

POLICY THUMBNAIL

How To Save Water

Cleaner, cheaper water from a successful & respected industry



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THE PROBLEM

The water industry is distrusted & widely criticised for sewage in rivers (a longstanding problem where improved reporting has sharply changed public opinion); for taps running dry after bad weather; for imposing hosepipe bans while supply pipes leak; for foreign investors taking big dividends while demanding higher bills to fund investment; & for paying fat cat wages to failing company bosses. At the same time, industry regulators are criticised for weak, slow, expensive, carbon-intensive & intrusive mismanagement of the industry too.

THE SOLUTION

The Government intends to merge existing water regulators (the Drinking Water Inspectorate, the water-related parts of the Environment Agency, and the economic water regulator Ofwat) into a new 'super-regulator'. This new approach will need further, significant changes to prevent the same problems from

reappearing in future:

1. Simpler, more focused goals. The new regulator should have a ranked list, approved by Parliament, of no more than 4 outcome-based standards which it must achieve (eg yearly reductions in pollution levels; falling long-term costs of flood damage; resilient & safe drinking water supplies at all times; yearly reductions in red tape costs across all parts of the water cycle) at the lowest possible costs for customer bills.
2. An immediate, one-off 'regulatory reset' programme (with time-limited additional legal amendment powers if needed) to amend or remove old environmental & water regulations which have been replaced by Parliament's tough new outcome-based standards in [1] above.
3. Strong legal powers to spot and punish polluters who have breached the new standards, but an end to regulatory permissions which are required in advance, before new investments or developments are allowed to proceed in future.
4. Ending regulatory price-setting. The new regulator should introduce pro-competition interventions to make most of the water sector a normal industry (for example by allowing customers to choose which water supplier they want, rather than having to take whatever they're offered at present) where rival firms compete every day to improve efficiency, innovation and value for their customers.

Where competition is difficult (eg in the water & sewage pipe infrastructures, which are network monopolies) the regulator should auction the operating licenses every 5 or 10 years. Rival firms would bid for the right to supply high-quality water or sewerage services to customers using the network infrastructure in each area, and the one which promised the cheapest customer bills would win.

The bid contracts would include a small preset lease or rent payment for using the network infrastructure so current owners wouldn't lose out. The new license holders would be responsible for maintaining the equipment to deliver the regulator's quality standards as promised in their auction bids, and would earn ownership shares for any new infrastructure capacity they added. Any purchases or sales of infrastructure shares would be promptly & publicly reported so operators can take the true condition & value of each network into account

in any future auction bids, and so the regulator can adjust the preset auction equipment lease payments accordingly too.

Any firm that failed to deliver the standards or prices it had promised in its bid would lose their license which would be reaucted instead.

5. Stronger accountability. The regulator's performance in delivering its new goals should be assessed in a regular independent & public evaluation of whether & how well they have achieved them, including a one-word summary judgement of overall success or failure. If it gets a below-par evaluation, the sponsoring Minister will be required to publish a performance improvement plan within 3 months to fix the problem.

THE BENEFITS

- a) The ranked list of no more than 4 new Parliament-approved outcome-based goals will:
 - Improve democratic legitimacy and insulate regulators from charges of political decision-making, because their priorities will already have been decided.
 - Be short enough to ensure regulators can't pick and choose which goals to prioritise, so some of them don't happen.
 - Focus regulators on whether results have been delivered so customers see better services, rather than on expensive, box-ticking process compliance.
- b) The one-off 'regulatory reset' programme to update & reform old regulations will deliver Parliament's tough new environmental standards more cheaply, nimbly and efficiently than today, slashing the red tape costs which currently hobble the sector's performance by slowing everything down & inflating customer bills.
- c) The strong enforcement powers will focus regulators on checking whether Parliament's standards have been delivered once a project is complete, rather than trying to micro-manage the behaviour of farmers, water companies, housebuilders & other stakeholders through slow, expensive, uncertain, bureaucratic permitting processes in advance. This will create a new industry of green innovators racing to find faster, cheaper, more efficient ways of delivering the regulators' tough new quality standards, while cutting more costs off customer bills as well.
- d) Turning the water sector into a normal, competitive industry and replacing regulatory price-setting with auctioned licenses will cut costs and customer bills by replacing today's slow, expensive, complicated, bureaucratic negotiations between Ofwat and water firms with a quick, cheap, simple, future-proof process to discover who can deliver high-quality water at the best price in each area.
- e) A stronger and more effective accountability process will identify promptly, transparently and objectively whether the new super-regulator is performing well or badly, reducing the risk of today's problems returning in future.

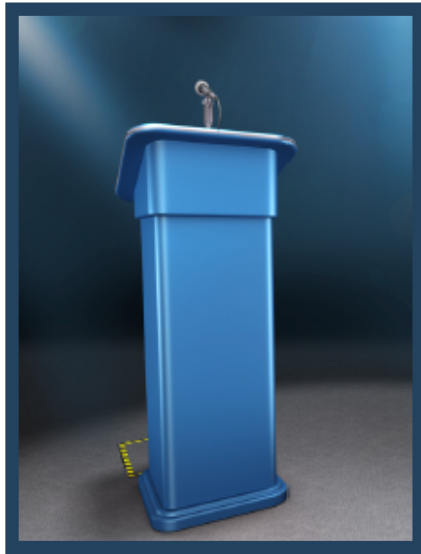


THE SOUNDBITES

"Even a brand-new water super-regulator could eventually get fat & make mistakes. That's why we need stronger accountability to keep a close eye on what they're doing & whether they're doing it well."

"Water regulators have to stop tangling people up in red tape. Let's free everyone to find faster, cheaper, better ways to deliver clean water, and hold them to account with tougher penalties if they don't."

"Making water a normal, competitive industry will axe today's slow, expensive bureaucracy by putting customers in charge and revealing who can deliver clean water and a better environment for the smallest



THE REBUTTALS

1. Why are you trashing environmental regulations like this? Isn't this just a way to let water companies get rich by carrying on polluting?

Far from it. The tough new environmental standards will be approved by Parliament to make sure they're strong enough, but they'll be much less expensive & bureaucratic to deliver so everyone's bills will be lower as well.

2. Why are the Tories putting customers at the mercy of water company rip-offs by abandoning price-setting?

Quite the opposite. Giving everyone the power to choose a different water supplier, instead of having to accept whatever we're offered from the only game in town, will mean big water companies can't take their customers for granted for the first time ever. And the threat of losing their operating licenses if they don't offer cheaper bills, or fail to deliver the tough new environmental standards, will mean water firms will have to work a lot harder than before.

3. Why aren't you addressing the real problem, that Tory privatisation has failed? Surely the answer is to get rid of the profit motive so water firms are run for everyone else's benefit instead?

Even the current Labour Government thinks nationalising water companies would be wrong. Politicians are usually awful at running long-term industries like water. Crucial investments get delayed for political reasons, and end up costing much more when they have to be put right in the end. Let's not put politics before people, and do what works best for the environment and bill payers instead. is safe to eat. But our approach won't dilute a single standard: it will just deliver them as cheaply, efficiently and unbureaucratically as possible.

4. Isn't this the Conservatives looking after their friends in business, by making it harder to hold failing fat-cat water company bosses to account?

Hardly. These proposals won't change any laws about holding company Directors to account for the decisions that they take, in the water industry or anywhere else.