ISSN 2517-2697 FEBRUARY 2026

THE UK WATER REPORT

POLICY | REGULATION | FINANCE

White hope

Sector welcomes the White Paper's reset, but has a sneaking suspicion there won't be a quick fix for trust.

COMPETITION WATCH

- Water efficiency, more than market efficiency, takes centre stage in the White Paper's position on the business retail market.
- Government to pay Cambridge businesses to reduce water use.
- Indian textiles offer lessons on reuse for industrial growth.

DISORDER, DISORDER

Securing a predictable, stable regulatory framework that is conducive to long term investment will be a struggle given the zealotry of politicians on water matters.

Politicians' predisposition to intervene in water affairs looks set to continue – possibly even to worsen in the coming years – and will make the Holy Grail of stable, predictable regulation hard to achieve.

That was among the key lines of discussion aired at a meeting hosted by Economic Insight on the future regulatory model for water. This took place last month before the Government's White Paper was published, but the content of that does little to change the thrust of the points raised.

Nationalisation by the back door

The starkest testimony was provided by Lord Moynihan, speaking purely in a personal capacity.

He characterised the years since water privatisation in 1989 – which he co-led on behalf of the Thatcher Government – as "nationalisation by the back door". Since the turn of the century, the light touch regulation of the day has been piled high with additional requirements.

He said: "Every time it's reviewed in politics, by politicians, they look for additional regulatory responsibilities, additional requirements to be imposed on the regulator. And the idea that is going to change is, I think, something that should not be factored into thinking. Because even though there's some sensible discussion going on about the candidate recommendations [in the Cunliffe Review], you only need to look at what's happened in the last week or so [South East Water's political scrutiny after multiple supply outages] to see how they want to pull water company bosses and non executives and chairman before select committees, and they will then come up with yet further regulation and yet further requirements on those companies.

"It has become nationalisation by the back door. That wasn't anticipated in 1989 but it is a fact, and in coming to any decisions about the structure of the industry moving forward, with all good ideas and good intent, politicians will react in the way you've seen them react in the last week or two, and that needs to be factored in to pretty much all thinking about what water is going to look like in terms of regulation moving forward."

> **It has become nationalisation by the back door. That wasn't anticipated in 1989 but it is a fact**

He added: "This zealotry of politicians…is disadvantageous to long term investment in terms of infrastructure improvements. It is disadvantageous to the sensible balance that needs to be struck between the consumers and the regulator and water companies and governments. And unless we reconcile those and try and reconcile them with recognition that politicians are going to intervene, may want to intervene more, we will fail in getting the right structure."

Emotive and uncertain

The reasons for political interference run deep. Water was the last utility to be privatised because "people thought that you should get water for free," Lord Moynihan said, recalling also that the ministers involved at the time were known to have had police escorts when visiting sites for water metering trials.

The political landscape now is far from conducive to a hands-off stance. "We're into highly uncertain waters when it comes to politics," he observed. "The next two to three years are completely unpredictable by me let alone anybody else. And you live in a Western world which is driven by populism aligned to politically volatile electorates with unpredictable voting intentions. This is hardly a conducive backdrop for those seeking to create the conditions precedent for investor stability and favourable water company access to long term capital markets on terms necessary to secure vitally important inward investment in the sector."

He continued: "There has to be rational debate by politicians of all parties to balance meeting the higher standards required by the public on the one hand whilst on the other recognising that there needs to be a regulatory and policy framework consistent with encouraging inward investment. If we don't get that balance right, we risk heading back to a variant of the model we had in the 1980s and that would be wholly counterproductive to long term funding programmes. The Treasury will never give sufficient priority to fully funding the capital costs of providing modern water and sewage treatment systems during annual spending rounds. History has shown they never have. We need consistent, predictable, light touch regulation securing competitive long term access to the capital markets."

Environment and investment

Lord Moynihan went on to speculate how to avoid that fate, given the hundreds of billions of pounds that need to be invested to modernise our water infrastructure. "We need to be far more constructive and imaginative about the financial structure and framework that is going to encourage liberal investment from the private sector to address the issues politicians and the public [want]." He said we might expect to see the government taking a greater role via PFIs or guarantees to stand behind some of the investment planned.

He expected the environment to emerge as a winner from the White Paper and subsequent legislation. "There's no question about that. There's a political will for focusing on the environment, and that will see quite significant changes when it comes to the legislation."

However, he was sceptical that creating the right financial framework would get equivalent attention. "That will be lost in the Commons. That will just be lost against much tougher regulation, much tougher accountability. There will be little attention focused on creating the right regulatory framework for long term investment. That might sound very pessimistic, but it is a personal prediction, because it is the nature of what's happening in Parliament."

He said the very large Labour majority has set a pattern over the past 18 months of Bills being "open five minutes" in the Commons, regardless of the hours spent improving them in the Lords.

Prioritise predictability

This political backdrop is highly relevant because stability and predictability are gold dust for attracting the sort of patient investment that is best for water. It was one of three core points raised by Economic Insight in its submission to the Cunliffe Commission (see box).

Speaking at the January meeting, Economic Insight co-founder and director Sam Williams gave a mixed review of Cunliffe's recommendations. There were good points, he said, including support for rationalising regulatory duties, pursuing fewer outcomes and the end of totex – but there was no silver bullet on how to entice investment in, and no definition of what good asset maintenance or resilience look like. More widely, Williams found a "lack of cohesiveness" in the document – there was recognition of the need for more stability and predictability to bring in investment on one hand, but the endorsement of regulatory discretion and supervision on the other.

On the supervisory approach, he called himself "instinctively nervous". While there is a need to recognise company circumstances are different and the one-size-fits-all model has limitations, should supervisors start determining factors such as debt levels, targets or bonuses, that would be damaging. "That's not so much listening. That goes against the principles of predictability and stability, because the risk is decisions and interventions that are somewhat arbitrary may be made with a high degree of discretion." He added bluntly: "I wouldn't invest in a business that had a supervisor. If my company had to have a supervisor, I would resign."

For Williams, policy now needs to nail the predictability v discretion tension "firmly on the side of predictability". Investors don't have to invest in UK water, and if you want custodial investors "you need to honour the basis on which they have placed their bet".

The single biggest change he would like to see is "fettering the discretion of the regulator". He said even if culture change at the political level is out of reach as Lord Moynihan argued, "that doesn't necessarily preclude you from achieving that change at the regulatory level – it perhaps makes that change even more important". Williams concluded: "I'm an optimist, and think it's better to attempt to constrain that discretion than to assume that it's impossible". TWR

ECONOMIC INSIGHT'S ADVICE TO THE CUNLIFFE COMMISSION

Economic Insight argued the existing regulatory model should be replaced with one that delivers three core things:

1. A long term approach that ensures appropriate investment and asset maintenance

At present, there is no clear method for determining what the appropriate amount of spending should be, and it is hard to distinguish genuine cost efficiency from cuts or deferrals. Moreover, cost recovery flexibility allows long term underinvestment to be masked, and the siloed approach to costs and outcomes fails to reflect the trade-offs inherent in running a water business. There are incentives for companies to agree with the regulator, but insufficient incentives to tie key senior stakeholders in for the long term.

Solutions suggested:

- Tramlines for investment that must be funded within regulatory determinations and spent by companies - in recognition of the fact that determining the optimal amount of investment over the long-term is impossible.
- Abolish totex.
- Set minimum terms of appointment for senior industry stakeholders - more than one price control.

2. Consistency and predictability

The regulatory regime has been subject to ongoing updates at both the system and detailed methodology levels. This is damaging because investors need to assess overall risk and return over multiple price control periods and to trust regulators not to make policy changes that alter the risk reward balance after the event. These changes have proved costly for investment and some have delivered questionable benefits.

Suggested solutions:

- Set a high bar for reforms to the regulatory framework once the new model is established – consultation alone is insufficient as it "affords regulators unfettered discretion to make any changes they wish".
- Set hard limits on regulatory discretion – "for example, it should not be possible for regulators to continually revise efficiency benchmarks or the basis for setting outcomes target levels at each price control".

3. Simplicity

In 1989, the regulatory model was transparent and accessible, now it is opaque and complicated. Ofwat has increased in size and cost. Mechanisms are added without subtractions being made. Statutory duties have expanded.

Suggested solutions:

- Set a narrower focus – two things are important: ensuring appropriate long term investment is allowed for and occurs and, subject to that, incentivising performance around aggregate cost efficiency and overall outcome performance. This would logically reduce the number of individual incentive mechanisms in play.
- Rationalise the regulator's duties - in line with the privatisation position.
- Return to a smaller scale, more efficient regulator.