

# A new vision for water: Understanding the UK Government's water white paper and the path ahead

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This is the first in a series of discussion papers from CEPA examining the Water White Paper and the implications of moving to a proposed supervisory regulatory framework. Future papers will address investment and financing considerations, planning and operational risk management, and regulatory design options.

## Introduction

In January 2026, the Government published its Water White Paper, *A New Vision for Water*,<sup>1</sup> marking what ministers have described as a "once-in-a-generation opportunity" to fundamentally reform England and Wales' water sector. Building on the recommendations of Sir Jon Cunliffe's Independent Water Commission,<sup>2</sup> the White Paper responds to years of debate about the challenges facing the industry and the need for regulatory reform.

Notwithstanding the need to develop strategic guidance on the objectives sector stakeholders must work towards, as the Government moves from policy announcement to implementation, we believe it is valuable to characterise what the proposed regulatory framework could look like, how its components should fit together, and what critical questions remain to be addressed.

This paper sets out our thoughts on the fundamental constraints and trade-offs that any reform programme must navigate. It serves as a foundation for a series of discussion papers in which we explore specific aspects of the reform agenda in greater depth.

## Where does the vision start?

Like all of us with a keen interest in the future of the water sector – perhaps especially as regulatory economists – we have been thinking hard about the implications of the Water White Paper for the future regulatory framework. The questions we tackle in this paper (and subsequent papers) are important ones.

But this is not where the IWC report asks us to start.

Its first two recommendations speak to a need for high level strategic direction. What outcomes do the UK and Welsh governments expect to achieve? How can we be confident that delivering these outcomes represents best value for money and that trade-offs have been properly reflected? What will be the contribution of different sectors?

As the IWC report puts it:

*“Without a long-term, cross-sector strategy we will continue to be dogged by inconsistency, short termism, unintended consequences and risk willing the ends without ever fully understanding the means required.”*

Those two most fundamental recommendations are about the ultimate destination for the water system.

The remaining 86 recommendations are – for now – secondary to this. They are about the best route to the destination. Whilst we engage with those recommendations, and associated questions, in this paper, we must not lose sight of the need for strategic direction.

It is understandable that Defra did not seek to provide detailed strategic guidance at this stage of the reform process. The Water White Paper serves a different purpose. It affirms Government's commitment to that reform process. It makes clear that wholesale reforms will be required and that now is a time for unconstrained creative thinking about the best

<sup>1</sup> UK Government (January 2026), *A New Vision for Water*

<sup>2</sup> Independent Water Commission (July 2025), *Final Report*.

solutions. Those solutions might be quite different to the status quo.

All water sector stakeholders should hope and expect to see a clear focus on the primary strategic questions in Defra's forthcoming transition plan. The intended destination must become clear.

Despite widespread enthusiasm for rolling our sleeves up and beginning the process of institutional and regulatory reform, this requires us to spell out clearly the precise needs to be addressed. What does our environment need? What does our economy need? What does society need?

The UK's Net Zero Strategy offers a template for how answers to these kinds of questions can be given a firm legislative basis. The IWC report is clear that we do not currently have answers to these questions as they relate to the water sector. Defra must respond to public expectations over environmental conditions – but it must temper continued disquiet with a realistic appraisal of what can be achieved at a cost that billpayers will accept as value for money.

The desire for “ambitious new targets for the environment” is laudable. But the first two IWC recommendations call into question whether the most ambitious targets would be appropriate. Strategic guidance does not just set out what we want to do. It also explains what we will not do – because it is impractical or unaffordable or incompatible with other aspirations.

We agree with Sir John Cunliffe that the sector is at a fork in the road. This is a rare opportunity to set the system for water on a course to lasting change and secure a future for water that is desired on all sides. However, in our haste to map out the best possible route, we must not neglect to be sure we are heading for the best possible destination.

## **The problems the White Paper seeks to address**

The White Paper diagnoses three categories of challenge facing the water sector:

**The scale of the investment challenge:** First and foremost, the sector faces the challenge of increasing investment to address a deterioration in the health and state of water and environmental systems and assets, creating a need for significant remediation or "catch up" investment to avoid what the Cunliffe Review termed a potential "death spiral" where outcomes from failing companies deteriorate progressively over time.

Beyond this, the sector requires a substantial step-up in investment to manage new and future challenges –

from climate change impacts to emerging demands on the water and wastewater network to accommodate growth.

The scale is considerable: the National Audit Office has estimated that water companies will need to invest at least £290 billion in enhancement investment before 2050 to meet the industry's growing needs, with the current £104 billion committed for 2025-30 representing just the start.

**Planning and direction challenges:** The White Paper identifies concerns that water system planning has been fragmented, short-term, and lacking in unified strategic direction. This lack of alignment undermines long-term stability, increases investment risk, and creates barriers to companies delivering on system needs. The reforms consequently seek to establish clearer long-term direction for the sector.

**Regulatory challenges:** Finally, the White Paper calls out specific problems with the current regulatory approach, particularly the "one size fits all" nature of regulation and the absence of mechanisms to expedite timely investment. It also identifies weaknesses in consumer protection measures.

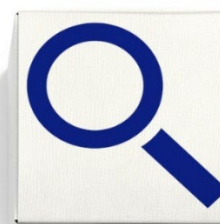
The Government's response is to call for a more proactive, risk-based, company-specific, and outcomes-focused approach, combined with a fundamental rethink of regulatory oversight.

## **The government's vision: a new regulatory framework**

Drawing from the White Paper, we can characterise the Government's desired regulatory framework as having six defining features and objectives:

**i) Outcome and delivery focused:** The system should prioritise the needs of the water system, with less emphasis on short-term efficiency gains.

**ii) Inherently plan-led:** Regulation should be underpinned by stable, long-term defined objectives for the water system, supported by effective, joined-up planning processes.



**lii) Targeted and proactive:** The framework should provide necessary guardrails to protect consumer and environmental interests whilst being tailored to the specific needs of each water company.

The White Paper explicitly calls for supervision to "transform the way water companies are regulated, shifting to an approach that is more proactive, risk-based, company-specific and outcomes-focused."

This may lead to a regulatory approach anchored to a less relative, more absolute (i.e., company specific), forward-looking cost and performance standard for the sector going forward, that reflects the needs of each water company, and the regional water supply and environment plans envisaged.

**iv) Attractive to investors:** Recognising that achieving a step-up in investment is critical, the system must offer stable, predictable returns that provide clear pathways to cost recovery and a constrained, balanced set of risks and financial outcomes under capital structures that are viewed as financially resilient.

**v) Agile and permissive:** If investment is to flow to support water system needs, the regulatory framework must be flexible and not act as a barrier to timely investment.

**vi) Putting customers first:** Customer needs are encapsulated in reforms that are described in the White Paper as intended to keep costs fair for customers and secure value for money in the long-term, and that will ensure water bills to rise smoothly over time rather than resulting in bill hikes.

While the White Paper does not explicitly state that bills may need to rise in future to deliver on the needs and investment requirements of the water system, some of the statements made implicitly imply this.

Reflecting that affordability remains a key concern for the Government, the White Paper explicitly references that it expects water companies to meet their public interest commitment to make bills affordable for those in water poverty by 2030 and to continue to develop a strategy to end water poverty.

## Navigating the inherent trade-offs

As we examine the Government's reform programme, two critical underlying themes emerge that will fundamentally shape how the new regulatory framework develops.

## Meeting the investment challenge

Achieving the White Paper's desired outcomes for the water system depends on the ability to retain existing investors and attract new sources and forms of financing. Unless more radical "pay as you go" approaches to funding are considered, private capital will need to be mobilised at unprecedented scale.

This means the regulatory framework must be genuinely investor-friendly – through stable, predictable mechanisms that provide appropriate returns relative to risk.

Importantly, the White Paper carefully signals that being pro-investment does not mean being pro-excess returns. The challenge lies in calibrating a framework that attracts long-term, patient capital whilst avoiding returns that would be viewed as excessive or unjustified.

## The trilemma between affordability, performance and investability

The second theme is more complex and represents perhaps the most fundamental constraint the reforms must navigate: a trilemma between affordability, performance improvements, and investment levels.

The White Paper discusses all three as objectives:

- **Affordability:** Services must remain affordable, with the Government committing to avoid bill shocks
- **Performance:** Rapid improvements in environmental outcomes, resilient supply, and service standards are sought
- **Investability:** Substantial and sustained capital deployment is required to deliver those performance improvements

The challenge is that these three objectives arguably cannot all be fully optimised simultaneously.<sup>3</sup>



<sup>3</sup> Or at the very least, there may be trade-offs to manage at particular points in time.

Fundamental trade-offs exist:

- **Higher investment to drive performance improvements will inevitably increase bills, either today or in future (or both)**, even with efficiency gains. The question becomes how much and how fast bill increases can be absorbed whilst retaining public legitimacy.
- **Keeping costs low risks constraining investment and slowing the pace of performance improvement**,<sup>4</sup> risking the continuation of problems the White Paper seeks to address.
- **Demanding rapid performance improvements whilst constraining investment** creates an impossible position for water companies and their investors.

The White Paper acknowledges these inherent trade-offs when it commits to "tackle many of the long-standing opportunities and trade-offs head-on" and calls for partnership in helping "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."

However, whilst the acknowledgement is there, the White Paper does not fully articulate how these trade-offs will be managed or what the priority ordering should be when they cannot all be achieved simultaneously. This represents a critical question that will need to be addressed as reforms move to implementation.

## **The challenge of cost efficiency under supervisory regulation**

A related question emerges around cost efficiency and incentives. The White Paper's limited discussion of cost efficiency, primarily within sections on competitive tendering and "keeping costs down", raises important questions about how a supervisory approach will maintain pressure for efficient delivery.

If the new framework becomes closer to one where companies can recover however much they have invested<sup>5</sup> (as may be necessary to attract investment and in the context of the reforms envisaged in the White Paper), what preserves incentives for water

companies to control costs? Without such incentives, there is a risk that bills could increase significantly over multiple price review cycles in ways that may ultimately undermine public support for the investment programme.

The challenge is designing a framework that can simultaneously:

- Provide investment certainty and cost recovery pathways that attract capital
- Maintain pressure for efficient delivery and cost discipline
- Focus primarily on outcomes
- Avoid creating new regulatory complexity or reverting to the very approaches the reforms seek to move beyond

## **The risk of over-regulation**

Finally, there is a risk that well-intentioned reforms could result in layering additional regulation on top of existing processes rather than achieving the fundamental reset intended.

As Professor Dieter Helm observed in commenting on the Cunliffe Commission findings: *"What [the Commission] proposes is to layer on top of the periodic review yet another layer of regulation... Make no mistake. The Commission wants more regulation."*<sup>6</sup>

Whilst some commentators have challenged this characterisation, the risk is real and should be acknowledged. The Better Regulation principles – that regulation should be transparent, accountable, proportionate, consistent, and targeted – will be



<sup>4</sup> Whilst recognising that the White Paper's ambition is that rather than constraining investment, "providing greater long-term certainty for investors to reduce costs of financing or giving more flexibility to water companies and regulators to pursue the most cost-effective solutions" will

help with "managing customer bills and keeping more money in people's pockets", i.e., keeping costs down.

<sup>5</sup> More akin to US style 'cost of service' regulation.

<sup>6</sup> Helm D, September 2025, 'Water after the Cunliffe Commission'

critical to ensuring the reforms achieve their aims without creating burdensome complexity.<sup>7</sup>

## Looking ahead

The Water White Paper represents a significant moment for the sector, with the potential to establish a more effective regulatory framework that better serves customers, the environment, and long-term system resilience. However, the path from policy vision to effective implementation is complex and will require careful navigation of the constraints and trade-offs outlined above.

In subsequent discussion papers, CEPA will explore in the context of the White Paper:

- What are the choices that underpin regional planning goals in the sector?
- How might the sector approach definition of performance outcomes and incentives looking forward?
- Our reflections on recent public debates on how investability should be reflected in the regulatory framework of water and network utilities more generally.
- How might policy makers approach set an investment envelope for the sector in the context of the White Paper's objective to avoid dramatic bill hikes and what are the future challenges for social tariffs?<sup>8</sup>

These are not simple questions and issues, and there will be different ways the regulatory framework could develop whilst remaining consistent with the spirit of the Cunliffe Review and the White Paper. Our aim is to contribute constructively to this thinking and to set out options that stakeholders may wish to consider as the reform programme progresses.

What is certain is that getting the design right matters enormously. The water sector is fundamental to public health, environmental quality, and economic prosperity. The scale of investment required over coming decades is unprecedented. And the legitimacy of any regulatory settlement will depend on successfully navigating the trilemma at its heart – delivering genuine performance improvements whilst keeping services affordable and maintaining conditions that attract the necessary investment.

This is the challenge the Water White Paper has set. In our subsequent papers, we will examine how it might be met.

## How can CEPA help?

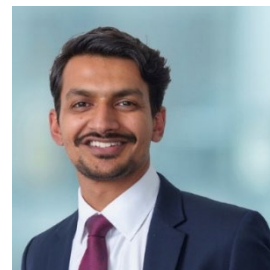
CEPA is an economics consultancy that specialises in understanding and analysing policy issues, and we have extensive experience in understanding the water industry.

If you are interested in our work, or would like to discuss ideas to develop, please contact one of our experts shown below:



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<sup>7</sup> There is also a governance issue to resolve of where decision making and responsibility ultimate lie – the new regulator, regional planning bod(ies) and water companies and their Boards – under a new supervisory system of regulation.

<sup>8</sup> In recognition that the White Paper does not set out a commitment to introducing a single (national) social tariff as has previously been discussed within the water sector.



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