

THE INDEPENDENT WATER COMMISSION FINAL REPORT: A DELUGE OF REFORMS ON THE HORIZON



*A single, new integrated water regulator; new consumer protections; and stronger oversight of water company ownership and governance – these are among the 88 recommendations set out in the [final report](#) of the Independent Water Commission (**Commission**) in its review of the water sector in England and Wales.*

Building on its earlier [Call for Evidence](#) and interim findings (see our [briefing here](#)), the Commission provides the government with a blueprint for a fundamental reset of the sector, focusing on: regulator reform; strategic direction and planning; the legislative framework; company structures, ownership, governance and management; and infrastructure and asset health. The final report also shares recommendations on implementation, including which reforms can be delivered in the short-term and which require new primary legislation.

Background

Established in October 2024 and led by Sir Jon Cunliffe, the Commission has been conducting a “root and branch review” of the water industry in England and Wales to identify potential solutions that will restore confidence in the regulatory framework governing the sector, whilst making it more resilient and attractive to investors.

The Commission’s findings come six months after Ofwat published its Final Determinations under the 2024 Price Review (**PR24**), providing the sector with a £104 billion funding package for the five years to 2030, and setting the amount water companies can charge customers (see our [briefing here](#) for more detail). Several companies have appealed the determination to the Competition and Markets Authority. Whilst the Commission’s Terms of Reference make it clear that the Commission will not make recommendations that impact the PR24 process, its recommendations will have implications for both the asset base and the approach to future reviews. The Commission’s report also follows the enactment of the Water (Special Measures) Act 2025 earlier this year, which amended the special administration regime for water companies, and introduced new governance and remuneration measures.

Key recommendations

1. Abolition of Ofwat and the establishment of integrated water regulators for England and Wales
2. Development of new National Water Strategies and Ministerial Statements of Water Industry Priorities, to provide clear, strategic direction to the sector
3. Establishment of nine new regional water system planning authorities to oversee translation of national priorities into local plans
4. Retention of Price Review process, but re-oriented under a new ‘supervisory’ approach
5. Establishment of a new water Ombudsman and national social tariffs in England
6. Significant reform of Operator Self-Monitoring and to assure public health outcomes
7. Greater alignment of public and private sector interests, including new public benefit clause in licences

The Commission’s recommendations

Early in the report, the Commission identifies that “pressures and demands on water in England and Wales come from multiple and competing directions: pressures to preserve and restore this vital part of our natural environment; demands to take water out of the system for households, agriculture and industry and to manage wastewater; and demands for safe, healthy water bodies for recreation and wellbeing.” In its 88

recommendations, the Commission has sought to identify specific proposals for how the UK and Welsh governments can address the challenges, opportunities and trade-offs in bringing structural reform to the water sector.

1. A new, integrated regulator for water

The Commission's headline recommendation to abolish Ofwat has been quickly endorsed by government, reflecting stakeholder consensus that the existing regulator has failed to come to grips with the sector's many challenges. In his [speech](#) to Parliament on the day of the report's publication, Environment Secretary, Steve Reed, agreed to consolidate the functions now housed in Ofwat and the Drinking Water Inspectorate along with the water-related functions of the Environment Agency and Natural England into a single, integrated regulator for water in England, with a similar model for Wales. Ofwat released a [statement](#) that it will now work with the government and other regulators to form the new regulatory body in England and to contribute to discussions on the options for Wales.

Whilst the change represents a radical departure from the current regulatory model, it is hoped that this new "powerful super-regulator" will avoid the gaps in regulatory oversight and inefficiencies of the duplicative multi-authority approach to enforcement. It is envisaged that the new holistic regulatory model will focus on supervisory duties along with regulatory policy and strategy for the water system. This new outcomes-based approach will see supervisory teams engage with individual companies to identify performance and financial issues before they arise (as in the financial services sector, for example). This would include operational teams that conduct inspections and audits "on the ground", with a greater emphasis on ensuring the regulator has the requisite expertise to discharge its functions, particularly in relation to engineering, finance and environmental science.

The Commission concluded that Wales would be best served by integrating its economic and environmental water regulatory functions into a separate economic regulatory body, suggesting that this could be integrated into Natural Resources Wales.

New ombudsman

The Commission has recommended converting the Consumer Council for Water (**CCW**) into a new mandatory Water Ombudsman, bringing the industry in line with other regulated sectors. Government has already committed to take this recommendation

forward, [noting](#) that the new ombudsman will be "a single, free point of contact" for customers in disputes with their water company. The Commission recognised that as a result of this change the advocacy role of the CCW should be transferred to another body and recommended that Citizens Advice take on this role.

2. Regulatory and legislative change

The Commission has made wide-ranging proposals to change economic, environmental, drinking water, water resource and affordability-related regulation and legislation. The proposals involve some of the most consequential recommendations in the final report.

An overly complex and prescriptive regime

The Commission found that the legislative framework for the water system in England and Wales is outdated and, together with water targets, forms an overly complex and prescriptive regime which limits scope for innovation. It concluded that review and rationalisation is required to achieve better alignment with outcomes and government objectives. Echoing its interim findings, the Commission noted that this is a major exercise, and is beyond the Commission's scope, but identified priority areas for reform, including the Urban Waste Water Treatment (England and Wales) Regulations 1994 (**UWWTR 1994**) and the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017 (**WFD**). The final report also suggests that the Law Commission undertakes a consolidation exercise to address redundancies.

The report further recommends a review of all statutory water targets to inform a new National Water Strategy (see further below) and the introduction of an overarching long-term target for water body health to replace the current Good Environmental Status (**GES**) target.

More "constrained discretion" is needed

Regulatory sandboxes are used in other sectors to test new concepts and encourage innovation. Recognising that the concept of discretion is a sensitive one, and that regulators and governments may face judicial review if their powers are used unlawfully, the Commission found that the legislative framework is inflexible and prescriptive, and

regulators have become unhelpfully risk-averse, concluding that greater “*constrained discretion*” is necessary. To achieve this in England, the Commission recommends that principles are set out in primary legislation for regulators and systems planners to refer to in making regulatory decisions, allowing them to account for a broader range of factors including costs and co-benefits, as well as consumer and environmental protection. This would not remove the requirement to achieve long-term statutory objectives but enable a wider range of factors to be taken into account. To be effective, the Commission observed that these principles should be developed alongside rationalising and establishing new duties and objectives for the new water regulator. A similar recommendation is made for Wales, building on the discretion enabled by the sustainable development principle within the Well-being of Future Generations Act.

5-yearly price reviews to be retained – but reformed

The report acknowledges the need to protect consumers from abuse by water companies’ monopoly powers, which can manifest through high costs and poor service. Currently, Ofwat uses the Price Review process to guard against this. However, the Commission identifies fundamental concerns with Ofwat’s current approach, which it considers to be insufficiently attuned to companies’ individual conditions and challenges and failing to deliver improvements in performance.

The report finds wide-ranging concerns with Ofwat’s approach, building on the findings of the interim report (see our briefing [here](#)). The Commission has made the following recommendations:

- **Adoption of a supervisory approach:** The regulator should take a more ‘supervisory approach’ to regulating individual companies in England and Wales, balancing the econometric benchmarked outputs currently used in price reviews with company-specific and expert supervisory judgement.
- **Definition of separate allowances:** The Price Review process should move away from the existing ‘totex’ approach, which risks incentivising companies to underspend on renewing assets and reduces transparency on how companies spend their allowances. Instead, it should clearly define separate allowances for base capital expenditure, base operational expenditure, and enhancement capital expenditure to ensure that funding

directed to maintain assets is used for this purpose. The Commission envisaged this applying from Price Review 2029.

- **Review Regulatory Capital Value run-off:** The regulator should consider a new methodology for assessing asset condition and depreciation as this might also provide further incentive for companies to measure the condition of assets and to improve resilience.
- **Remove QAA:** The regulator should remove the Quality and Ambition Assessment to remove “the perverse incentive” for companies to underestimate what they actually need to invest in their networks. This saw Thames Water penalised during PR24 for submitting a business plan which sought an increase in allowance for the capital maintenance of its assets.
- **Review performance incentives:** The regulator should review the performance incentives framework, rationalise the overall number of Performance Commitments and make their corresponding rewards, penalties and returns at risk clearer in order to attract long-term, low risk investors into the water sector. It also noted the need to remove duplication between economic incentives and enforcement for environmental and water quality breaches.
- **Appeal rather than redetermination:** The process for disputing price review determinations should move to focused appeal model (as in other regulated sectors) rather than a full redetermination.
- **Consistent WACC methodology:** The Commission observed that WACC for the water industry has been relatively low compared to other sectors. Government should consider granting the CMA authority to set a common Weighted Average Cost of Capital (**WACC**) across UK regulated sectors, thereby aligning the water sector with other regulated sectors and increasing its attractiveness as an investment. Sector specific considerations would then be applied by the regulator when applying the CMA’s methodology.

The Commission also noted a disparity between the regulator’s powers to change appointment licences for companies and noted that the requirement for water company consent in Wales should be

removed, so that the regulator is directly able to amend licences, subject to legal safeguards.

Consumer protection

In relation to consumer protection measures, the Commission noted the disparity between support for low-income families amongst the different water companies. To address this, the Commission recommended consultation on the use of powers in the Water (Special Measures) Act 2025 to establish national social tariffs in England, and a review of the existing schemes in Wales.

In addition, it made a number of recommendations including that consumers and local voices are represented in strategic decision making and reforming the consumer service provision incentive (C-Mex) to better reflect customer experience and moving to a supervisory approach to monitoring the customer-focused licence condition.

Environmental regulation and legislation

The Commission identified several issues relating to environmental regulation and legislation. These include the current approach to permitting, the oversight of wastewater compliance, the oversight of sludge, enforcement powers and capacity and capability of the new regulator.

One of the key recommendations in the final report relates to Operator Self-Monitoring (**OSM**). The Commission concluded that OSM is a significant contributing factor to a lack of confidence in the implementation of environmental regulation and recommended that OSM be “significantly reform[ed]”, with a strengthened approach to monitoring, greater digitisation, automation, public transparency, third party assurance and intelligence-led inspections. Other recommendations include reviewing the approach to Continuous Water Quality Monitoring, moving the treatment, storage and use of sludge into the Environmental Permitting Regulations and ensuring that the new regulator’s enforcement activities are accelerated, backlogs are cleared and costs are fully recovered from industry, in accordance with the polluter pays principle. The government has said it will not wait for its consultation in the autumn to end OSM, instead transitioning to Open Monitoring, with real-time monitoring across the wastewater system.

The Commission also found that misalignment between statute and guidance has overcomplicated wastewater and drainage, creating uncertainty around how to prioritise requirements. In particular,

the Committee noted the Environment Agency’s view that “layers of legislation” have complicated the regulation of wastewater treatment works in relation to permitting and compliance for phosphorus. In light of these findings, the Commission recommends that the UK and Welsh governments update UWWTR 1994. Noting increasing concerns about emerging contaminants including PFAs, microplastics and micropollutants, the Committee suggested that this review considers stricter water treatment requirements and whether an Extended Producer Responsibility Scheme is needed for the water sector to fund necessary improvements.

The Commission also concluded that, while highly effective in managing surface water runoff, use of Sustainable Drainage Systems (**SuDS**) is voluntary and therefore inconsistent. The report recommends introduction of SuDS as a mandatory measure for new developments as part of broader legislative reform for 'pre-pipe' solutions to prevent pollutants, such as wet wipes and rainwater, from entering the system.

Recognising that governments will not currently meet 2027 targets to achieve GES for all surface water bodies, the Commission identified core issues with the WFD. These include that the WFD's scope is too limited, particularly in relation to public health and amenity value in water bodies, and is insufficiently robust in responding to changing pressures on the water system. The process for setting objectives is producing unrealistic targets and the classification framework's 'one out, all out' methodology is flawed and hides progress. The Commission concluded that reform is required, both to the WFD framework itself and to its implementation. It recommended consultation on reform, including on establishing a legally binding long-term target and broadening the scope to include public health outcomes. The report also suggests the establishment of taskforces led by the Chief Medical Officers of England and Wales to oversee the incorporation of public health.

Drinking water regulation

The Commission has also set out further recommendations in relation to drinking water and water resources. Key recommendations include introducing powers to strengthen the regulator’s toolkit in relation to drinking water and bringing water industry abstraction activity under the environmental permitting regime.

3. Providing strategic direction

The Commission's analysis of the government's strategic direction for the water system identified seven core issues:

1. A fundamental lack of a systems-based approach – government strategies tend to set individual, siloed targets without adequately considering their interdependencies, leading to inefficiencies.
2. Absence of a cross-sectoral approach - the current framework often fails to account for emerging demands linked to broader policy objectives and existing strategies (e.g. in relation to sectors such as agriculture, and strategies such as the Artificial Intelligence Strategy and the Net Zero Strategy).
3. A pervasive short-term focus - strategies rarely extend beyond the term of the publishing government, undermining the stability needed for effective water management.
4. Limits in short-term direction - a lack of interim milestones resulted in backloading delivery, making it difficult for regulators to hold companies accountable.
5. A lack of robust progress reporting – this limits the government's ability to monitor short-term advancements towards long-term goals.
6. A lack of robust cost-benefit analysis – with policies generating costs that are often passed directly to consumers without a comprehensive understanding of the cumulative financial impact.
7. Absence of clear guidance on managing trade-offs between competing goals - particularly balancing affordable bills with necessary environmental investment.

To address these shortcomings, the Commission recommends that the UK and Welsh governments each introduce a new, long-term, cross-sectoral, and systems-focused National Water Strategy. These strategies should encompass all sectors interacting with the water environment, integrate with other interdependent policies, and establish a clear framework for managing trade-offs. The Commission proposes a minimum 25-year horizon, with reviews every five years, allowing for necessary adjustments. It suggests statutory underpinning for these strategies, requiring regular progress reports, and recommends formal public consultation alongside comprehensive cost-benefit assessments.

Clearer government guidance

The Commission also scrutinised the specific guidance provided to the water industry through Strategic Policy Statements (**SPSs**). SPSs were found to be largely inadequate; they failed to effectively support regulatory collaboration, adequately support long-term targets, or respond to emerging priorities. The existing framework also made holding stakeholders accountable for delivery challenging and lacked detailed guidance for managing complex trade-offs.

The Commission recommends replacing the SPS framework with a new Ministerial Statement of Water Industry Priorities (**MSWIP**), which would directly guide all water industry regulatory and systems planner functions. The MSWIP, like the proposed National Water Strategy, should be published every five years, adopting a 5/10/25-year planning approach, giving strategic direction to a system planner (see below) and providing guidance on how to manage trade-offs. It should include SMART (Specific, Measurable, Achievable, Relevant, Time-bound) targets to enhance accountability. The Commission considered that the government should also assess the costs and benefits of its MSWIP and proposed the regulator be subject to a new duty to raise concerns if targets become undeliverable.

Improving water system planning

The Commission's review of current water systems planning frameworks identified a lack of regional planning, the so-called "missing middle", as a concern. Limitations in driving cross-sectoral action and the inherent complexity of water industry planning were also highlighted. The Commission noted a pervasive lack of local engagement and poor consultation practices, alongside inconsistency in planning metrics and no consistent approach to value for money assessment of plans. Furthermore, issues were identified with the five-year Price Review cycle, which reinforces a short-term focus and creates uneven delivery profiles within asset management periods.

To address these deficiencies, the Commission recommends a comprehensive systems planning framework for integrated and holistic water system planning (water environment and supply). In England, system planners should be regional water authorities, whilst in Wales, the system planner should be the national authority. The Commission suggests maintaining the five-year period for setting water company bills but advocates for water industry

investment planning on a 5/10/25-year basis, providing increasing detail for shorter timeframes. The Commission also proposes streamlining water industry business planning from nine existing plans down to two core frameworks covering wastewater and water supply. Lastly, it stresses the need for better, more consistent methods for reliable decision-making, with system planners ensuring consistency in scenarios, assumptions and metrics, and the strengthening of cost-benefit analysis across planning frameworks. In response, the government has already committed to including a regional element within the new regulator to ensure greater local involvement in water planning as well as moving to a catchment-based model for system planning.

4. Aligning public and private sector interests

Ownership and governance

The Commission's recommendations regarding water company ownership and governance are targeted at aligning the interests of private water companies with the wider public interest. Though the final report does not consider changes of ownership requiring public funds (this being outside of the Commission's Terms of Reference), it does acknowledge that the public has a legitimate interest in water company ownership models. The Commission found, based both on submissions received and available UK and international evidence, that: (i) ownership model is not in itself the most important driver of water company outcomes; and (ii) strong and evidence-based regulation is critical in protecting consumers and the environment, regardless of ownership model. The final report makes recommendations on company ownership and performance:

- The regulator should be granted powers to block changes in control of water companies (e.g., where there are material concerns over a proposed new controller's financial soundness, reputation or managerial competence). This recommendation comes as the government has unveiled a new [proposal](#) which would require changes in control of Water Only Companies (**WOCs**) and Water and Sewage Companies (**WASCs**) to be notified under the National Security and Investment Act (Notifiable Acquisition) (Specification of Qualifying Entities) Regulations 2021.

- The regulator should be granted powers to direct parent companies and ultimate controllers to take, or refrain from taking, certain actions (e.g., to prevent owners from taking actions which would undermine their company's resilience).
- 'Public benefit' clauses should be inserted into water companies' licences in England and Wales to enable enforcement by regulators. Presently, these clauses are contained in water companies' Articles of Association, which only the company and its members can enforce.

While the Commission acknowledges Ofwat's ongoing assessment of reforms to its Board Leadership, Transparency and Governance Principles (the **Principles**), it considers that such reforms should go further in scope. The final report makes recommendations to this end:

- The existing Principles should be recast by the regulator as rules, thereby giving all water companies (whether public or private) mandatory governance rules in line with the UK Corporate Governance Code 2024, and setting a level playing field in standards for all water companies.
- The English and Welsh governments should adopt a streamlined regime for setting bonuses for a narrow group of water company 'senior managers', to incentivise such individuals to promote the right culture and meet regulatory standards.

Investment and financial resilience

The final report acknowledges the need to balance strengthened oversight and regulatory powers outlined above, against the need to support and incentivise investment in the water sector. The Commission aims, via its recommendations on investment and financial resilience, to enable water companies to attract this investment, and build the financial resilience needed to operate effectively and deliver on responsibilities to consumers and the environment.

The Commission considers that the water industry is likely best served by investors who take a long-term, low return-low risk approach (e.g., pension, sovereign wealth and infrastructure funds). The final report makes recommendations aimed at improving the attractiveness of the water sector to such investors:

- The government should (i) make explicit that the regulator must support investability through stable and predictable regulation; and (ii) reset its communications regarding the water industry to outline progress being made and to help reduce instability and the perception of risk in the water industry.
- Regulators in England and Wales should (i) conclude long-running investigations/enforcement cases as soon as possible and address how to secure faster enforcement outcomes in future; and (ii) where appropriate, remove barriers to adoption of environmental bonds.

The Commission considers that the regulator's approach and powers in relation to financial resilience need to be strengthened, in a move away from Ofwat's historically non-interventionist approach. To this end recommendations include:

- Direct regulatory oversight of water companies' finances should be formalised, with expert supervisors actively assessing companies' risk profiles, and the regulator should be granted statutory powers to set and enforce minimum capital levels.
- The regulator should establish (i) a formal turnaround regime for poorly performing companies; and (ii) develop a framework to prepare companies for the Special Administration Regime ahead of time to avoid practical barriers to implementation. The report recommends that the turnaround regime should contain supportive measures, such as granting the regulator discretion to defer or waive fines and penalties for enforcement breaches, the use of settlement procedures, greater flexibility around project delivery, and relaxing allowances and performance targets – responding to sector criticism that the current regime can trap struggling companies in a vicious spiral.

5. Infrastructure and asset health

In his [speech](#) launching the report, Sir Jon Cunliffe noted that “we simply do not know the overall health of the system”, with Ofwat last overseeing a full assessment more than 20 years ago. As flagged in its interim findings, the Commission reiterates that this limited understanding of the location and condition of infrastructure assets and the absence of system-wide, forward-looking resilience standards has

hampered the industry. In response, the final report sets out a “marked step change” in how water infrastructure should be managed, monitored and delivered.

To provide a more accurate picture of infrastructure and network systems (and necessary funding levels), the Commission recommends strengthening requirements on companies to map and assess the health of their assets, with enforcement to be delegated to the regulator. At the same time, and in line with the Call for Evidence submission from industry body Water UK, the Commission proposes the introduction of statutory resilience standards covering system, infrastructure and critical supply chains – as previously recommended by the National Infrastructure Commission (now the National Infrastructure and Service Transformation Authority).

The Commission agrees that such standards should be outcome-based and at system-level (rather than prescriptive requirements for individual assets) to assist companies in making long-term assessments of their ability to cope with future demand and network disruption. For example, standards might include the ability of systems to meet peak water demand, a threshold for outage during infrastructure failure, or a cap on properties reliant on a single source of water supply.

It is also envisaged that these new standards should be consistent with resilience frameworks in other interdependent sectors such as transport and energy, and be developed at pace, with the Commission suggesting that priority standards be factored into business planning and the Price Review 2029 process. This will require the regulator to devise a new asset health metric for use during price setting, with input from industry. Stakeholders can also expect consultations in relation to asset mapping and the design of resilience standards. Industry will be keen for further details regarding the cost burden of infrastructure mapping and resilience standards.

Separately, the final report places some emphasis on the need to strengthen security arrangements for the water industry, noting that freedom of information requests have revealed an increasing number of water cyber security incidents, and, more broadly, that there are various “unacceptable” gaps in the legislation governing infrastructure security and its enforcement. For example, the Network and Information Systems Regulations 2019 (NIS) subject large water companies to specific cyber security requirements, but – as drafted – apply only to

drinking water supply and not wastewater infrastructure. And, whilst the Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction 2022 (**SEMD**) allows for the Secretary of State to direct water and sewerage companies of all sizes to act in national security interests and to mitigate the effects of a civil emergency, the SEMD does not apply to third party suppliers and contractors potentially involved in water supply. The Commission recommends that government bring third parties contracted to operate water assets within the scope of SEMD and consider updating NIS to include cyber security in relation to wastewater.

6. Implementation and implications

The conclusion of the Commission and publication of its final report represents a significant milestone in reform of the UK's water sector. The scale of reforms proposed by the Commission are significant. The UK and Welsh governments will now review and publish their responses to the final report and its 88 recommendations.

While the final report suggests certain areas in which reforms might be expedited (specifically, establishing Regional Water Board Systems, supervisory approach, social tariff, development of infrastructure resilience standards, strategic policy statements/directions to regulators and resetting communications) others will require primary legislation and consultation, taking longer to implement.

Environment Secretary Steve Reed has announced plans to publish a White Paper in the autumn containing the government's full response, on which the Welsh government has confirmed it will be collaborating. This is expected to be followed by a public consultation. The UK government intends to bring forward a Water Reform Bill early during the lifetime of Parliament. With preparations for Price Review 2029 beginning next year, industry will be keen to achieve greater clarity on the recommendations that will be taken forward and the potential implications of these on water company businesses.

With thanks to Darren Yang, Lisa Sabbage and Kathryn Emmett for their contributions.

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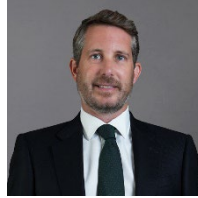
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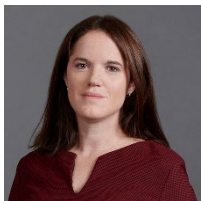
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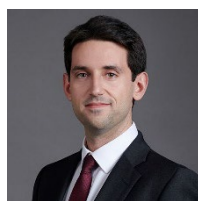
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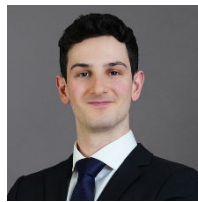
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