

## Overview of papers for Defra 30 January 2026

In its Final Report outlining its comprehensive review of the water sector, the Independent Water Commission (IWC) identified multiple failings with the current approach to water regulation. These included:

- an absence of clear strategic direction from government on how regulation should balance affordable bills against the need for greater investment;
- an overly complex and fragmented regulatory system, which creates confusion, duplication and stakeholder fatigue and makes it difficult to hold companies to account;
- a system characterised by short-termism, driven by rigid five-year planning cycles.

Most fundamentally, the IWC found that **the absence of a long-term, cross-sector strategy for water has created systematic flaws in how the sector operates**. In his foreword to the report, Sir Jon Cunliffe noted that:

**First, we must address the absence of a long-term, cross-sector strategy for water. It may sound academic, but it is profoundly important.** A clear set of national priorities for water – covering the water industry, agriculture, land-use, energy, transport, housing development – is essential. Without it, we will continue to be dogged by inconsistency, short termism, unintended consequences and risk willing the ends without ever fully understanding the means required.<sup>1</sup>

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<sup>1</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, p. 6 [emphasis added].

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**The government's White Paper rightly recognises that its reform programme provides a once-in-a-generation opportunity to fix long-standing problems across the sector.**<sup>2</sup> Effective reform can help the sector to secure water supplies for future generations, and facilitate delivery of the government's ambitions for economic growth. It can also help to restore and protect the water environment and support thriving ecosystems for decades to come. Crucially, effective reform can also help to restore public trust in the water sector, which is badly needed after years of systemic failures in regulation.

**Importantly however, the scale of the challenges facing the sector means that its problems will not be solved overnight.** Years of sustained effort will be needed to tackle the asset maintenance backlog, turn around environmental performance, and enhance network capacity to facilitate economic growth across the country. As the IWC made clear, **a reset will require 'sustained commitment from government, regulators, water companies, investors, and all actors with an interest in the water system'**.<sup>3</sup> It is therefore encouraging to see government confirming that:

**We will play a role in ensuring the public understand the complexity of addressing long-standing challenges – that there are inherent trade-offs to be managed in the system, and that fundamental change takes time.**<sup>4</sup>

Given this backdrop, we consider that there is one overarching question for reform: **how can policymakers ensure that there are the right structures and incentives in place for regulators, companies and investors to deliver the long-term objectives for the sector?** We consider that there are four key pillars to this.

- 1 **Attracting investment.** The water sector will face unprecedented investment needs in the coming decades. The scale of the investment required means that **an investable regulatory framework** is critical to ensuring that companies can attract long-term private capital to deliver the required improvements.
- 2 **Aligning institutions.** The IWC recommended a number of changes to the institutional arrangements underpinning water regulation, including a newly merged regulator and regional

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<sup>2</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 6.

<sup>3</sup> Independent Water Commission (2025), '[Final Report](#)', 21 July, p. 428.

<sup>4</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 16 [emphasis added].

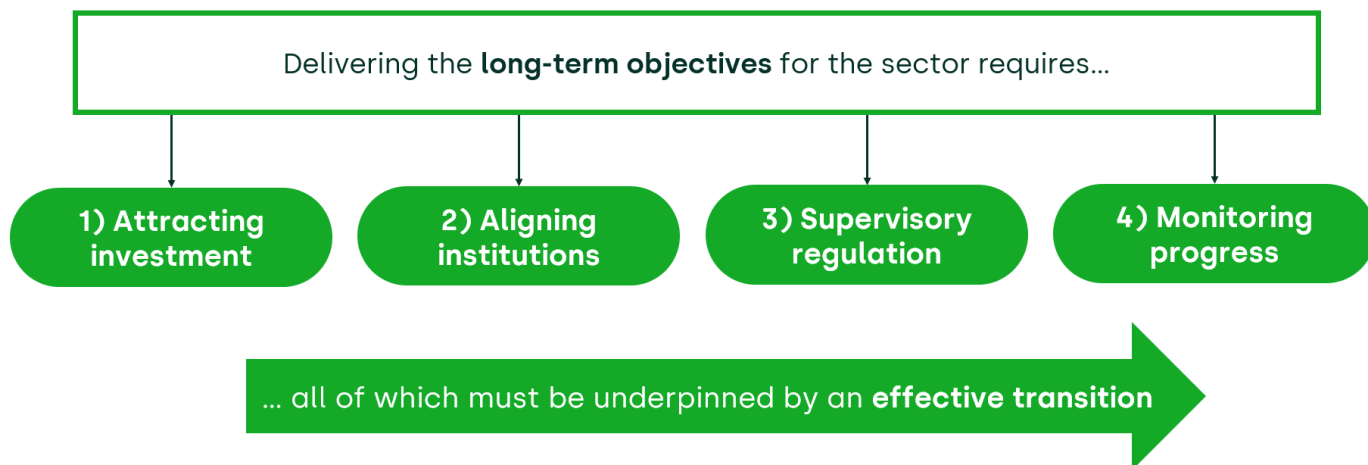
system planners. With the government having signalled its intent to implement these reforms, further detail is now required on how these bodies should operate under the new arrangements. Of particular importance is the need to ensure that **responsibilities are allocated to the parties that are best able to deliver the intended reforms**, and that **this allocation of responsibilities is made clear to regulators, companies and investors**.

- 3 **Supervisory regulation.** Defra has confirmed that it will require the integrated regulator to adopt a new supervisory approach to regulation. This has the potential to address some of the main criticisms of Ofwat's existing framework, by enabling regulation to better account for company-specific factors. However, **there are critical regulatory design questions which must be addressed to ensure the new approach is effective**. This includes the role of supervisors within the price review and how supervisory activities will complement existing regulatory tools, such as comparative benchmarking and performance incentives.
- 4 **Monitoring progress.** The challenges facing the sector are profound, and success will not be delivered overnight. To ensure that the sector is moving in the right direction, and to begin to rebuild public confidence, a new framework is needed to assess whether companies are on track to deliver the government's long-term objectives for the sector. We consider that this can be achieved through **a 'balanced scorecard' framework** that measures companies' progress towards delivering long-term strategic goals. Implemented correctly, this can improve companies' incentives and show the public how the bills that they pay are delivering cleaner water, fewer leaks and more resilience.

Finally, as noted in the White Paper,<sup>5</sup> key to ensuring the success of reform will be the implementation of an **effective transition** that provides clarity to all key sector stakeholders on how the future arrangements should evolve in the near term, including in the run-up to PR29. This cuts right across the four pillars outlined above, as shown in the schematic below.

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<sup>5</sup> UK Government (2026), '[A New Vision for Water](#)', 20 January, p. 45.



Source: Oxera.

Working in collaboration, Oxera and Anglian Water have jointly developed five papers covering each of the topics outlined above. The aim of these papers is to support Defra and other policymakers in developing the main components of the overall reform programme, recognising the interplay between multiple components and the need for demonstrable change across a suite of areas to deliver the government's objectives for the sector.