

Reforming the UK Water Industry

Key Proposals in the Water White Paper

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The Government has published its long-awaited Water White Paper. Among a raft of proposals is a plan to establish a single integrated regulator, strengthen enforcement with proactive individualised supervision of water companies, prioritise long-term investment in resilient infrastructure, and broaden financing frameworks to support major capital projects and attract sustainable private investment. In this briefing, we discuss the key reforms and look at the implications for the water industry and environmental protection in England.

While water industry reform has been ongoing in a piecemeal way for several years, the immediate background to the White Paper is Jon Cunliffe's 2025 Independent Water Commission Report (Cunliffe Report) which made a wide range of recommendations following an in-depth review of the water sector. The measures and proposals set out in the White Paper largely draw from the Cunliffe Report recommendations. However, the White Paper is a reasonably high-level document, and many of the measures and proposals will require fleshing out in the coming months.

Key issues

- 1 One new regulator will replace Ofwat and take on the water functions of the four existing water regulators and will move to a supervisory approach to water companies, addressing their specific risk-profiles. The regulator will be given greater discretion to focus on outcomes rather than strict regulatory compliance.
- 2 A new water company *Performance and Improvement Regime* will seek to prevent water company failure earlier, and senior executives may be subject to a finance sector style accountability regime.

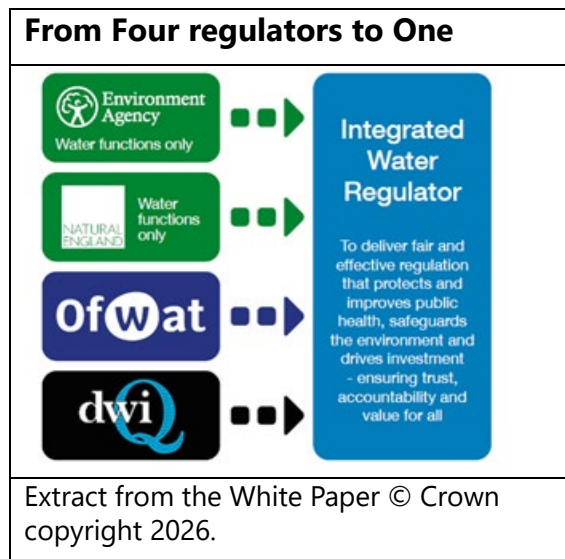
- 3 A new approach to national strategy and price controls would see infrastructure and investment targets and investment strategies projected over 5, 10 and 25 year periods, refreshed every 5 years, aimed at encouraging long term investment over short term gains.
- 4 Greater focus will be placed on maintenance of existing infrastructure assets, including through by a national asset mapping exercise, and ring-fencing different funding pots for maintenance of existing assets, operational expenditure and capital for new or enhanced assets.
- 5 The Thames Tideway Tunnel form of *Regulated Asset Base* model will be extended to water infrastructure projects more broadly, alongside the new DPC model.
- 6 Abstraction and impoundment licensing will be moved into the environmental permitting regime.
- 7 A new independent Water Ombudsman will be created with the power to impose legally binding resolutions of customer complaints.
- 8 A Transition Plan providing a roadmap for how the reformed regime will be implemented will be published in 2026 but otherwise few timings have been confirmed.

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Kirsty Souter, Senior Associate

A new Single Regulator and Regulatory Reset

The water functions currently held by Ofwat, the Drinking Water Inspectorate, the Environment Agency and Natural England (see box below) will be transferred a single new integrated regulator and Ofwat will be abolished. The new regulator's key objectives will cover the full cross-sector range of protecting public health and the environment, ensuring affordable bills, making water companies (and their infrastructure) more resilient in the short and long term, and supervising the water companies effectively. This change is intended to allow a "whole firm" view of water companies' economic and environmental performance. It is not clear when the new regulator would be operational. Kirsty Souter, Environment Senior Associate commented: "While this approach seems sensible, there will be challenges in bringing together regulators focused on different aspects of the water sector into one regulator". Adam Hedley, Environment Partner, added: "It is also not clear how this leaves the overall protection of water resources and related ecosystems given that environmental permitting, and other regimes such as habitats, would remain with the Environment Agency and Natural England".



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The new regulator's approach will help reduce reliance on industry-wide benchmarking and economic modelling and replace it with a supervisory approach, with the intention that the regulator becomes more proactive, focuses on particular risks of individual water companies, and be more outcome-focused and joined up, than current regulators. It would do this by appointing teams with company-specific knowledge and expertise. Nigel Howorth, Environment Partner, commented: "How these teams are set up and their governance arrangements will be key in order to ensure actual and perceived independence from the respective water companies". The regulator will also be given more discretion to adopt solutions that may otherwise be constrained by legislative regulatory barriers (e.g. in prioritising sewerage upgrades and use of nature-based solutions).

The Government will put in place a new Performance Improvement Regime (PIR) aimed at catching systemic poor performance by water companies early. This will draw on knowledge gained from the individualised supervision approach described above. The PIR will contain tools aimed at breaking the cycle of under-performance and setting a path to improvement. It remains to be seen what these are and how effective they will be. To deal with a situation where these measures are insufficient, and a Special Administration Regime (SAR) order might be contemplated, the White Paper is proposing that water companies produce a contingency plan which would assist a special administrator in taking over critical services and facilitate restructuring or sale. The Government will consider whether this would apply to all water companies or just those at higher risk of failure and already subject to PIR. While the SAR has never been used, the current financial difficulties of a number of water companies could make the threat of such an order more likely in future. There will also be a new supplier of last resort mechanism, analogous to the current regime in the energy sector.

Iain White, Restructuring and Insolvency partner, commented: "One of the key questions raised by this paper is how the proposed performance improvement regime will sit alongside market led solutions. In practice, stakeholders will want clarity on the degree to which the regime complements-rather than constrains-the commercial restructurings that lenders, investors and companies are already driving in real time. Equally, the introduction of a contingency plan requirement by the company in advance of a potential special administration would be a particularly

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Finally the Government will address water company culture by looking at making senior leaders more accountable, drawing from similar regimes in the financial services sector (which might include, for example, the current Senior Managers and Certification regime). This would go beyond recently introduced measures restricting water company executive bonuses and dividend payments.

A change in ownership of water companies will come under increased scrutiny. While the White Paper floats support for water companies that wish to change their business model (e.g. to a not-for profit model), the Government remains committed to current private ownership models (the possibility of nationalisation or other major ownership reform was excluded from the Cunliffe Report's terms of reference). The proposal to include water companies within the controls governed by the National Security and Investment Act 2021 is being considered; it would require purchasers to inform the government of planned changes in company control.

National Water Strategy

One of the key aims of the White Paper is to try to get the water industry to think longer term, and in a more cross-sector / integrated way, on targets, priorities and investment, while creating a "stable and predictable regulatory environment". While the Government's Strategic Policy Statements to Ofwat have been intended to do this, they have not been aimed at long term targets, have done little to bring regulators together and have failed to respond to evolving priorities. The White Paper therefore suggests a new National Water Strategy which will look forward 25 years, aimed at enabling all stakeholders to plan for priorities in the next five and 10 years and for the long term. It would be refreshed every five years with the first edition published in time to inform the 2029 Price Review (PR29). It is hoped this will give investors more confidence in future investment needs and a clearer direction for the new regulator's activities.

The National Water Strategy will be complemented by an effort to streamline planning by replacing the 20 or so water-related plans that water companies have to produce, with a core water environment framework and a water supply plan. These will be accompanied by an "enhanced regional water planning function" from 2027, to better support delivery of the National Water Strategy. It is not yet clear how this will relate to current River Basin Management Planning and other regional functions and whether this ultimately creates more bureaucracy and complexity than it solves. The Government is also considering broader legislative reform of the urban wastewater treatment legislation and Water Framework Directive to ensure that they remain future-proofed (e.g. to deal with new chemical and biological pollutants).

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Alexandra Dimsdale-Gill, Partner

Attracting Investment

The background to this theme is the decision to include £104 billion of private sector investment to upgrade water infrastructure and improve long-term resilience in the PR24 Price Control package for the 2025 to 2030 period. This will include funding for the construction of nine new reservoirs and major investment for leakage reduction. Additional changes aimed at providing a stable and predictable investment environment include each 5 year Price Review cycle acting as a checkpoint to ensure that delivery of the longer term (5, 10 year and 25 year) targets, mentioned above, is on track. This is intended to minimise the need for targets to be changed mid-cycle. The Government will also reconsider how water companies' cost of capital is determined for the price control period given the perception that Ofwat's current weighted average model fails to deal properly with market change. Price controls would see further reform in that a "focused appeal" would replace the current third-party redetermination led by the Competition and Markets Authority to align it with other regulated sectors.

A key change is a commitment to reform the system of Outcome Delivery Incentives, rewards and penalties linked to water company performance, and based on agreed performance commitments. These have been criticised, in particular, for repeatedly penalising under-performing companies for the same issues, leading to downward spiral in performance in some cases, and resulting in investor return volatility. The new regulator will look to address these issues in an effort to encourage steady long-term investment. There will be a delicate balance to be struck here between ensuring the water companies are suitably incentivised to perform but without tipping them into severe financial consequences which makes investment unattractive. The Government is also looking at how the system could work to prevent water companies assuming unsustainable levels of debt.

The reforms are designed with the perspective of long-term investors in mind. High returns over short timeframes are to be discouraged through regulation, with an emphasis on a low-risk low return investment environment for long-term investors.

The capital structuring of water companies will come under the spotlight. Alexandra Dimsdale-Gill, Debt Finance Partner commented: "The Government will consider how the new regulator can work with companies and investors to prevent water companies from assuming unsustainable levels of debt. The possibility of minimum levels of equity and/or leverage caps cannot be ruled out."

Further reform will see the regulations which permitted the Thames Tideway *Regulated Asset Base* (RAB) funding model extended to a broader range of projects, including all water supply as well as sewage infrastructure. This funding method will sit alongside the recently introduced Direct Procurement for Customers (DPC) model. Other efforts will include work to see whether green bonds could support increased investment in the water sector.

Clean and plentiful water

A number of measures are suggested in the White Paper to address pollution concerns and water security, although detail on the individual proposals is generally lacking.

On the Pollution side, the White Paper announces key reforms to:

- Move to an Open Monitoring approach for pollution to end reliance on operator self-monitoring and reporting. The Government will consider options for intelligence-led inspections and third party assurance
- Ensure pre-pipe solutions to pollution risks (e.g. sustainable urban drainage systems, 'SuDS', rainwater management, and sewer misuse) are encouraged through legislative and regulatory reform, and funding.

The White Paper highlights the scale of the water security challenge noting that England's water consumption will exceed capacity by 6 billion litres of water per day unless major change happens. On the supply side, a range of actions are presented to increase capacity including:

- Moving to a system where assets are properly maintained. Individual actions would include a major mapping exercise of all water assets, the setting of clearer standards for infrastructure, with new resilience standards supporting obligations to assess asset condition for the long term. This work would be aided by the appointment of a Chief Engineer within the regulator to determine the sector's asset needs. For price control purposes, this would also include implementing ring-fenced pots within water company business plans for capital expenditure on maintenance, separate to operating expenditure and capital expenditure for new assets or asset enhancements
- Reviewing Permitted Development Rights for water company infrastructure, which would give more flexibility for small infrastructure projects to take place without express planning consent.

On the customer side, the White Paper focuses on water efficiency by:

- Confirming commitments to pressing ahead with its ongoing smart metering initiative, exploring tariff reform, product water efficiency labelling, and other changes to incentivise customer water efficiency
- Looking at water reuse and rainwater management in both domestic and commercial settings
- Moving abstraction and impoundment licensing into the environmental permitting regime. This change has been long-awaited, with powers to make this change already included in the Water Act 2014.

Additional measures would see the new regulator given powers to impose financial penalties on companies not complying with drinking water standards, and to enforce against third parties constructing and/or operating water assets.

Protecting Customers

Rising bills and problems with water supply and quality have inevitably increased customer dissatisfaction with water services significantly in recent years. The White Paper highlights some key actions to help address customer concerns:

- Creation of an independent Water Ombudsman with the ability to impose legally-binding resolution of customer complaints

- Changes to the measure of customer experience (C-Mex) mechanism to better reflect individual company performance (part of the Outcome Delivery Incentives mentioned above)
- The introduction of customer panels that can summon water company executives and 'hold them to account'. These panels were first announced in 2024
- Reviewing drinking water regulations to ensure continued high standards, and establishing a new drinking water quality advisory group.

Final Comments

"In order to deliver on the various areas of reform, it will be crucial that water companies are put on a sound financial footing that attracts investors".

Nigel Howorth, Partner

There is an open question about how radical the reform will ultimately turn out to be. In many ways the White Paper does resemble a statement of aspirations for the water sector. Nigel Howorth commented: "In order to deliver on the various areas of reform, it will be crucial that water companies are put on a sound financial footing that attracts investors". There is clearly a great amount of detail to be worked out with numerous consultation exercises expected over the coming months and years, so this will remain uncertain for the time being.

To help set expectations on timings, the Government will publish a Transition Plan in 2026, to provide a roadmap for change, timings (including for legislative and regulatory reform) and responsibilities. In particular this should set out how changes will factor into the PR29 Price Control. It is clear that this is not going to be a quick process.

Link to White Paper: [Policy paper - A new vision for water: white paper - Department for Environment, Food & Rural Affairs - 20 January 2026](#)

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