

A new vision for water: Choices that underpin regional planning in the water white paper

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This is the second of a series of papers by CEPA on the UK Government's recent Water White Paper. It reviews issues arising from the policy direction that is signalled in the White Paper on regional planning issues and sets out a framework to help consider the choices and trade-offs in the Government's emerging proposals.

As part of an objective to set a new direction for the water sector, the White Paper states that the Government will going forward provide clearer strategic direction across the water system, combined with a streamlined and consolidated approach to regional water planning. It proposes:

- consolidating existing water industry plans and processes into two core planning frameworks – one for **water environment** and one for **water supply**; and
- an enhanced, joined-up **regional planning framework**, that will develop regional plans which set out investment priorities to meet national water and growth objectives.¹

A Regional Planning Steering Group has been established to scope and co-design the framework, considering questions such as how catchment and local insight can inform regional system planning, how best to join up water, flood, and development planning, and how system planning could influence where investment is targeted.

As the sector reform process brings together new and coherent strategic direction to the water sector and alignment across existing plans, regional planning is expected to become mainstream across the water environment. The five regions we are familiar with today will evolve into eight English regions and one Welsh region, following the outline of established river basin management areas.

This makes hydrological sense. But it creates an immediate practical complexity. River basins do not

align with water company service areas. A single region will contain multiple water companies; a large company may span several regions; and demand centres may straddle regional boundaries. This “many-to-many” mapping has direct consequences for who plans what, who might be expected to pay for cross-boundary solutions, and who is accountable when regional objectives are not met.

It is expected these regions will develop long-term plans across the multi-sector needs of the water environment, but the form and shape of this is yet to be defined. In this paper, we set out the design choices involved, the trade-offs between them, and the implementation questions that still need to be resolved.

A framework for regional planning models

The regional planning model needs to resolve two fundamental design choices.

The first concerns **planning governance** – who determines what gets built, where, and by whom? At one end, a centralised regional planner models the system, optimises across the region, and directs actors to invest. At the other end, planning is shared and collaborative, with participants jointly developing the plan and the regional body acting as facilitator. The second concerns **delivery responsibility** – who actually executes the plan? At one end of the spectrum, water companies sit at the centre of delivery. At the other, each actor – water companies, National Highways, agricultural operators, local

¹ UK Government (January 2026), A New Vision for Water, p.14

authorities etc. – holds direct responsibility for their part.

A range of models may be implemented across these two dimensions and, in theory, each could work. But the choice of model has cascading consequences for

accountability, cost, incentives and the role of the regulator. The matrix below maps these choices and identifies the key tension in each.



	Centralised planning	Shared planning
Water company-centric delivery	<p>Directed and company-delivered</p> <p>The region operates as an independent system planner, determining optimal solutions across the water environment. Delivery is channelled through incumbent water companies via their operational plans. This operates as command and control.</p> <p><i>Key tension: Who is accountable if a company is delivering a plan it did not design? The company holds the statutory duty, but the planner makes the decisions.</i></p>	<p>Collaborative but company-delivered</p> <p>Water companies share responsibility with sector actors for producing regional plans, facilitated by regional groups. This builds on established relationships (e.g. WRSE²). Delivery and funding flow remain primarily through water companies.</p> <p><i>Key tension: Without a decision-maker, how are trade-offs resolved? Collaboration can generate alignment but may struggle when there are winners and losers.</i></p>
Distributed delivery	<p>Directed and distributed</p> <p>The region defines optimal interventions, but delivery is distributed across sectors and actors. Water companies deliver alongside highways, agriculture and other actors. The regional body may itself become a delivery vehicle.</p> <p><i>Key tension: The regulatory toolkit can direct and fund water companies. What equivalent mechanism compels other actors (e.g., farmers or highways authorities) to deliver? And who pays if they cannot?</i></p>	<p>Collaborative and distributed</p> <p>All actors co-develop the plan and each takes responsibility for delivery. Water companies focus on core operational delivery with potentially reduced investment scope. Resources and investment must transition to other sectors.</p> <p><i>Key tension: Only water company costs face regulatory scrutiny. If other actors lack capital or capability, there is a risk delivery defaults back to water companies regardless of the model's design.</i></p>

Source: CEPA analysis

Our reading of the White Paper is that it aspires toward the bottom-left quadrant – centralised direction with distributed multi-sector delivery. The language about cross-sectoral plans and the new regulator having powers over sectors beyond water companies points in this direction. However, the current regulatory toolkit is much better suited to the top row: water companies are the actors with a stable and predictable regulated funding mechanism (customer bills), mature planning capabilities, and clear lines of regulatory accountability.

Unless the model is designed with this asymmetry explicitly in mind, costs and delivery responsibilities risk defaulting to water companies regardless of the governance structure chosen.

Accountability: what happens when the plan fails?

If a water company is directed by a regional planner to operate to a specific supply-demand balance, and a drought causes taps to run dry, is the company responsible? It holds the statutory duty to deliver safe, reliable drinking water. But it was acting at the direction of a regional body that set the planning scenarios and determined the resource allocation. This is the central accountability question that any centralised planning model must resolve.

Under shared planning models, the accountability question manifests differently but is no less sharp. If companies collaborate to develop a plan but one company's customers bear a disproportionate impact during a stress event, the collaborative process offers

² Water Resource South East.

no clear route to assign responsibility or provide redress.

Distributed delivery adds a further layer. Where a company's investment case assumes that farmers will reduce nutrient loading or that a highways authority will upgrade drainage, and those actors do not deliver, the company may need to invest in additional treatment capacity – at additional cost and potentially outside its approved business plan. The water sector has no mechanism to regulate for non-water-company failures that impact overall outcomes. Until it does, companies will need to manage this contingency risk, and the framework will need to accommodate the cost of doing so.

More broadly, where new operating models and planning decisions introduce additional risk for water companies, we must consider the implications for the wider sector reform. Is there scope within supervisory regulation for companies to make the case for additional or discretionary investment to manage those risks? Or does the introduction of regional planning create a tension with the low-risk, low-return model the sector is moving toward?

Who pays? And for what?

PR24 highlighted that customers valued their local environments highly and were willing to pay for their protection. Regional planning introduces a direct challenge: if investment needs are identified and optimised at a regional level, how should costs be allocated across the companies and customers who benefit? If a strategic reservoir or transfer scheme serves customers across three companies, costs need to be shared in a way that reflects who benefits from the system – analogous to questions about use-of-system charging in energy networks.³

Under distributed delivery models, investment becomes redistributed across sector actors – including highways, agriculture, energy and catchment partners. In principle, this may be a more efficient approach: costs sit with those who cause the problem or are best placed to address it. In practice, it requires a blended funding approach across partners with very different financial models.

There is also a deeper distributional question. Where companies serve multiple regions, how should the costs of regional investment be reflected in the charges borne by customers in each area? Should customers' contributions be linked more closely to the cost of serving the region they sit within and the

benefit they derive from regional infrastructure? The



price control process will remain the mechanism for recovering water company costs, but enhanced regional planning may increase pressure for new principles for allocating regionally-driven investment across companies and customer bases. The framework will need to be explicit about these principles, and the answer may differ depending on which quadrant of the model is adopted.

Incentivising the right behaviours

Across the different models, the boundaries of outcome delivery shift, and incentive frameworks must shift with them. There are two distinct questions.

The first is about other sector actors. If the regional plan assumes multi-sector delivery, what compels or motivates farmers, highways authorities or developers to invest? Under centralised models, the regional body may have the authority to direct, but without a funding mechanism it may not be able to deliver timely results. Under collaborative models, the question becomes whether voluntary participation is sufficient to avoid piecemeal interventions that are not coherently joined up across the region. In either case, incentivisation for non-water-sector actors is arguably needed to ensure delivery of actions that are essential to the water environment plan.

The second is about water companies specifically. Under centralised, company-centric delivery, the incentive framework can be relatively straightforward: the company is directed to deliver a defined set of outputs and is rewarded or penalised accordingly. But under distributed delivery, the company's remit becomes more operational. If a company's regulatory incentives reward individual performance while the regional plan requires collaborative solutions, there is



³ Similar issues have also been discussed by Dieter Helm in his catchment system operator model. See for example,

Helm, D (2015), Catchment management, abstraction and flooding: the case for a catchment system operator and coordinated competition

a risk of misalignment. Companies should not be penalised for outcomes that fundamentally depend on others' actions. The incentive package should arguably adapt to focus on the behaviours society specifically expects of water companies – financial health, long-term asset resilience, sustainable operation – rather than system-wide environmental outcomes over which they may have only partial control.⁴

The role of the regulator

Sitting across all of these questions is the role of the new single regulator. Does it oversee the regional planning process, approve the plan, enforce it, or simply take the plan as an input to company-level price controls? The White Paper emphasises supervisory, company-specific regulation; a model built around understanding each company's particular challenges and circumstances.

Regional planning, by contrast, is inherently cross-company and cross-sector. These two logics need to be reconciled.

The regulator's relationship to the regional planning function is, as yet, an unanswered design question. Under centralised models, the regulator may need to validate or approve regional plans before they flow into company business plans, which could place the regulator in the position of mediating between what

On the horizon

The models outlined above signify substantively different requirements for water companies – changing the scope of their responsibilities, rewiring investment channels, and reshaping how we incentivise the right behaviours. These are not secondary implementation details. They go to the heart of how the sector's reform ambitions will be delivered in practice.



the regional plan requires and what individual companies



can finance. Under collaborative models, the regulator's role may be more one of backstop: holding companies to account for their part of a jointly developed plan, and intervening where coordination fails. In either case, the link between regional plan → company business plan → price control⁵ needs to be designed explicitly.

The experience with Regional Energy Strategic Plans (RESPs) and their interaction with price controls set by Ofgem may offer some potential learnings for integrating a regional planning approach into the new water sector regulatory system.⁶

This is not only a question of institutional design but also of analytical infrastructure. Effective regional planning requires consistent data, shared modelling frameworks, and analytical capability that can assess trade-offs across water supply, drainage, environmental quality and growth – often across company and sector boundaries. This is an area where the current system has made significant progress in recent AMPs but there are also recognised to be gaps, and where investment in capability will be needed alongside investment in governance.

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⁴ We intend to discuss outcomes and incentives in subsequent papers.

⁵ And other funding mechanisms that might underpin the delivery of the regional investment plan.

⁶ In early-2025, the National Energy System Operator (NESO) became responsible for producing Regional Energy Strategic Plans (RESPs) for England, Scotland and Wales. The RESPs form part of NESO's wider strategic

energy planning activities, with the objective of ensuring a joined-up approach between national, regional and local levels and different actors in the energy system. See [Regional Energy Strategic Planning \(RESP\) | National Energy System Operator](#)

⁷ See for example, Grantham Institute – Climate Change and the Environment (2026), [Building the evidence base for regional water planning](#)

How can CEPA help?

CEPA is an economic 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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