'Aligning Institutions', while we agree with the IWC's view that the current approach to regional planning could be improved and streamlined, we do not consider that new bodies are necessarily needed to resolve this.

We recommend an alternative approach, whereby each region is given the opportunity to shape its approach to regional planning—based on common principles set out by Defra—which could include building on and refining existing stakeholder groups/organisations that already play a role in regional planning.<sup>20</sup> In addition to representing a lower-cost and lower-risk option, **a key benefit of this approach is that it could be implemented more quickly.** The government should therefore set this out clearly in its transition plan (and other guidance), so that water companies can work with other stakeholders in their respective regions to begin making arrangements for the transitional price review.

## 2.7 Providing clarity on changes that will take place over multiple AMPs

Some of the reforms laid out in the White Paper—such as the introduction of supervision—represent a significant shift in the approach to water regulation. Delivering these reforms in full will take multiple AMPs. PR29 will need to be a transitional price review. As a result, a phased approach could be taken for the more substantive reforms as follows.

- **The supervisory approach.** Developing supervisory systems takes time. Combined with the risk of scope creep, this suggests that it would be prudent for supervision to begin with a narrow focus and evolve incrementally over time (i.e. over multiple price reviews), learning from what works and what is less successful in the early stages of implementation.
- **Regional planning.** As discussed above, changes to the strategic planning frameworks and establishment of new institutions to

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<sup>20</sup> In the case of Anglian Water, this would be Water Resources East (WRE).

perform the role of regional system planners are potential 'mega-disrupters'. We propose a lighter-touch approach to regional system planning by building on existing, multi-sector planning groups, such as Water Resources East. This would allow for early benefits of reform to be delivered in PR29, and larger reforms to follow in subsequent price reviews following an evaluation of the efficacy of these arrangements.

### 3 Effective governance and industry collaboration to deliver a smooth transition

In its White Paper, the government has committed to engaging with stakeholders to inform its transition plan through 'structured working groups'.<sup>21</sup> This is aligned with the IWC, which recommended that:

To ensure effective collaborative during implementation, the UK and Welsh governments should establish an implementation advisory group for England and Wales.<sup>22</sup>

The IWC proposal envisaged a group comprising a range of stakeholders, including from water companies, investors and other entities with an interest in water reform (for example, environmental groups and consumer groups). The review proposed that the group would be chaired on a rotating basis by Defra and Welsh Ministers.

There is a need for an effective transition programme and governance to develop the revised framework. We consider that the best way of structuring the implementation group would be to make use of the following.

- **An overarching 'steering group'.** This group—which would be chaired by senior government officials or ministers—would bring together senior stakeholders from across the sector, including CEOs of relevant regulators, CEOs of water companies,<sup>23</sup> and senior representatives from investor and consumer groups (e.g. the Consumer Council for Water). Crucially, this group could

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<sup>21</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 48.

<sup>22</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, p. 436.

<sup>23</sup> It may be disproportionate to include the CEO of all 16 companies at each meeting. Accordingly, CEOs could rotate across periodically.

also commission analysis or 'deep dive' reviews from the 'engine room' (as explained below). This group could meet on a monthly basis.

- **An 'engine room'.** This would bring together individuals from different parties with the skills and experience to develop policy options for consideration, thereby helping to drive forward the reform programme. The group would include representatives from companies (most likely Regulation Directors or their delegates, along with other company staff as and when needed), government officials (e.g. SCS1 and below), and representatives from other bodies as and when appropriate.<sup>24</sup> This group would undertake bespoke pieces of work or analysis as and when needed, including both on its own initiative and when formally commissioned to do so by the steering group. We consider that this group would be likely to meet more frequently—for example, on a weekly or bi-weekly basis.

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<sup>24</sup> For example, we expect that having representatives from investor groups—or, indeed, from individual company shareholders—would be particularly valuable when exploring topics that are pertinent to the sector's investability. Similarly, attendance from eNGO representatives may be warranted when discussing issues relating to sustainability or environmental performance. We consider that there is likely to be merit in ensuring that some individuals (most likely select government officials) that are part of the 'engine room' also attend the steering group meetings.