

Final decision on disputed price controls for 5 water companies

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An independent group of experts appointed by the CMA has decided how much revenue 5 water companies are allowed following their rejection of Ofwat's decision.

- Group has allowed an expected average increase of 2.2% in customer bills, nearly half of which is due to market movements
- Some extra money also granted to improve services, tackle pollution and secure investment
- 83% of increases sought by water companies rejected – companies have been allowed less additional revenue than in the group's provisional ruling

Background

A price control sets the amount of revenue companies are allowed to recover through customer bills. In December 2024, Ofwat published the price control for each of the 16 regulated monopoly companies covering the period 2025 to 2030 – a decision it said would lead to average bill increases of £157 (36%) over the 5-year period.

Five companies – Anglian Water, Northumbrian Water, South East Water, Southern Water, and Wessex Water – argued that Ofwat's decision left them unable to meet the regulatory requirements set out for them. Each of these companies chose to exercise its legal right to request a “redetermination” of Ofwat's decision by an independent group of experts appointed by the Competition and Markets Authority (CMA). The disputing companies serve approximately 14 million people and have a combined annual revenue of around £5 billion.

This process has taken place during a period of extensive debate and proposals for fundamental change for the water sector and how it is regulated. The Independent Water Commission concluded that the sector “requires fundamental reform on all sides”. The UK government response stated that the current system is “failing the environment, customers and investors” and that it “will now act quickly, turning the page on a broken system with root and branch reform”.

However, the group was required by law to undertake the redeterminations under the current regulatory system, with more fundamental decisions about the water sector necessarily reserved for government. A maximum of 12 months was allowed for this complex process, compared to the 4 years in which Ofwat conducts its price control.

Final decision

Over the last 12 months, the group scrutinised extensive evidence from the 5 water companies, Ofwat, and over 50 third parties – including representatives of investors, environmental and consumer groups.

The group has balanced minimising the impact on people's bills with the need for companies to have enough funding. This includes funding to meet their environmental and drinking water quality legal obligations, and for investor returns to reflect the risks involved – so companies can raise the money to deliver better outcomes for current and future customers.

In October, the group provisionally decided to allow 21% – an additional £556 million in revenue – of the total £2.7 billion the 5 firms requested. This extra funding was expected to result in an average increase of 3% in bills for customers of the disputing companies.

Following a consultation period, the group has now decided to allow 17% – an additional £463 million in revenue – of the total £2.7 billion the 5 firms requested. The £93 million reduction from the amounts proposed in the provisional redetermination is largely driven by market movements impacting financing costs for water companies. This extra funding is expected to result in an average increase of 2.2% in bills for customers of the 5 water companies, which is in addition to the 24% increase for customers of these companies levied as part of Ofwat's price control.

Water companies' funding requests for new activities and projects beyond the significant increases already allowed by Ofwat have largely been rejected. Some exceptions were made where the group found that more spending was needed to deliver benefits to consumers.

A large proportion of additional revenue allowed by the group reflects the higher cost of financing which makes investment more costly to secure for water companies compared to Ofwat's price review. The funding will also enable the water companies to meet new legal requirements and fund the delivery of critical areas like supply resilience and pollution reduction.

The funding is tied to defined outputs and required levels of performance to protect consumers. Ofwat has rules in place to claw back funding from water companies which fail to deliver on projects, so customers are not left paying for upgrades that never happen.

Chair of the independent group Kirstin Baker said:

We've rejected most of the bill increases water companies asked for but allowed limited extra funding where that's genuinely needed, balancing concerns about affordability with the need to secure our water supplies and cut pollution. A significant part of this extra money reflects market movements since Ofwat's decision.

Indicative impact of the final redeterminations on annual customer bills using 2022 to 2023 inflation levels

Water company	Average water bills under Ofwat's price review for 2025 to 2030	Average water bills requested by the water company	Average water bills under CMA's final decision, including some changes made by Ofwat after its price review
Anglian Water	£591 (20% higher than bills for 2024 to 2025)	£649 (10% increase compared to Ofwat's decision)	£602 (2% increase compared to Ofwat's decision)
Northumbrian Water	£488 (16% higher than bills for 2024 to 2025)	£515 (6% increase compared to Ofwat's decision)	No change overall from Ofwat's decision

Water company	Average water bills under Ofwat's price review for 2025 to 2030	Average water bills requested by the water company	Average water bills under CMA's final decision, including some changes made by Ofwat after its price review
South East Water	£274 (18% higher than bills for 2024 to 2025)	£322 (18% increase compared to Ofwat's decision)	£284 (4% increase compared to Ofwat's decision)
Southern Water	£620 (48% higher than bills for 2024 to 2025)	£710 (15% increase compared to Ofwat's decision)	£641 (3% increase compared to Ofwat's decision)
Wessex Water	£594 (17% higher than bills for 2024 to 2025)	£642 (8% increase compared to Ofwat's decision)	£614 (3% increase compared to Ofwat's decision)

For more information, visit the CMA's case page.

Notes to editors:

1. The table contains forecasts of average water bills – actual bills will vary according to factors such as average customer water consumption and company performance. The prices aren't adjusted for inflation – they are based on the consumer prices index including owner occupiers' housing costs for 2022 to 2023. The underlying data and Ofwat modelling are based on data being presented using average prices for 2022 to 2023.
2. No change to Northumbrian Water allowances overall – the company has received less funding for day-to-day running costs, but more money to meet higher financing costs which offset one another. Additional funding for certain enhancement projects will be considered through other channels outside of the CMA's redetermination.
3. Water bills for South East Water do not include the cost of wastewater services as it is a water-only company.
4. The average water bill increases expected under the CMA's final decision include some changes made by Ofwat after its price review. Ofwat compared what water companies actually did in the final year of the last 5-year period with what it expected them to do and adjusted future revenue allowances. This is known as the "blind year reconciliation" process. Ofwat's changes have the biggest impact on Southern Water, where it has also approved further funding as part of the process, adding £6 to the average bill.
5. The CMA has today submitted its full determinations report to Ofwat as well as publishing the summary of its findings. There is now a formal process that Ofwat and Defra need to follow before the full report is published by the CMA on Ofwat's behalf. By law, this process will take a minimum of 2 weeks.
6. For media enquiries, please contact the CMA press office on 020 3738 6460 or press@cma.gov.uk.

<https://www.gov.uk/government/news/final-decision-on-disputed-price-controls-for-5-water-companies>