

# Independent Water Commission: Summary Report





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1. The Independent Water Commission has undertaken the most comprehensive review of the water sector since privatisation. Its aim is to provide recommendations for a fundamental 'reset' of the water sector. A reset is needed to restore public confidence in the sector and its regulation, to attract the investment needed to clean up the waterways of England and Wales, and to establish a framework that will meet the water demands of the future.
2. A successful reset of the water sector will have significant and long-term benefits, touching all sectors of society. To realise these benefits, we need to steer the water system to a future state that fundamentally differs from the status quo.
3. The starting point must be a clear vision of how the water system should contribute to the things people care about. This means, above all, that water is safe and plentiful for drinking. But it also means that water is safe for recreation, and a water environment that everyone can enjoy in which nature thrives. And it means a water system that is resilient to future pressures and challenges and supports economic growth and prosperity. Importantly, this must be a vision that is ambitious but achievable, in which communities have a stake, and in which people believe.
4. Consumers need to feel confident that their needs are reflected in the way in which water companies operate and are regulated. They need to know that the bills they are asked to pay will be used to meet those needs, now and for future generations. And they need to be heard when decisions are being made about where they live and remedied when they have legitimate complaints.
5. Investors need to feel confident that they can finance the infrastructure that is so important to the water sector and earn a fair return for the risk they take. And they need to believe that everyone is pulling in the same direction, to provide the conditions for the renewal and enhancement of the infrastructure that we must not avoid.
6. The environment must benefit from the actions of all those involved in the water sector – all, and not just the water industry. This needs to be underpinned by strong environmental standards and the will and wherewithal to meet them. But it also means having the flexibility to respond to emerging pressures and demands to guard against deterioration in the environment. And it means driving ambition across the water sector, attracting investment for the long term, and harnessing the innovation to improve it.

7. Achieving this will be no mean feat; no single change can deliver it. In this report, the Commission is making 88 recommendations addressed to the UK and Welsh governments and regulators. These are organised around 7 themes, where ambitious change is needed to deliver the 'reset' of the water sector we all deserve.

## Chapter 1: Strategic direction for the water system

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Recommendations in Chapter 1 of the report aim to drive a step change in government's strategic management of the water system. This is essential for ensuring the water system contributes to broader government objectives, including those for health, the environment, and economic growth.

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### 1.1: Government strategic direction

8. Strategic direction is vital to help the water system navigate the pressures and demands on it, and to drive the delivery of positive outcomes for consumers, growth, and the environment.
9. Pressures and demands on the water system are growing. A rising population and a drive to deliver economic growth mean there is greater demand to take water from the system and to discharge waste back.<sup>1</sup> People want safer water, including for more recreational use.<sup>2</sup> And there is growing public pressure for this vital part of the natural environment, our waterways and coasts, to be preserved and restored.<sup>3</sup>
10. The management of water must balance multiple policy objectives. Abstraction of water, for example, is vital for supporting economic growth through new housing and technology centres and, likewise, wastewater must be disposed of, but both can damage the environment. Water management must also operate across multiple sectors to balance pressures on the water system, including from rainwater, pollutants and run-off, and to drive more efficient use of our water.
11. The UK and Welsh governments currently provide direction to the water system through strategic documents and plans. The Commission has heard that these have fallen short in enabling an integrated approach to managing the water system. Stakeholders have pointed to a lack of focus on some sectors that impact the water sector, such as agriculture and transport.<sup>4</sup> They also question whether government's vision reflects the ambitions of the

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<sup>1</sup> Environment Agency, '[Current and future pressures on water resources, an overview: National Framework for Water Resources 2025](#)', 2025

<sup>2</sup> eNGO engagement with the Commission, 2025

<sup>3</sup> [River Action/Surfers Against Sewage joint response to the Call for Evidence](#), 2025

<sup>4</sup> Engagement with the Commission, 2025

public or is sufficiently long-term.<sup>5</sup> Where long-term targets have been set, the Commission understands a lack of interim milestones have resulted in backloading of delivery.<sup>6</sup> The Commission has further heard there is inadequate assessment of the costs and benefits of requirements that are included in strategic documents and plans, on the impact on water bills, as well as insufficient guidance on the trade-offs between priorities.<sup>7</sup>

12. The Commission believes that clear direction is needed from the top, direction from government on its expectations for the water sector. Only government has the system wide view of water required to set strategic direction and commands the democratic consent to make the decisions needed. Reflecting this view and the concerns it has heard, the Commission is making one overarching recommendation in relation to government strategic direction, with 7 elements government should consider.

**Recommendation 1: The UK and Welsh governments should each bring forward a new, long-term, cross-sectoral, and systems-focused National Water Strategy for England and Wales, respectively.**

13. Elements that government should consider are:
  - The Strategy should be broad in scope, communicating direction and targets across all aspects of the water system and for all sectors that interact with it.
  - The Strategy should set out a clear framework for how regulators should manage the trade-offs between priorities, including how to deliver the investment needed to meet environmental standards and future demands while keeping customer bills affordable.
  - The Strategy should be subject to formal public consultation.
  - The Strategy should have a minimum horizon of 25 years and set out measurable and concrete milestones on a 5/10/25 year basis. These should be reviewed every 5 years in line with the Price Review cycle for the water industry.
  - The Strategy should have a statutory underpinning with reporting requirements.
  - Government should develop and put in statute a set of high-level guiding principles they must consider when developing the Strategy.
  - The Strategy should be subject to a broad assessment of costs and benefits. This should assess the cumulative impact of direction and

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<sup>5</sup> United Utilities and Cyfoeth Naturiol Cymru National Resources Wales responses to the Call for Evidence, 2025

<sup>6</sup> Regulator and industry expert engagement with the Commission, 2025

<sup>7</sup> Engagement with the Commission, 2025

targets on, among other things, consumers, supply chains, and key sectors such as agriculture.

14. These elements aim to ensure the whole water system has a clear, long-term strategic direction with transparency about the priorities and the trade-offs that underpin it. Through consultation, it should reflect the public's ambition for the water system, while a statutory underpinning should support its longevity across future governments. Regular reviews and milestones should ensure it responds to changing pressures and demands and provides consumers and investors with confidence that their expectations are being met. Finally, through assessing the impact of the strategic direction on all those affected, it should broadly indicate to everyone the potential cost of meeting those expectations.

## 1.2: Setting direction for the water industry

15. Beneath government strategic direction, the regulators need guidance at a more detailed level to ensure the water industry delivers government's priorities. Currently, the UK and Welsh governments provide strategic direction indirectly to the water industry in the form of Strategic Policy Statements (SPSs). These set out priorities and objectives for Ofwat, the economic regulator for the water industry. The governments provide these ahead of each 5-yearly Price Review.
16. The Commission has heard there are severe limitations with SPSs. Stakeholders note that, by applying only to Ofwat and not all regulators, they fail to support regulators working together towards the same set of priorities. The Commission has also heard that SPSs fail adequately to support long-term targets or, equally, to respond to emerging priorities.<sup>8</sup> SPSs have further been criticised for providing targets against which it is difficult to measure progress and for lacking a clear hierarchy of priorities or guidance as to how the water industry should manage trade-offs.<sup>9</sup>
17. It is clear to the Commission that, sitting beneath the National Water Strategy, direction for the water industry needs to be clarified and strengthened, and that this should extend beyond economic regulation. Reflecting this, the Commission is recommending:

**Recommendation 2: The UK and Welsh governments should revise the legal framework for the Strategic Policy Statement and replace this with a new Ministerial Statement of Water Industry Priorities (MSWIP), directing all water industry regulatory and systems planner functions.**

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<sup>8</sup> United Utilities and Cyfoeth Naturiol Cymru National Resources Wales responses to the Call for Evidence, 2025

<sup>9</sup> Water company and regulator engagement with the Commission, 2025

18. The Commission considers that the MSWIP should be published every 5 years nested as part of the National Water Strategy review. It should have similar elements to the National Water Strategy, communicating specific targets and guidance to water industry regulators at the level of detail that the industry and industry regulators require.

## Chapter 2: Planning

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Recommendations in Chapter 2 of the report are designed to establish a simplified planning system for water and one that reflects the needs of local areas. Decisions on planning the improvement and management of regional water systems, our river basins, coast, and aquifers, should pull in the same strategic direction while reflecting regional and local priorities.

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19. Complex systems like our water systems need to be managed as a system. Planning at the water system level is necessary to connect national strategies to actions at the level of our water systems. It is needed to manage the actions of the wide range of actors who use and depend on the water system, each making decisions that affect the entire system and one another. And, where different actors are integral to the delivery of objectives for the water system, the interdependencies need to be recognised and managed, and each relevant actor needs to be driven to act.
20. Currently, the water industry undertakes the bulk of investment planning for the water systems in England and Wales. This is overseen at a granular level by the two environmental regulators – Environment Agency (EA) in England and Natural Resources Wales (NRW) in Wales. Water companies develop 9 separate plans, covering investment activities ranging from long-term water resources management, short-term environmental protection, and pollution incident reduction. Companies are also required to have regard to 18 other plans that are not led by the water industry, but which interact with it. These include flood risk planning, local growth and development plans, and local nature recovery strategies in England or the nature recovery action plan in Wales.<sup>10</sup>
21. Water company plans operate on a 5-year cycle. Most of their content is subject to scrutiny and agreement by the environmental regulators. These plans inform the comprehensive business plans Ofwat requires water companies to submit ahead of each 5-yearly Price Review and subsequent Asset Management Period (AMP). Some water company plans only focus on the next 5 years, while others have a 25-year timeline. River Basin Management Plans (RBMPs) for the water system have a 6-year cycle.

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<sup>10</sup> See Chapter 2 for further information

22. To develop their plans, water companies need to develop scenarios to inform them of what interventions are needed and on what timescale. In doing so, they need to use various assumptions, for example, about climate change, population growth, water demand, leakage, and storm overflows. Good planning practice further requires that an economic appraisal be made of investment plans, weighing the costs of delivering them against the benefits realised in terms of the objectives they relate to. Decisions on which options to choose are heavily influenced and often determined by the environmental regulators that issue the licences and permits that water companies require to operate.
23. This is an overly complex and unintelligible framework, costing the industry an estimated £250m each Price Review cycle, and it is plainly not working.<sup>11</sup>
24. The Commission has heard there is a 'missing middle.' This refers to a gap stakeholders have highlighted at the regional level. The Commission has heard that this has meant there is a lack of coordination between national and local needs and actions, particularly in relation to environmental planning.<sup>12</sup> Where regional planning frameworks do exist, for example through the RBMPs, stakeholders argue that these are not sufficient to ensure the necessary funding mechanisms are in place and action is taken, particularly from sectors outside the water industry.<sup>13</sup>
25. Stakeholders have also expressed concerns over the link between planning and the Price Review and AMPs. For example, they have highlighted that this 5-year cycle creates uncertainty over the longer-term and discourages investment in large-scale projects.<sup>14</sup> At the same time, they have noted that the system is too rigid to support changes in funding in response to emerging risks within AMPs.<sup>15</sup>
26. The Commission has further heard that water industry planning involves multiple parallel processes designed to meet diverse requirements, and these processes are over-complex and opaque. Stakeholders have also noted the intensive levels of engagement with regulators these processes require, and the burden placed on their resources.<sup>16</sup>
27. Finally, stakeholders have expressed concerns over the consistency and reliability of the plans. For example, they have noted that different assumptions are used by different plans, making it difficult to ensure consistency between them. The Commission has also heard that regulators

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<sup>11</sup> [Water UK Call for Evidence response](#), 2025

<sup>12</sup> The Rivers Trust, '[State of Our Rivers Report](#)', 2024

<sup>13</sup> [Water UK response to the Call for Evidence](#), 2025

<sup>14</sup> Investor and water industry engagement with the Commission, 2025

<sup>15</sup> Water company engagement with the Commission, 2025

<sup>16</sup> [Water UK response to the Call for Evidence](#), 2025



and planning bodies have a poor understanding of the value for money of interventions and, where costs and benefits are assessed, they are done so on an inconsistent basis.<sup>17</sup>

28. Having heard all these concerns, the Commission is making recommendations in 4 areas related to planning: systems planning, the 5-year planning cycle, streamlining water industry plans and an improved approach to economic appraisal.

### Systems planning

29. The Commission believes that more effective planning at the regional water system level is needed to deliver what people want where they live, within the broader strategic guidance from government. It is clear to the Commission that decision-making across the water system is fragmented – across both regions and sectors – and is failing to deliver much of what society demands and expects, including for the economy. Reflecting this view, the Commission is recommending a new approach to the planning and management of regional water systems.

**Recommendation 3: A comprehensive systems planning framework should be introduced for England and Wales with responsibility for integrated and holistic water system planning. In England, the systems planners should be regional – or ‘regional water authorities’. In Wales, the systems planner should be a national authority.**

30. The Commission recommends that system planning should be undertaken across the whole of Wales. This aligns with the Welsh Government’s centralised governance approach to water management. For England, the Commission recommends largely retaining existing River Basin Districts as the geographic scale of regional planning. This would ensure that the water system is managed according to hydrological boundaries. It would involve devolving from EA to new regional water authorities to develop water investment plans that reflect local needs and local voices. The Commission further recommends that, in England, a light national water systems planning coordination function should sit above the regional systems planners. This would ensure that regional plans add up to national targets and are of the appropriate standard. For Wales, the Commission recommends that system planning should be undertaken across the whole of Wales. This reflects the smaller geographical scale and aligns better with the Welsh Government’s centralised governance approach to water management.
31. Each planner should have a strategic board with an independent Chair, appointed by the Secretary of State in England and the Deputy First Minister

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<sup>17</sup> Frontier Economics, ‘[Reforming Water Sector Strategic Planning](#)’, 2025; Commission engagement with Environment Agency and Cyfoeth Naturiol Cymru Natural Resources Wales, 2025



in Wales. Recognising the increasing importance of local devolution, the Committee further recommends appointing a local government political leader as Deputy Chair. The rest of the strategic board should be composed of independent experts, representatives from local authorities and from other bodies who interact with the water system. In addition, the regulator would have an advisory role, to ensure that the objectives of the system planner align with legal requirements, and that the interventions it agrees would be eligible for permits and licences, where required.

32. Functions that the new regional system planners would perform include:

- **Planning** – to produce strategic, cross-sectoral plans, based on regional objectives. Plans should cover both the water environment and water supply and should deliver against requirements set by each government's National Water Strategy and MSWIPs. They should consider regional spatial development priorities, particularly those likely to significantly impact the water system, such as housing development. Plans should be aligned with flood planning. Below the regional planning levels, catchment partnerships should be reinforced and formally feed into regional planning decisions.
- **Funding** – to map funding sources for water available within the region and direct funding towards regional objectives. Planners should be given direction over water company enhancement investment and elements of capital maintenance expenditure. They would also have a formal role in the direction of other public funding streams, such as agricultural grants, where these are relevant to the water environment. Planners could further play a role in attracting private finance for investment projects at sufficient scale. At the local level, a small local levy could be applied to generate funding over which planners would have full discretion. Catchment partnerships might also help to leverage smaller scale private funding.
- **Setting water objectives** – to set objectives, decide what interventions are needed to meet objectives, apportion objectives and interventions to different sectors in line with the polluter pays principle. In support of this, National Water Strategies should assess gaps in the levers planners have to drive action in other sectors, particularly agriculture. Where gaps exist, these should be addressed.
- **Monitoring** – to monitor at a high-level the delivery of plans and assess whether progress is being made. The effectiveness of measures, taking account of costs and benefits, should be evaluated periodically.
- **Convening** – to provide a forum for regular engagement on water system issues. Existing catchment-based approaches should be

enhanced and integrated into the framework. Catchment funding should be increased.

33. By drawing these functions together under system planners, the recommendation aims to ensure that more responsibility for decisions made around water lies with the people, organisations, and the authorities with a stake in their local systems and that the impact of all the actors that affect the water system is managed. As part of this, the Commission envisages system planners acting as a single point of contact for consultations relating to water in their area. System planners would consider the needs of current and future generations in planning for the delivery of water system outcomes, including water quality and supply.
34. An important question is whether system planners should be freestanding or housed within the regulators. The Commission believes that, to derive the maximum benefits from this reform, system planners in England and Wales should be small, freestanding, independent committees with their own secretariats, drawing on the advice of the regulators but not part of them. This would involve the separation of regulation and water planning functions and would thereby create a clearer vision and mission for both the regulators and the systems planners. The Commission recognises, however, that it would be possible to house the system planning committee in a regulatory body, in which case there would need to be formal statutory arrangements to ensure the planner's independence. Similar structures exist in other public institutions.

#### The 5-year planning cycle

35. The Commission believes that the 5-year cycle for the water industry is broadly appropriate for setting customer bills through the Price Review process. However, given the scale and nature of investment in water, planning for water needs a longer timeframe to facilitate projects designed to deliver over the long term. The Commission has therefore determined there is a need to move away from the concept of an AMP as a rigid 5-year delivery window, bounded by Price Review. Reflecting this view, it is recommending:

**Recommendation 4: The 5-year Price Review cycle should be retained, in England and in Wales, for setting water bills and company revenues over a 5-year period. But water industry investment planning should be conducted on a 5/10/25 year basis, with greater certainty and granularity for the first 5 years, more indicative plans for the following 5 years, and higher-level indication for the longer-term.**

36. This model for water industry investment planning would also enable the planning of projects that straddle AMP boundaries and would address

funding requirements over the full lifecycle of those projects. It would give a long-term picture to investment needs.

37. Overall, this model for water industry planning would provide investors with greater certainty over future returns. And it would provide companies, regulators and governments with greater assurance that the new and upgraded infrastructure needed to meet their objectives will be delivered.

#### Streamlining water industry plans

38. The Commission believes that water industry plans need to be more focused and processes more efficient. In its view, there is considerable scope for rationalising the existing framework. It is therefore recommending.

**Recommendation 5: Water industry planning should be rationalised down from 9 plans into 2 core planning frameworks – ‘Water Environment’ and ‘Water Supply.’ This applies to England and Wales.**

39. The 2 reformed core water industry planning frameworks should broadly cover the 2 water systems – the wastewater systems and the water supply systems — and can be used by the system planner to plan non-water company actions. Where issues do not fit neatly into one plan, the 2 frameworks will need to be interoperable, and assurance will be needed that they add up to a coherent whole. This will nevertheless enable a far more efficient planning process, including potentially taking a cross-sector view of funding requirements.

#### Improved approach to economic appraisal

40. The Commission believes that better and more consistent methods are needed to make reliable decisions. Consistent assumptions and scenarios could significantly enhance the transparency of plans and allow proper benchmarking, thereby improving the consistency and reliability of planning across sectors. An improved approach to economic appraisal, meanwhile, would ensure a better understanding of the value for money of different projects, and provide a valuable metric for choosing between alternatives. Reflecting this view, the Commission is recommending 2 additional measures to support planning in the water sector.

**Recommendation 6: The national coordinator of the systems planner in England, and the national systems planner in Wales, should take on responsibility for ensuring consistency in scenarios, assumptions, and metrics for water industry planning across the new planning framework.**

**Recommendation 7: The systems planner, with the support of the economic regulator, should require, support, and scrutinise a strengthened approach to option development and cost-benefit analysis across water industry planning frameworks. This applies to England and Wales.**



## Chapter 3: Legislative framework

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Recommendations in **Chapter 3** of the report are designed to deliver a robust set of legal requirements for water that reflects the public's priorities. An ambitious new, overarching target should drive improvements for the environment and public health, while a clearer legal framework should enable the regulators to better hold companies and sectors to account.

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### 3.1: Legislative framework and targets

41. A strong legislative framework, along with appropriate targets, is essential to ensure that the management of water meets the requirements expected by society as they evolve.
42. The current legislative and regulatory framework has developed in stages over an extended period. Successive governments have introduced statutory requirements, duties, and powers, in relation to water companies, the water regulators and governments. The Commission has identified over 100 pieces of legislation that affect water in England and Wales. Many of these set targets for the water sector.
43. The Commission has heard that this has led to a legislative framework that is overly complex, difficult to navigate, and lacks clarity and focus on key priorities and outcomes. Stakeholders have also highlighted that some of the legislation is outdated, not accurately reflecting the latest scientific and technological understanding, or the updated priorities of the public.<sup>18</sup> And while many stakeholders support the general ambition level of statutory targets, some point to misalignment and inconsistencies between them, and between non-statutory targets.<sup>19</sup> Others refer to gaps in the current target framework, for example, in relation to public health and the recreational use of water.<sup>20</sup>
44. The Commission recognises the role that ambitious standards in legislation have played in driving improvement of the environment. However, in line with the Corry Review's conclusions about the broader Defra regulatory landscape, it believes there is a disconnect between the regulations being applied and the outcomes being sought. This needs to be rectified, through a process whereby inconsistencies and redundancies are addressed, and ambiguities clarified. The Commission is therefore recommending:

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<sup>18</sup> [Campaign for National Parks response to the Call for Evidence](#), 2025

<sup>19</sup> [Office for Environmental Protection response to the Call for Evidence](#), 2025

<sup>20</sup> Public health expert engagement with the Commission; Cyfoeth Naturiol Cymru Natural Resources Wales response to the Call for Evidence, 2025; [Campaign for National Parks response to the Call for Evidence](#), 2025

**Recommendation 8: The UK and Welsh governments should review the current water legislative framework and amend it accordingly.**

45. This would be a major exercise requiring public consultation and considerable scientific and technical expertise. It is not a task for the Commission. Instead, the Commission is outlining parameters for the exercise to be considered:
- **Priorities:** there are two clear priority areas for review. First, the Urban Wastewater Treatment (England and Wales) Regulations 1994 (UWWTR), directed at urban sewage treatment works. Second, the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017 (WFD Regulations), which creates a framework for managing the chemical and ecological quality of the water system.
  - **Objectives:** the review should be underpinned by the objectives of improving consistency, coherence, and making the legislative framework easier to navigate. It should not reduce protections or ambitions but should ensure the framework has a greater focus on outcomes and gives regulators greater ‘constrained discretion’ in how those outcomes should be achieved.
  - **Statutory targets:** the exercise should include a review of statutory targets to inform the new National Water Strategy. This is necessary to ensure that intended outcomes align across legislative requirements, statutory targets, and objectives set through a National Water Strategy. As part of this review, government should consider the costs and benefits of any changes to statutory targets. In doing so, it should consider which high-level objectives may particularly benefit from the additional backing for investment and long-term certainty across political cycles that statutory targets should provide.
46. In making this Recommendation, the Commission’s intention is to make the legislative framework simpler for regulators and others to understand how to comply with their respective obligations. This is essential for the government’s ambitions for customers and for the environment to be met. For Wales, where water is a devolved matter, the Commission further recognises the need for the legislative framework to better align with the Welsh government’s ambitions for long-term collaborative approaches to sustainability, as set out in the Well-Being of Future Generations (Wales) Act 2015.

### 3.2: Wastewater and drainage

47. The framework for wastewater and drainage consists of 6 pieces of legislation including the UWWTR 1994. Key targets relate to reductions in storm overflow discharges and treatment of wastewater to remove harmful nutrients.
48. In recent years, the issue of storm overflows has attracted significant criticism.<sup>21</sup> These allow untreated sewage discharges into the UK's waterways, raising concerns from the public as to the impact on the environment as well as the health risks for swimmers and other recreational water users. Public calls for action are also growing regarding certain chemicals and microplastics that are emerging in wastewater and the wider environment.<sup>22</sup> These emerging pollutants are particularly concerning because they are difficult to remove with conventional wastewater treatment methods, they persist in the environment and have potential health impacts.<sup>23</sup>
49. The Commission has heard a range of views as to the adequacy of the legislative framework for wastewater and drainage to address these and other concerns.
50. Consistent with the overall legislative framework, the Commission has heard the framework for wastewater and drainage is too complex. Stakeholders have highlighted that a key driver of this complexity is the misalignment between statutory requirements, guidance, and other elements of the regulatory framework. For example, water companies in England are subject to 2 regimes for storm overflows: legal duties under UWWTR 1994 and non-statutory requirements under the Storm Overflows Discharge Reduction Plan (SODRP). This has resulted in a lack of clarity about the overall intended outcomes.<sup>24</sup>
51. The Commission has also heard concerns around growing pressures on the capacity of sewers and the lack of statutory requirements to address those pressures.<sup>25</sup> Due to climate change and urban creep, more rainwater is entering the sewerage system, thereby reducing its capacity. In turn, this contributes to increased risk of surface water floods and storm overflow discharges. In the absence of statutory requirements, there is a lack of ownership and coordination – across water companies, local authorities,

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<sup>21</sup> Environment Agency, '[Storm overflow spill data shows performance is totally unacceptable](#)', 2023

<sup>22</sup> Saeed S. Albaser and others, '[Microplastics in water resources: Global pollution circle, possible technological solutions, legislations, and future horizon](#)', 2024

<sup>23</sup> J Loughran for Engineering and Technology, '[Microplastics evade wastewater treatment, raising health and environmental concerns](#)', 2025

<sup>24</sup> Water company engagement with the Commission, 2025

<sup>25</sup> Engagement with the Commission, 2025



property developers, highway authorities and regulators – to manage these risks.

52. Stakeholders have also pointed to the inconsistent use of Sustainable Drainage Systems (SuDS) in new housing developments.<sup>26</sup> These systems are designed to reduce the impact of rainfall on the sewerage network through features such as soakaways and grassed areas and, where used, have proven to be highly effective. However, there is no legislative requirement requiring SuDS in force in England. This allows new developments to add disproportionate pressure to sewerage systems.
53. Finally, the Commission has heard that consumer activity, such as the flushing of wet wipes, sanitary products and the pouring of fats and oils down the sink, continues to add significant pressures to the capacity of sewers.<sup>27</sup> This can also be extremely harmful to the environment.
54. Reflecting these concerns, the Commission is making two recommendations in relation to the legislative framework for wastewater and drainage.

**Recommendation 9: The UK and Welsh governments should update and reform the UWWTR 1994 to deliver better outcomes and a more sustainable approach to drainage and wastewater management. This should involve reporting on whether an Extended Producer Responsibility scheme is needed for the water sector to fund necessary improvements.**

55. As part of this update and reform, the Commission believes government should look at how UWWTR 1994 can better align with the SODRP in England and the Welsh storm overflows strategy. There should also be a clearer framework to support regulators in approving more innovative and nature-based solutions. Given growing evidence on the impact of emerging pollutants, an update and reform of UWWTR 1994 should further consider the need for stricter treatment requirements, and whether these could be funded through an Extended Producer Responsibility scheme. To inform this update and reform, the UK and Welsh governments should invest in further research on the impact of emerging pollutants on environmental and human health.

**Recommendation 10: Government should consider legislative changes to drive a more coherent approach to 'pre-pipe' solutions to stop pollutants and rainwater entering the system.**

56. A greater focus on rainwater entering the system would require strong partnership between the different bodies responsible, to support a systematic approach. The UK government could consider amending the statutory roles

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<sup>26</sup> Water APPG response to the Call for Evidence, 2025

<sup>27</sup> Water UK, '[Fighting fatbergs](#)' (viewed 20 July 2025)

and responsibilities of these groups in England, to legally require them to consider sustainable drainage. Targeted financial incentives to deliver more pre-pipe solutions could also be considered.

57. SuDs in new developments in England should be a mandatory requirement and should be built and maintained to a consistent standard. Alongside future developments, consideration should be given to retrofitting SuDs in existing properties, both commercial and residential, and in public spaces.
58. The UK government has committed to ban wet wipes containing plastic and legislation to do so has already been passed by the Senedd in Wales. Given the impact on the environment of all wet wipes and other 'unflushables,' the Commission believes the government should legislate swiftly in line with its commitment. Further work is also needed, including on campaigns to change consumer behaviour.

### 3.3: The Water Framework Directive

59. In England and Wales, the WFD Regulations provide the overarching statutory framework for the water environment. Under these Regulations, large surface waters (rivers, lakes, estuaries, and coastal waters) and groundwaters are divided into distinct 'water bodies.'
60. For surface water bodies, the WFD Regulations set a requirement to achieve two objectives: Good Ecological Status (GES) and Good Chemical Status (GCS). It requires governments to aim to achieve GES for all surface water bodies by 2027. The status of water bodies is classified by the environmental regulators every 6 years. The classification is based on two lines of evidence – ecological and chemical – across a range of different elements necessary for sustaining aquatic wildlife. The system used has a 'one out, all out' rule, whereby a water body only achieves 'good' status if all elements are 'good.'
61. Given current rates of progress, the 2027 objectives will be missed. The Commission has heard that this lack of progress can be attributed to poor implementation of the WFD Regulations. Objectives are set out in RBMPs, which also contain a summary of the 'programme of measures' to achieve those objectives. Stakeholders have highlighted a failure to ensure that these measures are specific, time-bound, and adequately funded.<sup>28</sup>
62. The Commission has also heard that the classification approach used to determine whether water bodies have achieved 'good' status masks whether progress has been made. For example, stakeholders point to the 'one out, all

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<sup>28</sup> [Office for Environmental Protection response to the Call for Evidence](#), 2025

out' rule, which makes it difficult to understand where interventions have led to improvements on specific elements targeted by water bodies.<sup>29</sup>

63. More broadly, the Commission has heard that the public health risks associated with poor water quality are not being effectively managed within the current framework. This only considers pathogens in water bodies that are designated as bathing or shellfish waters. Moreover, not all emerging threats are included in the chemicals required to be assessed by the WFD Regulations. The Commission has heard that this generates health risks for recreational water users interacting with waters outside of designating bathing waters.<sup>30</sup>
64. The Commission believes that reform is needed both to the WFD framework and how it is implemented. The establishment of interim targets and the introduction of water systems planners will be key to ensuring that the failure to meet its objectives is not repeated. But the Commission believes there is also a need to revisit the fundamentals of the WFD Regulations to ensure they are fit for the future. They should be updated to reflect advances in scientific understanding, be made more efficient, and better aligned with public and environmental expectations. Importantly, there should be no watering down of ambition. Reflecting this view, the Commission is recommending:

**Recommendation 11: The UK and Welsh governments should consult on reforms to the WFD Regulations, including broadening the scope to include public health outcomes.**

65. Reform to the WFD Regulations will require a robust, government-led assessment of costs and benefits before any future framework can be implemented. This will need to recognise that the level of ambition and improvements in delivery across sectors will likely feed through to the whole of society – whether through increased water bills to fund new activity by the water industry, or increased prices of goods and services to pay for new requirements placed on other sectors, such as the food and pharmaceuticals industries. The future framework will need to be affordable through time, provide value for money, and be straightforward to navigate and implement.
66. Review of the WFD Regulations should take place as part of the review the Commission has recommended for the broader legislative framework. Reforms will require consultation and will be the responsibility of government. The Commission is, however, setting out 3 objectives it believes should guide the review and reforms:

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<sup>29</sup> NGO engagement with the Commission, 2025; Natural Resources Wales, Thames Water, Wessex Water, Yorkshire Water and Dwr Cymru Welsh Water responses to the Call for Evidence, 2025

<sup>30</sup> Public health expert engagement with the Commission, 2025



- A new long-term, legally binding target for the water environment should be established.
  - The classification system should be reviewed.
  - The scope should be broadened to cover new priorities.
67. The current GES objective expires in 2027. At a minimum, it therefore needs to be updated. But the Commission believes a new target for the water environment needs to go much further – to provide certainty and direction for future investment, and to drive progress through delivery across all sectors. It should be supported by measurable short-term targets, and clear and binding regional and sector-specific objectives set by water system planners.
68. The Commission believes that a review of the classification system should consider how progress towards a new target should be better recognised. An approach that provides greater transparency over improvements or deterioration of water bodies is needed to highlight where interventions should be focused. Enabling regional system planners to determine priorities for specific elements within the overall classification would further ensure continuous improvement towards the long-term target.
69. In relation to scope, the Commission believes there is a strong case for the inclusion of outcomes for public health and amenity value in certain water bodies, alongside ecological and chemical quality. This would recognise the importance and growth in the recreational use of water in England and Wales and associated public health risks.<sup>31</sup> This would not mean that all water bodies are necessarily given the same protection as designated bathing waters, which could be highly costly. Instead, certain water bodies might require stronger outcomes depending on how people are using the waterway, such as for recreation or aesthetic value. To inform how this could be achieved, the Commission is recommending:

**Recommendation 12: To facilitate a robust assessment of how public health can be effectively incorporated into a new water framework, the UK and Welsh governments should establish taskforces led by the Chief Medical Officers of England and Wales to review the incorporation of public health better into the legislative framework for water.**

70. Government should also consider legal mechanisms to ensure the ongoing surveillance and assessment of emerging pollutants in the water environment. This is important for understanding the risk new substances entering the waterways pose both to the environment and public health. Government should further consider opportunities to support progress towards biodiversity targets. This may include a review into whether relevant

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<sup>31</sup> Clean Water Sport Alliance (CWSA) engagement with the Commission, 2025

small water bodies, which are currently not included, should be in scope for a future framework.

### 3.4: Monitoring the water environment

71. Monitoring of the water environment is a key component of the WFD Regulations. It is essential for ensuring regulators are accountable for the state of the environment and for providing transparency around progress towards targets. It informs regulatory activities such as permitting. The classifications dependent on monitoring further influence decisions around interventions needed to meet environmental objectives.
72. The approach to monitoring in the WFD Regulations sets intensive requirements on the environmental regulators. It requires that all individual elements in all water bodies must be monitored.
73. The Commission has heard that resource constraints have led to reductions in the monitoring of water bodies. This can lead to monitoring gaps that older data is used to fill. As a result, the classification under the WFD Regulations may not provide a true and up-to-date reflection of the state of the water environment.<sup>32</sup>
74. The Commission believes that a comprehensive monitoring regime, which covers the whole water environment and the range of pollutants and pressures acting upon it, is necessary. Such a regime would enable progress towards water quality targets to be tracked. It would also better inform decisions around interventions designed to reduce pollution and evaluate their effectiveness. Reflecting a similar conclusion arrived at by the Corry Review, the Commission is therefore recommending:

**Recommendation 13: Future water monitoring programmes should be reviewed and adequately resourced, to accurately reflect the state of the environment.**

75. In the Commission's view, the current requirements for monitoring are too resource intensive. Government should review the monitoring framework with resource efficiency in mind. Recognising constraints in grant-in-aid, it should also review the application of the polluter pays principle to funding monitoring programmes. Given the importance of monitoring to track progress towards future targets, this review should occur alongside reform of the WFD Regulations.

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<sup>32</sup> Angling Trust response to the Call for Evidence, 2025

### 3.5: Constrained discretion

76. Constrained discretion refers to a framework whereby, within a set of constraints or guardrails, regulators have discretion to determine how best to deliver outcomes. In the water sector, the regulators currently have varying levels of discretion.
77. Legislation varies in its level of prescriptiveness. For example, the WFD Regulations place a duty on the EA to secure compliance with the GES objective by 2027. This duty, and the risk of legal challenge if it is not complied with, limits EA's scope to exercise discretion – for example, to exclude a new reservoir from disproportionate requirements that could make its construction infeasible and lead to options with a worse impact on the environment overall being progressed instead. Conversely, the Environmental Permitting (England and Wales) Regulations 2016 enable regulators to exercise some discretion by, for example, issuing bespoke permits where appropriate and varying the permits when necessary.
78. In Wales, a broad level of regulatory discretion exists to support delivery of the sustainable development principle and well-being goals established by the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016. NRW can use the sustainable development principles and well-being goals to justify the flexible exercise of its discretion. However, it is not always possible for NRW to interpret very specific regulatory obligations more broadly. Environmental stakeholders in Wales have still argued for greater flexibility to support the deployment of nature-based solutions.
79. The Commission has heard that, in parts, the legislative framework for water is too inflexible with insufficient scope for discretion. Moreover, this may have prevented the delivery of cost-effective solutions and limited innovation.<sup>33</sup> Where tools for constrained discretion do exist, the Commission has further heard they may not have been used due to a culture of risk aversion within regulators. For example, the Corry Review (2025) highlighted that Defra regulators focus 'too much on 'micro' site specific outcomes rather than meaningful 'macro' outcomes.'<sup>34</sup> The Commission has also heard that the regulators need clear guidance on priorities from government to exercise discretion effectively.
80. The Commission agrees that the current legislative framework is overly prescriptive and that a more robust framework for constrained discretion is needed. It believes that this needs to be addressed at the statutory level. In the Commission's view, this approach should support greater innovation, a

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<sup>33</sup> Water UK response to the Call for Evidence, 2025

<sup>34</sup> Defra, '[An independent review of Defra's regulatory landscape](#)', 2025



more considered approach to wider environmental and other benefits, and an unblocking of opportunities for growth.

81. The Commission is making two separate recommendations for England and Wales. This recognises differences in the legislative context.

**Recommendation 14: In England, the review of the legislative framework should take forward the concept of ‘constrained discretion’ for the regulator. This should also apply to the water systems planners, should they sit in an independent body.**

**Recommendation 15: In Wales, a strengthened constrained discretion framework should build on the discretion already enabled by the sustainable development principle within the Well-being of Future Generations Act.**

82. Developing a constrained discretion framework for England would require legislative reform. As the Corry Review recognises, any constrained discretion must be “within the law”, and any flexibility must be built into the legal regime. As with the broader review and rationalisation of the legislative framework, this would require further consideration, including scientific and technical expertise. However, the Commission has identified three key elements:

- First, the UK government could provide, in primary legislation, a set of principles that the regulator could refer to when making regulatory decisions. Principles could include ‘thinking for the long term’ and ‘delivering co-benefits for nature.’ In Wales, this basis for a framework for discretion is already enabled by the sustainable development principle within the Well-being of Future Generations Act.
- Second, government should reform legislation to make it less prescriptive about how outcomes should be achieved. This should be a core objective of a legislative review exercise. It should provide greater discretion for the water regulator to take the principles into account. In Wales, this exercise should enable the existing framework to go further.
- Third, government should set criteria, when reviewing legislation, allowing the regulator to apply exceptions or different requirements in regulations where necessary to allow for discretion, while avoiding undermining long-term objectives.

83. Importantly, a constrained discretion framework would need to be accompanied by restrictions as well as principles for when it can be deployed. It should not, for example, be a means of weakening long-term legal environmental requirements or of reducing consumer protections. Its use must be transparent and accountable. Equally, constraints could be applied so that discretion cannot be used to take short-term actions at the expense of future generations. Regulatory intelligence could also be used to

inform whether there should be constraints in the context of a particular company.

## Chapter 4: Regulator reform

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Recommendations in Chapter 4 of the report are designed to restore the confidence of both the public and regulated water companies in the regulatory framework. It is essential for the 'reset' of the system that there is confidence that the regulators can and will discharge their duties effectively and deliver positive outcomes that the water system regulation is designed to achieve.

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84. Privatisation of the water industry in 1989 was accompanied by the establishment of a new regulatory model. Three core regulators were established to oversee the newly privatised water companies:
- The economic regulator – Ofwat
  - The environmental regulators – the National Rivers Authority, since replaced by the EA in England; and NRW in Wales
  - The drinking water regulator – the Drinking Water Inspectorate (DWI)
85. In addition, Natural England (NE) acts as the UK's government advisor on nature, while the Consumer Council for Water (CCW) represents consumers of water and sewerage services in England and Wales.
86. The Commission has heard consistently and from a wide range of stakeholders, which includes the regulators themselves, that trust in the regulatory framework for water has been eroded.<sup>35</sup> In response to a question in the Call for Evidence, 93% of respondents rated the performance of the regulatory framework as poor or very poor. The Commission is clear that the pressures and expectations on the water system in England and in Wales mean there is a need for a much stronger and more efficient regulatory framework – one that can respond both to existing challenges and to new ones that may arise and that inspires confidence in both the public and those being regulated.
87. The Commission's Terms of Reference asked it to make recommendations to 'ensure water industry regulators are effective, have a clear purpose and are empowered to hold water companies to account' and to 'deliver an ambitious, long-term approach to resetting the water sector.' These have been the Commission's guiding principles in considering reforms to the regulatory framework for water in England and Wales.

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<sup>35</sup> Water company and eNGO engagement with the Commission, 2025

88. The Commission has reached its conclusion by reflecting on the challenges it has heard with the existing regulatory framework. The existing model of multiple regulators makes it difficult for the regulatory system to come to a clear, overall view of a water company's performance and the challenges it faces. Enforcement action in some areas has been described as duplicative. Elsewhere, there are gaps in the oversight of asset health and monitoring water infrastructure delivery. And there is an inherent complexity in the regulatory treatment of costs and revenues.<sup>36</sup> The EA, NRW and the DWI set the requirements that determine much of water company costs, while Ofwat subsequently determines the revenues companies can receive from water bills to cover those costs. This can and does generate tension and lead to sub-optimal outcomes.
89. Reform must address these issues. It must rebuild public trust. It must correct overlaps and fill gaps in regulatory oversight to offer a whole-firm view of performance. It must clarify and streamline regulatory processes and duties to reduce unnecessary burden. Regulators must be able to work in an integrated way to drive the long-term outcomes that are necessary for the sector.
90. The Commission has engaged extensively with stakeholders, including regulators, on options for reform. It has considered options spanning from full integration of the regulators in England and in Wales through partial mergers, to mechanisms that would generate more integrated regulatory assessment and outcomes through enhanced cooperation, maintaining existing regulatory bodies.
91. The Commission has concluded that, in light of the demands upon the water system and the pressures it faces, it would be best overseen by a single new regulator. Recognising differences in the regulatory context, it is making two separate recommendations for England and Wales.

**Recommendation 16: The UK government should establish a new integrated regulator in England. This should combine the functions of Ofwat, DWI, and water functions from the Environment Agency and Natural England.**

92. Under this recommendation, teams from Ofwat, DWI, EA and NE would be brought together into one integrated organisation under single board regulation. This would include all water teams, not only those for the water industry. The integrated regulatory team would direct regulatory policy and strategy for the water system, including permitting, compliance and performance. Integrated teams would carry out the supervision of water companies. The regulator would also be responsible for national water

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<sup>36</sup> Water company and eNGO engagement with the Commission, 2025



planning or, if an independent systems planner is established, for advising on the delivery of regional systems plans.

93. Teams performing operational flood functions and wider environmental regulatory functions, such as for waste, would remain in the EA. Natural England would also continue to manage and oversee nature regulation and management of protected sites more broadly.
94. In terms of implementation, the Commission believes:
- A new regulator would need to be led by a Board with the seniority and capacity to drive a new culture, and with the necessary expertise – including engineering, finance, and environmental science. This is essential to commanding the respect of the public, government, investors, the water industry, and to oversee the creation of the new organisation.
  - The economic regulatory function must maintain its current level of independence from government. This is essential to ensuring the objectivity and stability of regulation that long-term investors in the water system require is delivered. The drinking water function of a new regulator must also maintain independence, to protect drinking water standards and public health. The Drinking Water Chief Inspector should be given a formal role on the Board of the regulator.
  - A new regulator should ensure strong restrictions on new appointments and exits are in place. These restrictions should be grounded in an aim of preventing regulatory capture.
  - A new regulator will require from government a clear set of objectives to guide its work and set a clear vision and mission for the new organisation. New integrated objectives should bring together environmental and consumer protections with duties to ensure the regulator supports the attractiveness of the sector to investors, long-term infrastructure resilience and sustainability of the water system in England.

**Recommendation 17: The Welsh government should establish a new economic regulatory function in Wales that can align directly with the Welsh Government's strategic direction and guidance. The Commission's view is that the better course, subject to consultation, would be to embed this into NRW alongside the wider regulatory functions for water in Wales, though a small freestanding body, as in Scotland, might also be considered.**

95. The public policy objectives relating to water are devolved and regulation needs to be better tailored to a Welsh context. The Commission's view is that it can be difficult for Ofwat, an organisation operating within two differing

policy regimes (with one nation being much smaller) to adequately prioritise the needs of both regimes. Furthermore, the strategic needs in Wales are different to those of England. For example, Wales has considerably lower population density compared to England and a much higher proportion of its land is used for agriculture. Wales also has only two water companies, and as set out in Chapter 1, its water bodies face a different range of pressures to those in England.

96. Implementing this recommendation may require the UK government ensures the Welsh Minister and the Senedd have the appropriate powers to establish a Welsh economic regulator. The Commission recognises that economic regulatory expertise for the water industry does not currently exist in the Welsh system. Access to adequate expertise would therefore also need to be assured. The economic regulator for England should continue to provide for the Welsh sector until such time as a body is ready to take on these duties, to ensure stability for the sector.
97. In this model, drinking water regulation for Wales would continue to be provided on an England and Wales basis, despite sitting within the English regulator. The Commission believes this is appropriate because drinking water regulation is not subject to political involvement in the same way as environmental regulation and therefore does not differ significantly from England to Wales.

## Chapter 5: Regulation reform

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Recommendations in Chapter 5 of the report are designed to make significant improvements to regulation of the water sector in England and Wales. These changes are essential to ensure that lessons from the past are being learned, risks to the water environment are being adequately monitored, and pressures on water supply are being effectively managed.

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### 5.1: Economic regulation

98. Economic regulation for the water industry is needed to protect consumers from the misuse of monopoly powers, such as high costs and poor service.
99. The key process through which Ofwat regulates is the Price Review. This sets the revenues companies receive, and the bills customers pay, by setting allowances for the amount companies spend over a 5-year period. These allowances are primarily driven by historical data and industry benchmarks, as well as market-based estimates of the cost of financing through both equity and debt. The process is also used to set performance incentives for companies, which influence the amount of returns available to investors

through penalties and rewards. The Price Review is given force through inclusion in company licences.

100. Company licences are Ofwat's main legal tool for setting requirements. If a company contravenes, or is likely to contravene, its licence conditions, Ofwat has a duty to issue an enforcement order (except in certain circumstances) and a power to impose fines. Ofwat also has a rule-making power, which mainly relates to remuneration prohibition, the fitness and propriety of companies' senior managers, their governance, and involving consumers in their decisions. Ofwat can further issue guidance, which it expects companies to follow.
101. The Commission has heard 2 headline issues in relation to Ofwat's approach to regulation:
- The nature of the relationship between Ofwat and the water industry has variously been described as too desk-based, overly burdensome, overly adversarial and unpredictable, and too 'transactional' without exposing the real issues.<sup>37</sup> This is exacerbated by Ofwat's use of a Quality and Ambition Assessment (QAA), which incentivises companies to submit business plans and costings that closely align with Ofwat's view.
  - Ofwat's reliance on economic modelling and industry-wide benchmarking in assessing a company's efficiency and costs.<sup>38</sup> The Commission has heard that this has led to a 'theoretical' approach to regulation that does not sufficiently understand the circumstances of individual water companies. And that this, in turn, has led to underinvestment, with poorer performing companies in particular considering that they do not receive sufficient funding to raise their standards.<sup>39</sup>
102. Reflecting these views, the Commission considers that Ofwat's approach is not delivering the improvements in the sector's performance that are sorely needed. While it is necessary to have objective industry-wide benchmarking to protect customers from misuses of monopoly power and to incentivise efficiency, the Commission further considers that this has not been sufficiently balanced with company-specific judgement that reflects their individual conditions and challenges. The Commission therefore believes there is a need for a fundamental reset in the regulator's approach. To support this, the regulator further requires a shift in culture.

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<sup>37</sup> Response to the Call for Evidence, 2025

<sup>38</sup> Response to the Call for Evidence, 2025; water company engagement with the Commission, 2025

<sup>39</sup> Water company engagement with the Commission, 2025

103. The Commission also believes changes are needed to specific elements of the Price Review methodology as well as to how it functions. These changes mirror the concerns it has heard around:
- The regulatory approach to asset maintenance and renewal: this, in part, refers to Ofwat's historical approach to setting allowances for capital maintenance spending. If past spending was below the level required, the historical approach could carry those deficits forward. As a result, water companies may have faced successive periods in which allowances for asset maintenance and renewal were too low. The lack of a consistent approach to estimating the depreciation rate of companies' Regulatory Capital Value (RCV) – RCV run-off – may also have meant that companies have not been provided with sufficient cashflow to maintain their assets. also have meant that companies have not bid for sufficient allowances to maintain their assets.<sup>40</sup>
  - The level of assurance about whether water companies have used revenues for the purposes intended: this includes mechanisms to provide assurance over how revenues have been spent and whether companies have had too much flexibility to switch spending from maintenance to other needs, which may mean assets are not being maintained to an adequate standard.<sup>41</sup>
  - The impact of the performance incentive framework on the performance of the sector: this refers to Ofwat's extensive and increasing use of performance incentives, which has led to uncertainty around returns and exposed investors to high levels of downside risk, and may have had the effect of holding companies back rather than enabling the performance of the sector as a whole to improve.<sup>42</sup>
  - The regulatory approach to setting the return on investment: this refers to Ofwat's estimate for the weighted average cost of capital (WACC). It may have further deterred investors given low level of returns Ofwat's estimates have delivered relative to those of comparable sectors.<sup>43</sup>
  - The CMA appeal and redetermination process: this refers to the process for settling disputes, involving redetermination by the CMA. This is a costly and burdensome process.<sup>44</sup>
104. The Commission is making 7 recommendations in relation to economic regulation.

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<sup>40</sup> Frontier Economics, '[PR24 RCV run-off rate](#)', 2023

<sup>41</sup> Engagement with the Commission, 2025

<sup>42</sup> Response to the Call for Evidence, industry expert, 2025

<sup>43</sup> Engagement with the Commission, 2025

<sup>44</sup> Ofwat, '[Independent commission on the water sector regulatory system call for evidence – Ofwat response](#)', 2025



**Recommendation 18: The regulator should adopt a more ‘supervisory approach’ to regulating individual companies. This applies to England and Wales.**

105. This would represent a fundamental shift in the way the regulator approaches its role. It would focus on engagement and judgement and be forward looking, within the regulatory framework. Supervisory judgement, grounded in deep engagement with companies, should be used to balance the data-driven econometric modelling and benchmarking process in determining Price Review outcomes. Supervisory teams should be multidisciplinary and structured around understanding, and engaging with, individual companies, drawing on central specialist expertise as required. This would also enable the regulator to spot emerging risks and intervene with companies at an earlier state to prevent risks crystallising.
106. The Commission has identified several areas for consideration in building a strong supervisory function for the regulator. These are:
- The regulator should consult publicly on and then publish a single overarching document describing its supervisory approach. The regulator should make clear that compliance with the law, and with Appointment licence conditions, is the responsibility of the company, not the supervisor.
  - Water company Appointment licences should contain a single, unambiguous obligation to deal with the regulator in an open and cooperative way.
  - The regulator leadership should ensure best practice in supervision is shared, and a consistent view is taken. This could involve establishing a small quality oversight function for supervision.
  - The regulator should be able to recruit and retain the right staff to conduct the supervisory approach effectively, including high-calibre engineering and financial expertise. This will require flexibility in pay scales, and provision of effective career paths so that expertise can be retained.
  - Legislation should give the regulator a clear, ongoing duty to ‘maintain arrangements for supervising regulated firms.’ This would be akin to legislation that applies to the financial services regulators.
  - The regulator should operate efficiently and have regard to the burden on firms, subject to its overall statutory duties and objectives. Technology to support supervision (‘SupTech’) should be investigated, used, and continuously improved.

- To support its supervisory function, the regulator should ensure that senior engineering and financial expertise is present on its Board. This would be at Executive level.

**Recommendation 19: The regulator should ensure funding is directed appropriately to renew assets by clearly defining and ring-fencing base capital expenditure (capital maintenance), base operational expenditure and enhancement capital expenditure allowances. This applies to England and Wales.**

107. This would be a shift from the current 'totex' approach that Ofwat introduced in Price Review 2014. This was intended to give companies' flexibility and incentive to find the most efficient means of improvement. In the Commission's view, however, it risks companies being incentivised to underspend on asset renewal. This is because, by underspending against capital maintenance in their totex allowance (which is counted as 'efficiency savings'), they can spend this unused funding on other costs elsewhere or distribute it as dividends. The Commission's recommendation would correct this and ensure that appropriate investment is made to meet asset infrastructure maintenance requirements.
108. Greater assurance in this area would be supported by the longer-term approach delivered through water industry planning reform (Recommendation 3) and a more engineering and asset health-led approach delivery by both the regulator's supervisory approach (Recommendation 18) and the change recommended in Chapter 7 to asset mapping and standards (Recommendation 67) and to the Price Control Deliverable (PCD) framework.

**Recommendation 20: Following the establishment of a new methodology for assessing asset condition and expected life, the regulator should consider the merits of linking RCV run-off more closely to the economic depreciation of assets. This applies to England and Wales.**

109. A new framework for assessing asset age and condition (Recommendation 67) would provide the regulator with the tools to more accurately assess companies' depreciation and capital maintenance needs. The regulator should consider whether, in the context of this framework, RCV should be more explicitly linked to a measure of asset condition and depreciation across the entire asset base to reduce the risk that companies are underfunded for asset renewal.

**Recommendation 21: The regulator should withdraw the QAA. This applies to England and Wales.**

110. This would mean companies are no longer rewarded or penalised based on how closely their business plans match Ofwat's expectations. The

Commission's recommendation would remove the perverse incentive that companies face not to report an 'invisible gap' between their business plan bids and what they need in practice to spend, for example, on asset renewal.

**Recommendation 22: The regulator should review the performance incentives framework, to rationalise the overall number of PCs and make their corresponding ODI rewards, penalties and returns at risk clear. This applies to England and Wales.**

111. This would bring more certainty to companies about the likelihood of meeting their Performance Commitments (PCs) and hence the consequent level of returns at risk. Fewer – and more realistically set – PCs would provide a more focused framework that is easier for both companies and investors to navigate.
112. It is the Commission's view that there should only be common PCs, so that this framework incentivises companies to focus across the key performance areas all companies should be delivering.
113. A clearer mapping of rewards and penalties to returns would incentivise companies to deliver across all their PCs. This would also lower returns at risk for the sector, and support the overall objective of driving whole-sector performance upward and attracting low-risk, low return investors. Minimising duplication between PCs and enforcement would also remove overlaps across the regulatory regime so that overall incentives companies face, for environmental and water quality performance, are clear to understand.

**Recommendation 23: The UK government should consider providing the CMA with responsibility to set a common WACC methodology for across UK regulated sectors. This includes the water sector in England and Wales.**

114. This would align the WACC for the water sector in England with other regulated sectors and thereby make it more competitive in attracting investment. The Commission considers that the CMA should also consider annually updating relevant components of WACC. This would improve the responsiveness of returns on offer in UK regulated sectors to market movements and economic conditions. It should also mitigate any advantages one sector might enjoy over another that may arise purely due to where price reviews fall in the economic cycle.

**Recommendation 24: Defra should change the nature of the CMA dispute process for water companies from redeterminations to a standard appeal procedure, in line with other sectors. This applies to England and Wales.**

115. This would result in a more efficient, faster, and less costly approach to resolving disputes. It would align the water sector with other sectors, such as

energy, payment systems and telecoms, and would reduce uncertainty for investors.

## 5.2: Environmental regulation

116. Environmental regulation is needed to protect the environment from harmful activities. The environmental regulators discharge this responsibility through the issuance of environmental permits and licences, monitoring and enforcing compliance. Like many other regulated sectors, monitoring of the water industry relies heavily on a system of Operator Self-Monitoring (OSM). Under this regime, companies take water samples at wastewater treatment works and submit them to the EA or NRW.
117. The Commission has heard that the current framework for environmental regulation has not sufficiently overseen the protection of the environment.<sup>45</sup> This is reflected in a lack of public trust.<sup>46</sup> Specific concerns that have been raised relate to the efficacy of the monitoring regime, lack of regulatory oversight of sludge activity, slow enforcement in the event of non-compliance, and insufficient capacity and technological capability on the part of the environmental regulators.<sup>47</sup>

### Water Industry Monitoring

**Recommendation 25: The regulator in England and in Wales should significantly reform the system of Operator Self-Monitoring. It should develop a strengthened approach to monitoring, using greater digitisation, automation, public transparency, third-party assurance and intelligence-led inspections.**

118. The Commission believes that the OSM regime is a significant factor contributing to a lack of trust in environmental regulation. It has therefore concluded that a new, and much more transparent approach to monitoring water company compliance with environmental standards is needed.

**Recommendation 26: The UK Government should review the approach to Continuous Water Quality Monitoring. This review should evaluate the effectiveness and value for money of these monitors, with a view to enhancing cost-efficiency through the adoption of technological advancements.**

119. The Commission has also considered the use of Continuous Water Quality Monitoring for assessing pollutants from storm overflow discharges. It agrees that assessing impacts, rather than volumes, is the appropriate approach.

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<sup>45</sup> Call for Evidence responses, 2025

<sup>46</sup> Call for Evidence responses, 2025

<sup>47</sup> Defra, Environment Agency, Natural Resources Wales, Welsh Government, Emma Hardy MP, '[Environmental permit reforms to empower regulators to slash business red tape - GOV.UK](#)', 2025 ; Water UK, '[Water UK A Reset for Water - Response to the Independent Water Commission's Call for Evidence](#)' 2025



However, it considers that improvements could be made to increase cost-efficiency through the adoption of technological advancements.

### Sludge

**Recommendation 27: The UK and Welsh governments should tighten regulatory oversight of sludge activity by moving the treatment, storage and use of sludge into the Environmental Permitting Regulations.**

120. The Commission further believes that greater environmental protection is needed to address the impact of modern contaminants that may be present in sludge.<sup>48</sup> This should provide greater assurance both to the public and to farmers who accept sludge.

### Enforcement

**Recommendation 28: The UK and Welsh governments should implement the civil sanctions' provisions in the Water (Special Measures) Act 2025 that will expand the regulator's toolkit to enable swifter enforcement.**

**Recommendation 29: The EA should accelerate their efforts to bring resolutions to long-running enforcement cases in consideration of the public interest of delivering justice for any historic offences.**

121. Regarding enforcement, the Commission welcomes recent reforms in relation to civil penalties. It believes the relevant provisions should be implemented as quickly as possible to provide the regulator with the enforcement powers it needs. The Commission considers that swift enforcement is in the public interest, and that this is not being served by the current backlog of enforcement actions.<sup>49</sup>

### Capacity and capability

**Recommendation 30: The regulator should significantly accelerate the implementation of digital programmes to support intelligence-led and transparent enforcement and compliance activities.**

**Recommendation 31: The UK and Welsh governments should take steps to ensure full cost recovery from the industry to ensure that the regulatory service is self-sufficient and in line with the polluter pays principle**

**Recommendation 32: The UK and Welsh governments should ensure that their regulators are equipped with sufficient powers, operational flexibility and the**

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<sup>48</sup> House of Commons, '[Water Quality in Rivers](#)', 2022; Water UK, '[Water UK A Reset for Water - Response to the Independent Water Commission's Call for Evidence](#)', 2025; Angling Trust response to the call for evidence, 2025

<sup>49</sup> eNGO responses to the Call for Evidence; River Action and Surfers Against Sewage, '[Joint Submission to the Independent Water Commission](#)', 2025

**ability to recruit and retain high-quality technical staff. This should include establishing the new regulator outside of public sector pay controls.**

122. The Commission recognises that the environmental regulators in England and Wales have both been beset in the past by capacity and capability challenges.<sup>50</sup> This has hampered their ability to oversee compliance with environmental standards in the water industry. The Commission believes that the capacity and capability of the regulator should be expanded. This requires a more secure funding model to expand capacity. The Commission believes ambitious action is also needed to harness technological innovations to enhance capability.

### **5.3: Drinking water regulation**

123. Drinking water in the UK is among the safest in the world. The drinking water regulator has statutory duties to ensure the quality and sufficiency of public drinking water supplies. Drinking water standards are set out in legislation. Products used in the drinking water infrastructure require approval by the DWI, in line with Regulation 31 of the Water Supply Regulations.
124. England and Wales have stringent drinking water standards, which water companies consistently meet.<sup>51</sup> To maintain this for the future, the Commission believes action is needed. It has heard 3 broad concerns in relation to drinking water. First, that emerging risks mean drinking water standards may need updating.<sup>52</sup> Second, that there are limits to DWI's powers, including in relation to third-party operators.<sup>53</sup> Third, that a lack of capacity to test new products in line with Regulation 31 is stifling innovation.<sup>54</sup> Reflecting these concerns, the Commission is making 4 recommendations in relation to drinking water.

**Recommendation 33: The UK and Welsh governments should ensure an effective process is in place for regularly reviewing and updating drinking water standards.**

125. The drinking water standards have not been updated since 2018. The Commission believes that updating these standards in line with the DWI's Advisory Group recommendations should be a priority.

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<sup>50</sup> UK Parliament, '[Environment Agency: Enforcement Budget](#)' 2022; Cyfoeth Naturiol Cymru Natural Resource Wales, '[CCEI Committee, Natural Resources Wales - Annual Scrutiny 2023-24](#)', 2024

<sup>51</sup> Drinking Water Inspectorate, [https://dwi-production-files.s3.eu-west-2.amazonaws.com/wp-content/uploads/2024/08/07103814/E03067866\\_DWI-Public-water-supplies-in-England-2023\\_Accessible\\_v2-1.pdf](https://dwi-production-files.s3.eu-west-2.amazonaws.com/wp-content/uploads/2024/08/07103814/E03067866_DWI-Public-water-supplies-in-England-2023_Accessible_v2-1.pdf), 2024; Drinking Water Inspectorate, [Drinking Water 2023: The Chief Inspector's report for drinking water in Wales](#), 2024

<sup>52</sup> Drinking Water Inspectorate, [Recommendations-and-full-report-of-the-advisory-group-Dec-2024.pdf](#), 2025

<sup>53</sup> Drinking Water Inspectorate response to the Call for Evidence, 2025. [Independent Water Commission: review of the water sector - DWI Summary Response - Drinking Water Inspectorate](#)

<sup>54</sup> Engagement with the Commission, 2025; Responses to Call for Evidence, 2025

**Recommendation 34: The UK and Welsh governments should introduce powers to strengthen the regulator’s toolkit in relation to drinking water, including an extension of its powers to cover all third-party operators, and powers to directly impose financial penalties.**

126. Third-party operators would include anyone who builds, installs, operates, connects, or has any responsibility in the supply, control or maintenance and services of a water supply system. DWI does not currently have any statutory powers to regulate third-party providers unless they are involved in the supply of water that is unfit for human consumption.

**Recommendation 35: The regulator, water industry and UK and Welsh governments should secure and expand Regulation 31 testing services for drinking water products.**

127. The Commission considers that the expansion of UK laboratory capacity to perform Regulation 31 testing would be welcomed and recommends that Water UK continues to explore options to identify a laboratory with the full suite of Regulation 31 testing capabilities. Alongside this, the DWI should explore opportunities for harmonisation with other jurisdictions, where they have similar regimes for approving products.

## 5.4: Water resources

128. Water companies have a statutory duty to provide a continuous water supply to their customers. They are required to prepare, publish, and maintain plans setting out how they intend to achieve a secure supply of water in their area, over the next 25 years. As part of this, water companies must forecast supply and demand and set out options to fill any deficit.
129. Pressures on water resources are increasing, including from prolonged dry weather and a growing population.<sup>55</sup> Managing deficits requires action on both the supply of water and the demand for it.
130. On the supply side, the Commission has heard concerns about a gap between planning and the delivery of new infrastructure.
131. The Commission has also heard concerns about the impacts of unsustainable abstraction. In addition, stakeholders have also noted unacceptable levels of leakage from failing assets.<sup>56</sup>
132. On the demand side, the Commission understands that the public has a poor understanding of their current level of water usage.<sup>57</sup> Stakeholders have noted that more needs to be done to incentivise more efficient use of water, by both households and businesses, including through smart meters and

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<sup>55</sup> Commission engagement with the EA

<sup>56</sup> Responses to Call for Evidence, 2025

<sup>57</sup> [Vast majority of Brits have no idea how much water they are using | Water UK](#)

tariff structures.<sup>58</sup> Stakeholders highlighted regulatory barriers to the adoption of water re-use infrastructure.<sup>59</sup> This is where water used is collected, treated, and then re-used, for example, to flush toilets.

133. The Commission believes there needs to be concerted efforts to prepare for a drier future. A new National Water Strategy should strengthen long-term strategic direction for water supply. Regional system planners in England and a national system planner in Wales should further enable better planning around demand and supply. Alongside these, the Commission believes specific measures are needed to promote more efficient use of water by households and businesses. It is therefore making 5 recommendations in relation to water resources.

**Recommendation 36: The Commission recommends the UK and Welsh governments improve regulatory oversight of water industry abstraction activity by bringing it under the Environmental Permitting Regime.**

134. A transition to the Environmental Permitting Regime should strengthen abstraction regulation, helping to tackle unsustainable abstraction. It would also provide a more flexible mechanism to support growth and water resources delivery.

**Recommendation 37: The UK and Welsh government should accelerate efforts to reduce household water consumption by introducing compulsory smart metering for a wider range of circumstances.**

135. The use of smart water meters has been shown as a key tool in managing demand.<sup>60</sup> Greater deployment of compulsory smart meters would enable a more systematic approach to installation. As part of this, the UK and Welsh governments should conduct impact assessments and explore the introduction of support schemes to protect the most vulnerable in society to mitigate cost impacts.

**Recommendation 38: Tariff structures should be changed to incentivise water efficiency. This could involve removing falling block tariffs for non-household consumption.**

**Recommendation 39: Standards should be issued for the roll-out of smart meters in the non-household market in England and Wales**

136. The regulator should review business wholesale tariffs, with a view to ensuring they are transparent and support water efficiency objectives. The focus on falling block tariffs reflects the fact that these reduce the marginal

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<sup>58</sup> [Understanding attitudes towards Smart Water Meters - CCW](#); Engagement with the Commission

<sup>59</sup> Ofwat, [Environmental incentives to support more water efficient new homes - Ofwat](#), (viewed 16 June 2025)

<sup>60</sup> <https://www.frontier-economics.com/media/we4lon3z/arqiva-cost-benefit-analysis-a4-full-report.pdf>



cost of water as consumption rises, which may disincentivise businesses from using water efficiently. Furthermore, the Commission recognises that water companies have already agreed to significant smart meter roll-out plans for businesses. However, standards are needed to ensure smart meters are interoperable within and across different companies, and clearer guidance is needed on how users with different levels of demand should be prioritised across companies.

**Recommendation 40: The UK and Welsh governments should work with their regulators to develop a new policy and regulatory framework to drive the adoption of water re-use infrastructure in the household and non-household markets.**

137. Regulatory barriers need to be removed in order to drive water efficiency, including the adoption of water re-use infrastructure. This will provide clearer signals to household and non-household development in relation to the adoption of water efficiency measures including water re-use systems. Sectors such as data centres, offices, hospitals, and retail parks present high reuse potential. The Commission has heard that larger, community scale water re-use schemes are more cost effective, with a fall in cost as development size increases.<sup>61</sup> Large water users can be restricted from public water supplies due to drought or water stress.

## 5.5: Affordability and consumer protections

138. Consumer protections are in place across the water sector to protect consumers from unfair treatment and poor service levels. Responsibility for ensuring service standards are met currently lies with Ofwat. Water bills are controlled by Ofwat but vary by water company. Water companies offer statutory and voluntary schemes to support low-income households for whom bills are not affordable. The Consumer Council for Water (CCW) is an independent body that advocates for consumers and offers them advice.
139. The Commission has heard that levels of consumer trust and satisfaction in the cost and quality of services provided by water companies are currently low.<sup>62</sup> It believes that this is evidence the current regulatory framework is inadequate. Stakeholders have pointed to numerous deficiencies, including shortcomings in Ofwat's incentive mechanism to improve service provision and its approach to monitoring standards; barriers to obtaining financial support and variation in the levels of that support; and questions over the effectiveness of CCW in its role as consumer advocate.<sup>63</sup>

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<sup>61</sup> [Water+reuse+in+new+homes+-+business+case+report.pdf](#)

<sup>62</sup> Consumer Council for Water, [Water Matters 2025](#), 2025

<sup>63</sup> eNGO engagement with the Commission, 2025; Responses to Call for Evidence, 2025; Consumer Council for Water, [‘Households urged to tap into water company support’](#), 2023

140. Reflecting these concerns, the Commission is making 5 recommendations in relation to affordability and consumer protections.

**Recommendation 41: The regulator should strengthen the C-Mex incentive to better reflect customer experience and move to a supervisory approach to the monitoring of the customer-focused licence condition.**

141. C-Mex scores are based on surveys conducted by Ofwat to assess customer satisfaction with water companies. Based on these scores, water companies receive rewards or incur penalties. Evidence shows that this has not driven improvements in customer service, suggesting a more robust, objective metric is needed.<sup>64</sup> The customer-focused licence condition also sets out principles for high standards of customer service that companies are expected to deliver. The Commission believes monitoring of compliance with this condition should move to a supervisory approach, to ensure it is implemented effectively.

**Recommendation 42 (England): The UK government should consult on the introduction of a national social tariffs with consistent eligibility criteria and levels of support.**

**Recommendation 43 (Wales): The Welsh government should review existing social tariff schemes provided by the two companies in Wales and consider reforms to ensure they are providing equitable outcomes.**

142. The Commission recognises that consumers in different regions receive different levels of affordability support through social tariffs.<sup>65</sup> The Commission believes that, given the level and future trajectory of bills and the degree of variation in current social tariffs, a national social tariff scheme is justified, noting their existence in other sectors. The design of a national scheme, and the distributional impacts, is in the Commission's view a decision for the UK and Welsh government.

**Recommendation 44: The UK and Welsh governments should consider whether to convert the Consumer Council for Water into a new mandatory Water Ombudsman.**

**Recommendation 45: The government should consider transferring the advocacy functions of CCW to Citizens Advice, providing a stronger voice for customers, that the water regulator is required to respond to.**

143. The Commission believes that an increasing number of customer complaints made to water companies, along with an increasing number that water

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<sup>64</sup> Ofwat, [Accent report for Ofwat: C-Mex and D-Mex](#), 2024; [Consumer Council for Water response to the Call for Evidence](#), 2025; Yorkshire Water and United Utilities responses to the Call for Evidence, 2025

<sup>65</sup> Citizens Advice response to Call for Evidence, 2025

companies are not resolving, highlights a need to strengthen the existing redress scheme.<sup>66</sup> Making a new ombudsman service mandatory would ensure that all water companies sign up to the service and therefore give all water customers the same guaranteed level of protection. The Commission recognises that such a service would create a tension with the existing advocacy functions that sit within CCW. The Commission believes that the government should consider transferring these functions to Citizens Advice.

## Chapter 6: Company structures, ownership, governance, and management

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Recommendations in Chapter 6 of the report are designed to ensure that the interests of privatised water companies are in alignment with the public interest. This is necessary to ensure the public good of water is in responsible hands and is vital for restoring public trust in the water industry.

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### 6.1: Ownership and governance

144. Alongside strong regulation, responsible ownership and good governance of water companies is important for ensuring their performance in delivering for consumers and for the environment.

#### Company ownership and performance

145. At privatisation, the 10 water and sewerage companies were listed on the London Stock Exchange. Since then, there have been material changes in ownership, with only 3 companies still listed.<sup>67</sup> One company (Dŵr Cymru Welsh Water) has a not-for-profit model; the remaining companies are run on a for-profit basis.
146. The Commission recognises that there is a legitimate public interest in the ownership models of water companies. In line with its terms of reference, it has not considered changes of ownership that would require the use of public funds. It has focused on the link between ownership model and performance, the risks to the public interest from existing for-profit models, and whether additional tools are required for regulators to manage those risks.
147. The Commission has heard varied views on the extent to which ownership models impact company performance and for-profit models pose risks to the public interest – in 4 key areas:

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<sup>66</sup> Reference needed

<sup>67</sup> Independent Water Commission, Call for Evidence: Independent Commission on the Water Sector Regulatory System (Box 8), 2025

- Profit in the provision of water and wastewater: some stakeholders have expressed concerns around Ofwat's ability to ensure profit making does not occur at the expense of responsibilities to consumers and the environment.<sup>68</sup> Others note that performance is not necessarily improved under not-for-profit or alternative ownership models.<sup>69</sup>
  - Public listing versus 'private' (that is, unlisted) ownership: some stakeholders have suggested that all privately held, for-profit, water companies should be listed, pointing to benefits such as increased transparency and accountability.<sup>70</sup> Some investors, meanwhile, have questioned whether public equity markets would have sufficient depth to finance required investment at a reasonable cost.<sup>71</sup>
  - Particular types of private investors and the investment vehicles they use: many stakeholders perceive that investors such as private equity funds have entered the sector with the aim of extracting unreasonable returns over short horizons.<sup>72</sup> Others have noted the development of private equity funds with longer horizons that specialise in infrastructure.<sup>73</sup> While some stakeholders have raised concerns about securitisation being used to facilitate high levels of debt, investors have highlighted that this is a common device in other sectors and can benefit customers through cheaper financing costs.<sup>74</sup>
  - Ofwat's control and powers over water company ownership: stakeholders have highlighted that water companies are part of the UK's critical national infrastructure and Ofwat has no direct powers to approve owners of water companies or to block prospective owners from buying a controlling interest in them.<sup>75</sup>
148. The Commission has further examined evidence available from UK and international comparisons and has drawn two overarching lessons. First, the ownership model itself does not appear to be the most important driver of company outcomes. Second, strong and evidence-based regulation is critical in ensuring customers and the environment are protected, regardless of ownership model.
149. Reflecting these conclusions, the Commission is making 4 recommendations in relation to company ownership and performance. These recommendations aim to strengthen regulations in relation to who owns water companies,

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<sup>68</sup> eNGO engagement with the Commission, 2024

<sup>69</sup> [River Action/Surfers Against Sewage joint response to the Call for Evidence](#), 2025

<sup>70</sup> Dieter Helm, '[No-regret water reforms](#)', 2025

<sup>71</sup> Investor and Ofwat engagement with the Commission, 2025

<sup>72</sup> Call for Evidence response analysis (Q43 and Q71), 2025

<sup>73</sup> Commission Engagement with investors, 2025; Dieter Helm, '[Who owns the water companies?](#)', 2018

<sup>74</sup> Investor and Ofwat engagement with the Commission, 2025

<sup>75</sup> Call for Evidence response analysis (Q71), 2025



how owners behave, and ensuring consumers and the environment are protected.

**Recommendation 46: The regulator in England and Wales should continue to adopt an evidence-based process to consider, on a case-by-case basis, whether it would be appropriate for a water company to transition to an alternative ownership model where they request to do so or following a Special Administration Regime (SAR).**

150. Absent public funding or compulsion, any change in ownership model would require current owners to propose a move to a new model, or to sell their equity to new owners (as in the case of Dŵr Cymru Welsh Water). It may also be possible where a company enters a Special Administration Regime (SAR). The Commission recognises that, in such circumstances, there may be benefit to the proposed change in ownership model. In such cases, it would be for the regulator – and special administrator in the SAR case – to decide whether the change would be in the public interest, based on the available evidence.

**Recommendation 47: The regulator in England and Wales should have the power to block material changes in control of water companies.**

151. The Commission believes that a robust change of control regime would be appropriate given the role that water companies serve in providing critical national infrastructure. How this would be achieved should be explored by government and the regulator. The Commission believes the change of control powers should be used as a last resort and be subject to statutory limitations. It anticipates they would only be used where there are material concerns around a proposed change in controller – for example, financial soundness, reputation, or managerial competence.

**Recommendation 48: The regulator in England and Wales should be provided with powers to direct parent companies and ultimate controllers.**

152. A power of direction would ensure the regulator is empowered to prevent owners from taking action that would undermine the resilience of water companies. It would be used, for example, for the regulator in seeking information at the group level about financial structures, including before they are put in place – to understand the risks that they present to the water company, and to intervene where risks are unacceptable. This could enable the regulator to address concerns about the potential future adoption of complex company structures. The Commission recommends that any power of direction should be suitably constrained and subject to clear legal tests before it can be used.

**Recommendation 49: The regulator in England and Wales should mirror elements of the Articles of Association in licence conditions to strengthen accountability.**

153. The Commission is supportive of recent changes to ensure companies act in the public interest, including stronger requirements on dividends and updates to company Articles of Association to include ‘public benefit’ clauses.<sup>76</sup> However, the Commission believes there is room for improvement. This is because ‘public benefit’ clauses in Articles of Association can only be legally enforced by the company and its members. Inserting these clauses into licence conditions would reinforce that regulated water companies provide essential public services and enable enforcement without displacing companies and directors’ broader obligations. The Commission recognises that assessing ‘public benefit’ clauses would require careful judgement as well objective evidence. Regulatory guidance may help to reduce uncertainty, but the Commission recognises that these considerations may make it difficult to design an appropriate regime. It is, however, on balance of the view that this option is worth pursuing if it is practically possible.

**Governance and management**

154. Ofwat first introduced Board Leadership, Transparency and Governance Principles for water companies in 2014.<sup>77</sup> Meeting these principles is not a requirement, although companies are required under licences to meet certain minimum objectives on governance. Recent legislation has also strengthened Ofwat’s powers regarding both consumer interests in decisions made by companies, and their senior management.<sup>78</sup>
155. The Commission has heard views on issues with company governance and management in 4 key areas:
- The culture and structure of water companies: the Commission has heard about a culture of obfuscation and poor governance. The House of Commons Select Committee for Environment, Food and Rural Affairs (EFRA) has recently commented extensively on company ownership, leadership and governance.<sup>79</sup>
  - Accountability for water company decision-making: the Commission has heard that a greater voice should be given to independent stakeholders in company decision-making.<sup>80</sup>

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<sup>76</sup> Defra and The Water Services Authority, ‘[Government announces first steps to reform water sector](#)’, 2024

<sup>77</sup> Ofwat, ‘[Board leadership, transparency and governance – principles](#)’, 2014

<sup>78</sup> [Water \(Special Measures\) Act 2025](#)

<sup>79</sup> Environment, Food, and Rural Affairs Committee, ‘[Priorities for water sector reform](#)’, 2025

<sup>80</sup> [River Action/Surfers Against Sewage joint response to the Call for Evidence](#), 2025

- Executive remuneration: there has been extensive commentary around executive bonuses.<sup>81</sup> At the same time, the Commission understands there are concerns around the ability of companies to attract talent to turn around the performance of companies; and that the government has already implemented reforms to strengthen restrictions on bonuses.<sup>82</sup>
  - The responsibility of water company senior managers: concern has been expressed about the responsibility of senior managers to set the right culture in companies.<sup>83</sup> The Commission understands regulators in other sectors have, or are exploring, more extensive frameworks for ensuring senior managers are accountable.
156. The Commission understands Ofwat is currently considering reforms to its Board Leadership, Transparency and Governance Principles, such as strengthening the breadth of requirements, and ensuring closer alignment with the refreshed Corporate Governance Code 2024. The Commission supports these reforms but believes there is scope to go further. It is making 2 recommendations in relation to governance and management:

**Recommendation 50: The regulator in England and Wales should continue current plans to strengthen governance standards and bring its principles into line with the UK Corporate Governance Code. Rules should apply to all water companies, listed and unlisted, and create a level playing field in governance and transparency across all companies.**

157. Ofwat's Principles should be recast by the regulator in England and Wales as rules, to ensure it is able to take swift enforcement action when companies fail to comply. The effect should be that all companies have mandatory governance standards that are, at a minimum, in line with the UK Corporate Governance Code 2024. Ultimately, the aim should be to ensure all companies – whether publicly listed, privately held or not-for-profit – are on a level playing field in relation to governance standards.

**Recommendation 51: A new regime for senior accountability should be established by the UK and Welsh Governments. The proposed regime should be subject to public consultation before implementation.**

158. The Commission believes that Ofwat needs to be able to take a broader approach to incentivising senior individuals at regulated companies to promote the right culture and meet regulatory requirements. The Commission understands the focus on bonuses given public anger but believes that, going forward, bonus rules need to be set within a much more

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<sup>81</sup> Call for Evidence response analysis (Q42), 2025

<sup>82</sup> Water company engagement with the Commission, 2025

<sup>83</sup> Environment, Food, and Rural Affairs Committee, '[Priorities for water sector reform](#)', 2025

general and comprehensive framework to drive the right culture, accountability, and performance. A streamlined senior managers regime should be introduced, covering a narrow set of individuals: Chair, CEO, and the executive level leaders with overall responsibility for finance, meeting environmental standards, and the company's compliance with licence conditions. Senior managers should have a clear Statement of Responsibilities, and the regulator should also set out an appropriate principles-based Code of Conduct.

## 6.2: Investment and financial resilience

159. To operate effectively and deliver on its responsibilities to consumers and the environment, water companies need to be able to attract investment and be resilient to financial shocks.

### Investment

160. Water companies raise external financing for investment activity, for example, building new infrastructure. External financing allows water companies to pay upfront for investment, while customers who benefit now and in the future pay for it over the investment's lifetime. Companies in England that operate on a for-profit basis can choose to raise either debt or equity financing. Dŵr Cymru Welsh Water, the not-for-profit water company in Wales, relies exclusively on debt and internal reserves to finance investment. In deciding whether to invest in a company, investors will weigh up expected returns against their estimate of risk to those returns. Equity is typically expected to provide a higher return than debt because returns on equity are more uncertain.
161. Through its engagement with stakeholders, the Commission has identified 6 issues related to investment:
- Low levels of return: investors have argued they can achieve higher returns in comparable sectors.<sup>84</sup> Ofwat has maintained that fluctuations in overall returns largely reflect trends in the overall market.<sup>85</sup>
  - High levels of risk: longer-term, 'low risk-low return' investors have indicated that they have limited appetite to invest at present, because they consider the risks too high. These investors have maintained they would be willing to forgo the possibility of higher returns on the 'upside' in exchange for greater stability and lower risk in returns.<sup>86</sup>
  - The need for new equity: water companies are estimated to need between £7-13 billion of new equity to finance the £44 billion of

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<sup>84</sup> Investor engagement with the Commission, 2025

<sup>85</sup> [Ofwat response to the Call for Evidence \(annex\)](#), 2025

<sup>86</sup> Investor engagement with the Commission, 2025

enhancement investment planned over the next 5 years.<sup>87</sup> In previous decades the equity need for the sector was much lower because investment plans were much smaller and companies were more able to finance new infrastructure through borrowing.

- Competing demands for investment in other similar sectors and countries: the commission has heard that increasing demands for equity have come at a time when demand for infrastructure financing is high in the UK and international markets.<sup>88</sup>
- The impact of government and regulation: the Commission has heard that Ofwat's approach has had a significant impact on investors' assessment of the risks they bear in the sector.<sup>89</sup> Stakeholders have also commented that government has adversely impacted investor sentiment and perceived risks, through inconsistent policy and prioritisation decisions, and negative public messaging.<sup>90</sup>
- Past decisions by companies: the Commission has heard that water companies that have made poor and imprudent decisions themselves bear responsibility for their elevated risk profile. Stakeholders note that decisions by numerous companies to increase debt to high levels in the 2000s have increased perceived risk at these companies and contributed to the increase in the assessment of risk for the sector more broadly.<sup>91</sup>

162. The Commission is of the view that the water industry is likely to be best served by investors that take a long-term, low risk-low return investment approach – such as institutional investors like pension, sovereign wealth, and infrastructure funds. These investors are more likely to be concerned about the long-term health and performance of the company.

163. The Commission believes that the water industry must present a lower risk profile to attract such investors. An alternative would be to match elevated levels of risk with higher returns. But this may attract investors with shorter investment horizons, which are less suited to a regulated industry that needs stability over time. Higher returns to investors would also add to customer bills. The Commission acknowledges that lowering the risk of losses to investors would also reduce the chances of generating higher returns and might thereby blunt the incentives for companies to improve their performance. However, it is not convinced that these incentives have been effective in raising industry wide standards in recent years.

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<sup>87</sup> Ofwat, '[PR24 final determinations: Aligning risk and return](#)', 2024

<sup>88</sup> Infrastructure and Projects Authority and HM Treasury, '[National Infrastructure and Construction Pipeline 2023](#)', 2024

<sup>89</sup> Investor engagement with the Commission, 2025

<sup>90</sup> Investor engagement with the Commission, 2025

<sup>91</sup> Investor engagement with the Commission, 2025



164. Recommendations throughout this Report should improve the investment climate for water companies, including through lowering risk. The Commission is recommending 4 additional measures to reflect specific concerns it has heard in relation to the attractiveness of the water sector.

**Recommendation 52: The UK and Welsh Government should include a target relating to the stability of the regulatory model as an objective in its strategic guidance.**

165. The government should provide clear guidance to the regulator on the need to support the sector's investability through stable and predictable regulation. To achieve this, the government should explore amending Ofwat's financing duty, to make it clear that 'stable and predictable' regulation is required to ensure companies can finance their functions. The government could also issue clear guidance within the proposed MSWIP on the need to regulate the sector in a stable and predictable manner.

**Recommendation 53: The UK Government should use the opportunity of this review and its decisions on the implementation of the Commission's recommendations to reset its approach to strategic communications regarding the water industry.**

166. Government messaging could help reduce instability and the perception of risk in the water industry. There has been serious and poor performance by water companies that has been rightly criticised – this is not in doubt.<sup>92</sup> However, the Commission's report and these reforms represent an opportunity to draw a line and reset the sector in line with public interest. This reset is a moment for government to broaden its narrative around the sector. The public also want to understand where progress is being made by water companies, and the government should outline this progress. Government messaging should also recognise the challenges the water industry is facing and acknowledge the responsibility of other sectors for environmental outcomes.

**Recommendation 54: The regulators in England and Wales should conclude long-running investigations and enforcement cases as soon as possible as part of a reset of the sector.**

167. Long-running investigations are in the interest of neither customers, regulators nor companies. Restoring public trust requires enforcement as quickly as possible after any water company breach occurs. The Commission encourages the regulators and companies alike to explore options for resolving the cases with expedited timelines. The regulator

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<sup>92</sup> Ofwat, '[Ofwat calls on water sector to improve its performance after companies fall short on targets](#)', 2024

should address how it will aim to secure faster enforcement outcomes in its enforcement and sanctions policy.

**Recommendation 55: The regulators in England and Wales should consider how best to promote the use of environmental bonds.**

168. Some water companies already issue environmental bonds, but it is possible that not all investment programmes across the industry meet Environmental, Social and Governance requirements. This may be because of concerns around industry environmental performance or project design. In other countries, environmental bonds have been used successfully used to raise capital. The regulator should work to understand the barriers to the wider adoption of environmental bonds and, where possible and appropriate, remove them.

**Financial resilience**

169. The financial resilience of a company refers to its ability to absorb shocks, by adjusting bills, borrowing, or deploying its reserves. Financial resilience is particularly important for water companies as they are price regulated, meaning they do not have the discretion to increase bills to cover increases in costs or lower revenues. This places greater weight on them to have sufficient reserves to absorb shocks.
170. Historically, Ofwat has taken a non-interventionist approach to regulating company finances, assuming owners would rationally maintain the resilience to withstand stress. Over the past decade, this approach has evolved, with closer monitoring and new powers enabling, for example, dividends to be restricted.<sup>93</sup> More recently, Ofwat has introduced the 'Turnaround Oversight Regime,' which provides for enhanced monitoring and restrictions for water companies experiencing financial stress.<sup>94</sup>
171. Through its engagement with stakeholders, the Commission has identified 3 issues related to financial resilience:
- Oversight of company finances, given concerns over debt levels: stakeholders have noted that Ofwat's past non-interventionist approach to oversight enabled some companies to make decisions that were not consistent with maintaining longer-term resilience. This includes high levels of borrowing, the use of complex debt structures, such as Whole Business Securitisations, and payment of dividends rather than retaining reserves.<sup>95</sup>

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<sup>93</sup> Ofwat, '[Monitoring financial resilience](#)' (viewed 17 July 2025)

<sup>94</sup> Ofwat, '[PR24 final determinations - Our approach](#)', 2024

<sup>95</sup> Investor engagement with the Commission, 2025

- The lack of an effective turnaround regime: where financial weaknesses have materialised, the Commission has heard that Ofwat has not helped companies improve.<sup>96</sup> Companies and investors are, understandably, in favour of a more supportive turnaround regime, while Ofwat has emphasised the risk of moral hazard.<sup>97</sup>
- Questions around the SAR: currently, there is the possibility of poorly performing companies being placed into a Special Administration Regime (SAR). But the Commission has heard that this has not been perceived as a sufficiently credible threat to deter companies from making poor decisions.<sup>98</sup> The practical difficulties of operating a water company in a SAR have also been noted as effectively a barrier to its use.<sup>99</sup>

172. The Commission is of the view that the financial resilience of water companies is a matter of public interest. Water companies enjoy a monopoly licence to provide essential public services, and this licence comes with the obligation for companies to be financially resilient, as well as operationally resilient. A system of private regulated water companies therefore requires a higher quality and more effective oversight of company finances. The Commission recognises that Ofwat has strengthened its approach and powers in relation to financial resilience in recent years. However, it believes further measures are needed. The Commission is therefore making 4 recommendations in relation to financial resilience.

**Recommendation 56: A financial supervision framework should be embedded as part of a broader supervisory model. Within this framework, the regulator in England and Wales should publish a range of risk factors that inform their judgement of a company's financial risk profile.**

173. Regulatory oversight of companies' finances should be situated within the formal supervisory framework and toolkit. Supervisors should assess companies' risk profiles. The supervisors assigned to each company should be able to draw on expertise in risk management and corporate finance, enabling them to reach an informed view of the risk exposure of each water company. A supervisory team with an in-depth knowledge of a company's context would provide the regulator with higher-quality understanding and a more informed, authoritative dialogue with companies than at present.

**Recommendation 57: The regulator in England and Wales should have the power to set minimum capital levels for water companies.**

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<sup>96</sup> Investor engagement with the Commission, 2025

<sup>97</sup> Ofwat engagement with the Commission, 2025

<sup>98</sup> Investor engagement with the Commission, 2025

<sup>99</sup> Industry engagement with the Commission, 2025

174. The regulator should be given a statutory power to set and enforce minimum capital levels. There are different models that could be considered in designing this power. In 2023, Ofgem introduced minimum capital requirements on energy companies.<sup>100</sup> The PRA also has statutory powers relating to capital requirements.<sup>101</sup> The UK and Welsh Government and the regulator in England and Wales should take these models into account when consulting on how best to design effective and proportionate tools to set and enforce minimum capital requirements suitable to the water industry. The regulator should then consult on and issue a policy statement and further guidance on the levels at which those minimum capital requirements are set.

**Recommendation 58: A formal turnaround regime should be established for the regulator in England and Wales to support turnaround of poorly performing companies. This should enable both an enhanced power of direction as well as regulatory forbearance.**

175. The Commission believes it is important that there are consequences for companies that fail to comply with requirements and perform badly. However, the need for accountability may sometimes need to be viewed within the context of the broader public interest. A turnaround regime would comprise a set of defined tools for the regulator to deploy when companies enter the regime. These tools would involve both support levers to improve performance and sanctions to ensure there are sufficient consequences to prevent moral hazard. The aim would be to ensure the wider public interest, particularly the interest of customers, is not damaged by punitive measures on poorly performing companies that leave them unable to recover.

**Recommendation 59: The regulator in England and Wales should develop and consult on a framework for ensuring companies are prepared for SAR.**

176. The Commission believes the SAR should be a practical option for the regulator and government but that it should be very much a last resort. However well prepared, a SAR would be a major exercise that carries some risk of disruption to the company's operation. The Commission does believe, that further practical steps can be taken to ensure the SAR is a credible, but low probability, option. The regulator should develop and consult on a framework for ensuring companies prepare a plan for SAR. This should consider what the practical barriers to SAR might be, and how these can be mitigated in advance.

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<sup>100</sup> Ofgem, '[Strengthening Financial Resilience- Minimum Capital Requirement and Ringfencing CCBs by Direction](#)', 2023

<sup>101</sup> [The Capital Requirements Regulations 2013](#)

## 6.3: Competition

177. In England, some competition in the water industry has been introduced in line with past government policy. In Wales, competition has not been considered a priority.<sup>102</sup>

### Business Retail Market (BRM)

178. The Business Retail Market (BRM) offers businesses, but not households, a choice of water retailer and, depending how much water they consume, price protections. Retailers provide the interface with business customers, buying from the local water company and reselling to businesses. The lowest users of water benefit from the highest level of price protection; the largest have no protection. Larger water consumers account for most of the market. Some large corporations and local authorities have used the market to become self-supply businesses, acting as their own retailer.
179. The Commission has heard varied commentary on the BRM in 4 main areas:
- A lack of engagement in the BRM by smaller users: this has prompted some stakeholders to question whether the market is meeting its objectives and whether smaller businesses should be removed.<sup>103</sup> Others have argued that the costs of removing smaller business users would be significant.<sup>104</sup>
  - The impact of Ofwat's price protections on the BRM: retailers have argued that the margins available for smaller businesses are too small for it to be profitable or retailers to compete for these users.<sup>105</sup>
  - Views on the efficacy of the BRM: the Commission has heard that the cost of the scheme at present outweighs the benefits it produces. It has also heard from retailers and some businesses that retailers are better positioned to offer quality service to businesses than wholesalers. Retailers have also pointed to improved meter reading and bill accuracy for all businesses.<sup>106</sup> Some stakeholders have further indicated that, with increased bills and concerns around water usage by industry, the BRM's importance will grow in the future.<sup>107</sup>
  - Regulatory gaps: stakeholders have highlighted issues with complex wholesaler tariffs, with clear concerns from businesses around the clarity of billing. Other concerns relate to a lack of standardised

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<sup>102</sup> Llywodraeth Cymru Welsh Government engagement with the Commission, 2025

<sup>103</sup> Consumer Council for Water, '[Non-household Customer Insight Survey 2020 BMG report](#)', 2020 (page 34)

<sup>104</sup> Strategic Panel response to the Call for Evidence, 2025

<sup>105</sup> UK Water Retailer Council engagement with the Commission, 2025

<sup>106</sup> Market Service Operator Limited engagement with the Commission, 2025

<sup>107</sup> Market Service Operator Limited engagement with the Commission, 2025



metering data, and issues with meter rollout.<sup>108</sup> Stakeholders also point to inadequate protections in place should retailers unexpectedly exit the market, and the lack of a suitable appeals mechanism within the BRM for retailers who dispute price restrictions.<sup>109</sup>

180. Given the potential costs it could incur, the Commission does not believe smaller users should be removed from the BRM at present. However, it does believe that, 7 years after its inception, the BRM and the strategic objectives it should aim to meet should be reviewed.

**Recommendation 60: The UK government should conduct a full post-implementation review of the BRM. The Welsh government may also wish to consider a post-implementation review of the BRM, although the Commission recognises that policy towards the BRM is different in Wales than in England.**

181. The Commission understands a post-implementation review was envisaged at the opening of the BRM but has never been conducted. Such a review would provide an opportunity to reflect on the intended objectives of the BRM, the extent to which these have been met, and whether they remain appropriate. The UK government should consider the shift in strategic context since the BRM was set up in 2017 within this review. Water scarcity and efficiency have become more important given the changing climate; trust in the broader water industry has fallen; and bills have increased and are likely to remain higher for the foreseeable future.<sup>110</sup> The Commission recognises there is little appetite for expanding the more limited BRM in Wales, and reform may be a lower priority.<sup>111</sup>

**Recommendation 61: The government and regulator in England and Wales should explore short-term measures to improve the functioning of the BRM.**

182. The Commission notes that there are industry-led efforts already underway on tariff structures, but it is of the view that, given concerns around complexity, a more directive approach may be helpful. The Commission further considers there is a case for closing regulatory gaps as part of a future legislative exercise. It agrees with Ofwat and the CCW that there is the need to create a 'supplier of last resort' mechanism that ensures business customers are fully protected from retailer failure. The Commission also feels it is appropriate to bring the BRM in line with other price-regulated sectors and create an equivalent CMA appeals process for retailers as wholesalers.

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<sup>108</sup> Strategic Panel response to the Call for Evidence, 2025

<sup>109</sup> Engagement with the Commission, 2025

<sup>110</sup> Ofwat, '[Customer trust and satisfaction in water companies falling in latest Ofwat and CCW research](#)', 2024; Ofwat, '[Our final determinations for the 2024 price review](#)', 2025

<sup>111</sup> Llywodraeth Cymru Welsh Government engagement with the Commission

## New Appointments and Variations

183. New Appointments and Variations (NAV)s allow a new entrant company to replace incumbent water and sewerage companies in a specific area. They are mainly used by housing developers to supply new sites with water and/or sewerage services. The NAV market has experienced remarkable growth in recent years, especially in large-scale housing developments. NAVs are currently required to make a new application for every site they wish to serve. For each application, there is a mandatory 28-day consultation period.
184. The Commission has heard concerns around NAVs in 4 main areas:
- The proportionality of the NAV application process: the Commission has heard that there are significant delays in approving applications. Stakeholders have also been critical of the need to make a new application for every site. As Ofwat acknowledge, this may lead to a disproportionate administrative burden on NAVs, which is not placed on incumbents.<sup>112</sup>
  - NAV consultation timelines: stakeholders have further flagged that the 28-day consultation period causes unnecessary delays.<sup>113</sup> Ofwat believes this could be removed for the simpler applications but would prefer to retain discretion to consult on more complex applications.<sup>114</sup>
  - Broader concerns around competition between NAVs and incumbents: some stakeholders have noted that NAVs are currently required to produce WRMPs and DWMPs, which they do not have the required information to complete.<sup>115</sup> The Commission has also heard there is a lack of transparency on bulk charging structures from incumbents and that NAVs face disproportionate water testing requirements at sites.<sup>116</sup>
  - Different attitudes to NAVs in England and Wales: The Welsh Government have noted concerns around fragmentation from the NAV market and emphasised the UK and Welsh Government have different objectives on housebuilding.<sup>117</sup>
185. The Commission believes that, given the current state of the market, concerns around the proportionality of broader NAV regulation are legitimate, and this is hindering the potential of the market to support housing growth. The Commission sees opportunity to improve the proportionality of NAV licensing, as well as to remove broader barriers to competition between NAVs and incumbents. The Commission understands that, given different

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<sup>112</sup> [Ofwat response to the Call for Evidence \(annex\)](#), 2025

<sup>113</sup> Independent Networks Association engagement with the Commission, 2025

<sup>114</sup> Ofwat engagement with the Commission, 2025

<sup>115</sup> Independent Networks Association engagement with the Commission, 2025

<sup>116</sup> Ofwat engagement with the Commission, 2025

<sup>117</sup> Llywodraeth Cymru Welsh Government engagement with the Commission

views on the benefits of NAVs, these may not be appropriate for Wales. It is recommending:

**Recommendation 62: The framework for regulating NAV applications in England should be made more proportionate to support housing growth. The Commission recognises that given different views on the benefits of NAVs, the Welsh Government may decide not to pursue these reforms.**

186. The government should work with the regulator to facilitate movement towards a more company- rather than site-based approach to regulating applications, as happens in the energy sector. The government should also explore amending requirements on Ofwat to consult on all licensing applications to consider the scale or nature of sites. The Commission recognises that given different views on the benefits of NAVs, the Welsh Government may decide not to pursue these reforms these reforms.

**Recommendation 63: The Commission sees a strong case for dropping the requirement for NAVs to produce WRMPs and DWMPs given the view of the EA and for changes to the requirements upon them in relation to drinking water testing.**

187. The Commission sees a good argument for relaxing requirements NAVs to produce WRMPs/DWMPs and instead requiring NAVs to work with incumbents. The Commission also believes water testing requirements and fees on NAVs can be made more proportionate. On the other hand, the Commission recognises that the appropriate level of regulation required for the NAV market may change in the future, if the market grows in size. The UK government should work with the regulator to review these requirements on NAVs, balancing the need to support market growth with concerns around market size and fragmentation.

**Recommendation 64: The Commission believes the UK government should monitor NAV market size and risk of fragmentation.**

188. While the Commission sees clear benefits from expanding the NAV market now – including in relation to meeting the UK government’s objectives on housing – it is also mindful of the risks of rapid market expansion, including from fragmentation, which will create a more complex environment for regulators in overseeing outcomes and delivery. The UK government should monitor the overall size and risk of fragmentation from the NAV market.

#### **Direct Procurement for Customers and Specified Infrastructure Projects Regulations**

189. The Direct Procurement for Customers (DPC) model was introduced by Ofwat at Price Review 2019. The intent was to enable water companies to put large infrastructure projects out to competitive tender where the infrastructure is discrete and separable from the company’s network.

Specified Infrastructure Projects Regulations (SIPR) enables a third-party infrastructure provider to be granted its own licence to build a major project and then be directly regulated by Ofwat.

190. Concerns have been raised in 3 areas in relation to DPC and SIPR:
- Administrative burden and cost: construction companies have noted that Ofwat and water companies may not yet have enough experience of DPC to progress projects without delays.<sup>118</sup> Concerns have also been expressed over the costs of setting up SIPR projects, which can reportedly go into several hundred million pounds.<sup>119</sup> It has been suggested this could be reduced by using templates, which Ofwat have indicated they are exploring.
  - Need for government support: many stakeholders have noted that government support for the Thames Tideway project was essential to encouraging the inflow of private investment to the project. This is because the government support removed the potential for large losses in the unlikely event of a tail risk materialising.<sup>120</sup> However, the Commission understands no government support packages are currently planned for future SIPR projects.
  - Fragmentation risks: officials in the Welsh government, who do not view DPC and SIPR as a priority, have expressed concern that they increase complexity by increasing the number of participants involved in the sector, leading to fragmentation.<sup>121</sup> Investors have also raised concerns around lines of accountability, for example, for DWI water quality obligations, between third-party contractors and water companies.<sup>122</sup>
191. The Commission believes that DPC and SIPR can provide an effective approach to introducing more competition into the industry through competitive delivery for large and complex infrastructure projects. It further believes that DPC and SIPR need more time to bed in, although there is a clear case for addressing early teething issues. Reflecting this view, the Commission is making a single recommendation in relation to DPC and SIPR.

**Recommendation 65: The regulator should continue the essential steps that Ofwat is taking to address issues with DPC and SIPR. A full evaluation of both schemes should be undertaken in 5 years when a broader evidence base has been accumulated. The Commission recognises that given different views on**

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<sup>118</sup> Construction industry engagement with the Commission, 2025

<sup>119</sup> Water company engagement with the Commission, 2024-25

<sup>120</sup> Investor engagement with the Commission, 2025; Thames Tideway response to the Call for Evidence, 2025

<sup>121</sup> Welsh Government engagement with the Commission, 2025

<sup>122</sup> Investor engagement with the Commission, 2024

**the benefits of DPC and SIPR, the Welsh Government may decide not to pursue these reforms.**

192. The regulator should ensure there is clear guidance on management of liabilities in DPC and continue to work with industry to share best practice for SIPR. As further schemes move through the DPC and SIPR pipeline, additional lessons may emerge. The Commission recognises that given different views on the benefits of DPC and SIPR, the Welsh Government may decide not to pursue these reforms.

## **Chapter 7: Infrastructure and asset health**

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Recommendations in Chapter 7 of the report are designed to initiate a marked step change in how infrastructure in the water industry is managed, monitored, and delivered. This is essential for safeguarding the provision of water and wastewater management for future generations.

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### **7.1: Resilience and asset health**

193. The provision of safe drinking water and effective wastewater management requires healthy assets and a system that is resilient overall to short-term shocks and long-term pressures.
194. Infrastructure resilience is the capacity both to prevent failure and recover from disruptions. It requires redundancy in the system and for potential critical points of failure to be addressed. To achieve a suitable level of resilience, water companies must understand the risk of disruption and failure in their infrastructure and have recovery mechanisms in place. This, in turn, requires a thorough understanding of their asset base, its condition, and the maintenance and renewal necessary to reduce the likelihood of failure.
195. Ofwat is the regulator responsible for infrastructure resilience. It measures asset health through a series of backward-looking metrics, including sewer collapses, mains repairs, and unplanned outages. These are used in its Price Review process to set performance targets and to approve maintenance and renewal expenditure. Water companies are also subject to overarching legal duties in relation to infrastructure and various discrete requirements.
196. The Commission has heard that there is a need for resilience standards that are forward-looking and applied consistently across the industry. Stakeholders have noted that the current metrics used by Ofwat are backward looking and do not address long-term challenges. They have further noted that other duties to provide drinking water and treat waste lack



minimum system resilience standards, meaning that the way one company manages infrastructure can differ to others.<sup>123</sup>

197. Stakeholders have also commented on a lack of understanding of the condition of infrastructure assets. Ofwat's metrics are based on failure and do not explicitly assess either the condition of assets or preventative activity taken by companies. Some companies argue that this has resulted in a lack of funding to sufficiently maintain and proactively renew their assets. The Commission also understands that companies may not be adequately mapping their asset networks<sup>124</sup>.
198. The Commission has further heard of shortcomings in infrastructure oversight. Responsibility for oversight is spread across regulators but there appears to be a lack of coordination among them, with no regulator currently inspecting infrastructure from the perspective of condition.<sup>125</sup> In principle, the task of coordination falls to Ofwat, but it does not, in practice, appear to lead regulatory assurance of companies' infrastructure or consider overall system resilience. Some stakeholders have also noted Ofwat's limited engineering capability.<sup>126</sup>
199. Stakeholders have further raised concerns around critical dependencies within the supply chain for water. They have particularly noted the supply of chemicals that treat water, given uncertainty around international supply chains and a reduced indigenous supply of chemicals. In this context, stakeholders have further noted that the water industry in England and Wales represents a small proportion of demand for chemicals and therefore has limited buying power in global markets.<sup>127</sup>
200. The Commission has concluded that the regulatory approach to infrastructure resilience is not delivering a system that is sufficiently resilient to short-term shocks and long-term pressures. It is making 4 recommendations, mirroring the concerns it has heard from stakeholders.

**Recommendation 66: Statutory resilience standards, covering system, infrastructure and supply chains, should be developed and adopted for the water industry in England and Wales.**

201. The Commission believes there is benefit in specifying outcome-based resilience standards at the system level, rather than prescriptive requirements for individual assets. This would provide flexibility for the different conditions in which companies operate. The standards should be designed to meet consumer and environmental expectations via a working

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<sup>123</sup> Water UK response to the Call for Evidence, 2025

<sup>124</sup> Water company engagement with the Commission, 2024

<sup>125</sup> Water company engagement with the Commission, 2024

<sup>126</sup> Water company and industry body engagement with the Commission, 2024-25

<sup>127</sup> Water UK and water company engagement with the Commission, 2024-25

group facilitated by the National Infrastructure and Service Transformation Authority (NISTA). They should also be developed at pace to ensure they are reflected in Price Review 2029.

**Recommendation 67: The UK and Welsh governments should strengthen the requirements on companies to map and assess the health of their assets, and the regulators should ensure metrics for asset health are sufficiently forward-looking.**

202. The duty to enforce the requirements on companies to map their assets should be delegated to the regulator as opposed to remaining with the Secretary of State as currently. The Commission further recommends that government undertakes a cost-benefit assessment of the case for removing or changing current exemptions to mapping. A methodology for assessing asset condition and a forward-looking asset health metric for use during price setting should be developed by the regulator.

**Recommendation 68: The regulator's oversight of infrastructure resilience and asset health should be strengthened, under its supervisory approach. This should include the appointment of a Chief Engineer on the board of the regulator in England and Wales.**

**Recommendation 69: The regulator should conduct a sector-wide risk assessment of critical supply chain dependencies in England and Wales.**

203. A sector-wide risk assessment would aim to identify interdependencies or cross-sector risks that individual companies miss; it is critical that companies continue to undertake their own supply chain risk assessments alongside this sector-wide perspective. The assessment should consider specific measures or actions companies could take either individually or across the water industry.

## **7.2: Infrastructure security**

204. Water is part of the UK's critical national infrastructure. As such, alongside resilience, it needs to be secure against hostile threats, including cyber threats.
205. Freedom of information requests reveal an increasing number of water industry cyber security incidents. While not all such incidents will have operational impacts, severe attacks could impact drinking water and wastewater services, and thereby public health and the environment.
206. Water companies are subject to two sets of infrastructure security requirements, which are regulated by the DWI.
- The Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction 2022 (as

amended) (SEMD) – this directs companies in the interest of national security and to mitigate the effects of a civil emergency. It applies to all water and sewerage companies regardless of size.

- Network and Information Systems Regulations 2018 (NIS) – these impose specific requirements to withstand cyber threats for large water companies.

207. Stakeholders have highlighted various gaps in the legislation for infrastructure security.<sup>128</sup> NIS, for example, only applies to drinking water supply and not wastewater while SEMD does not apply to third-party operators. Regulators have further commented that Strategic Policy Statements have not given sufficient weight to cyber security.<sup>129</sup> The Commission has further heard that the legislation does not provide the DWI with sufficient deterrents by way of enforcement.<sup>130</sup>
208. The Commission considers that these gaps are unacceptable. Given the increasing number of cyber incidents, the maturity of companies' security arrangements is also concerning. The Commission is making 2 recommendations in relation to infrastructure security:

**Recommendation 70: The UK and Welsh governments should strengthen legislation relating to security arrangements for the water industry to ensure it keeps pace with a changing industry.**

**Recommendation 71: The regulator should be provided with strengthened powers for the enforcement of existing security regulations in England and Wales.**

### 7.3: Infrastructure delivery

209. Timely delivery of new infrastructure is essential both for supporting asset replacement programmes and government ambitions for growth.
210. Water infrastructure facilitates growth by enabling new housing developments and unlocking opportunities for rapidly expanding industries, such as hydrogen production and data centres. Through Price Review 2024, the water industry will increase enhancement expenditure to £44 billion, around 4 times the level of Price Review 2019.<sup>131</sup> This activity is concentrated in England; there are no major water projects planned for Wales in Price Review 2024.

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<sup>128</sup> Regulators and water company engagement with the Commission, 2024-25; Ofwat and water company response to the Call for Evidence, 2025

<sup>129</sup> Regulators and water company engagement with the Commission, 2024-25

<sup>130</sup> DWI engagement with the Commission, 2024-25

<sup>131</sup> [Our final determinations for the 2024 price review – Sector summary](#)

211. As part of their Plan for Change, the UK government has committed to building 1.5 million homes in England over the course of the current Parliament. They will also look to fast-track planning decisions on at least 150 major economic infrastructure projects.<sup>132</sup>
212. For these commitments to be met, it is essential that the water infrastructure they need is delivered. The independent systems planners recommended in Chapter 2 will create a much more effective link between local planning authorities and water investment planning. In addition to that, and based on feedback it has heard from the water industry, the Commission is making recommendations in 4 areas:
- Planning – recognising the need for coordination between local planning authorities and water companies, to ensure water infrastructure is delivered in a timely way in support of housing and other developments.
  - Regulatory processes – recognising the need for efficient decision-making around new projects, to avoid unnecessarily slow water industry infrastructure delivery.
  - Government and regulator coordination – recognising the need for regulatory support for infrastructure delivery to reflect government priorities.
  - Standardised practises – recognising the need to maximise the efficiency of infrastructure delivery through sharing of expertise and best practices across the water industry.

## Planning

**Recommendation 72: The role of water companies in the planning process in England should be strengthened to ensure they have sufficient sight and influence over upcoming developments. The ‘right to connect’ should be reviewed.**

213. In England, planning authorities are required to develop Local Plans that set out a 15-year outlook for local development. The Commission believes that water companies should be included within a ‘requirement to assist’ with the development of those Local Plans. In Wales, the Welsh Government should consider if water companies’ role should be strengthened as they are already consulted on the drafting of Local Development Plans.
214. The Commission believes water companies should have a clear ability to comment on planning applications above a certain threshold in England. The UK Government should consider whether this should be as a statutory

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<sup>132</sup> Prime Minister’s Office ‘[Plan for Change](#)’, (Viewed 17 July 2025)

consultee, or through a 'requirement to notify.' This is to ensure water companies can deploy site specific technical advice and avoid delays.

215. Finally, the UK government should conduct a review of the 'right to connect.' This obliges water companies to connect new domestic water supplies upon request, regardless of network capacity and any lack of advanced notice. The UK government should undertake an assessment of whether it is appropriate to provide for circumstances where a water company can object to a request, for example, when there is insufficient network capacity.

## Processes

### **Recommendation 73: Planning processes in England should be updated to support the timely delivery of water industry infrastructure.**

216. Delivery of new water infrastructure is supported by the Nationally Significant Infrastructure Projects (NSIP) framework. Under NSIP, infrastructure projects meeting a certain threshold obtain consent through a Development Consent Order (DCO) rather than from local planning authorities. NSIPs are assessed in line with the government policy laid out within National Policy Statements (NPSs) for both wastewater and for water resources.
217. The Commission believes the NPSs for wastewater and water resources should be reviewed and updated in England. The review should consider how strategically significant projects could be better reflected in the NPSs to speed up their inclusion in the NSIP framework and whether Critical National Priority status would be appropriate. It is further crucial that the NPSs are as clear as possible on which projects the UK government deems necessary for environmental protection, housing delivery, and economic growth.

### **Recommendation 74: Permitted Development Rights (PDRs) for water companies in England and Wales should be updated to reduce the scale of delivery requiring full planning permission.**

218. PDRs grant the ability to make certain improvements or changes to property without the need to apply for and obtain planning permission. The PDRs should be updated to include simple infrastructure projects not currently in scope, such as continuous water quality monitor kiosks or small pumping stations. The Commission believes this would avoid unnecessary delays and allow water companies to focus effort and resourcing into the delivery of larger, more complex projects.

## Government and regulator co-ordination

### **Recommendation 75: RAPID, in England and Wales, should be expanded and strengthened to support strategic infrastructure delivery.**



219. The Commission believes that the scope of RAPID should be expanded to include wastewater projects as well as strategically important projects that do not meet current size/complexity thresholds. The programme should continue to coordinate major or strategically important infrastructure project delivery through a gated process and support projects to gain the permits and consents needed before construction. The Commission further encourages greater co-ordination with the Welsh environmental regulator to ensure benefits of the programme are being realised in Wales and a role for systems planners.

### Standardised practices

**Recommendation 76: NISTA should consider how the water industry in England and Wales could move towards standardised practices and further recommend how this could be advanced.**

220. The Commission believes that a move towards standardisation of design would increase the efficiency with which water infrastructure projects are delivered. As part of this, NISTA should consider the creation of a sector-wide infrastructure delivery company to deliver programmes of large infrastructure projects. This could avoid the need for the duplication of expertise and allow for sharing of lessons learnt, best practice, and training needs.

## 7.4: Monitoring and assurance of infrastructure delivery

221. Effective monitoring and assurance of infrastructure delivery is needed for the public to be confident their bills are being used to improve the water environment and services.
222. For Price Review 2024, Ofwat introduced two monitoring and assurance frameworks for delivery of water infrastructure. The Delivery Monitoring Framework covers WINEP (England), and NEP (Wales) spend while the Delivery Plan Framework aims to track progress annually that companies make towards delivering their delivery programmes. Ofwat further requires water company board assurance on the deliverability of each company's business plan.
223. Ofwat have also introduced Price Control Deliverables (PCDs) to track delivery of projects, provide incentives for timely delivery, and – where delivery fails – return funding to customers. These PCDs mainly cover enhancement spend. Base PCDs set for maintenance spend include mains renewal and company-specific upgrades.
224. Through its engagement with the water industry and other stakeholders, including the Call for Evidence, the Commission has heard a range of

concerns around monitoring and assurance of infrastructure delivery. These include:

- Neither Ofwat nor the EA conduct sufficient routine inspections to provide assurance over delivery. There are also inadequate mechanisms in place for regulators to take remedial action prior to the point of failure and ensure delivery is on track.<sup>133</sup>
- Ofwat's frameworks are complex, duplicative, and siloed by delivery programme. This makes them burdensome for companies in terms of resources and reporting. It also means a full picture of infrastructure delivery is not available.<sup>134</sup>
- Both the current monitoring frameworks and PCDs include little coverage of base capital maintenance expenditure. This means they do not provide adequate assurance that companies have delivered against their business plans in terms of the capital renewal of existing assets.<sup>135</sup>
- PCDs may not be robust enough to sufficiently safeguard customer funds. At the same time, they are too prescriptive and limit the ability of water companies to innovate and deliver new solutions.<sup>136</sup>

225. Reflecting these concerns, the Commission agrees that there are weaknesses in the regulator's approach to holding companies to account for delivery of infrastructure spending. The Commission is therefore making 3 recommendations:

**Recommendation 77: The delivery assurance frameworks (Delivery Plans and Delivery Monitoring Framework) that cover infrastructure capital spending across England and Wales should be reviewed during AMP8 and rationalised.**

226. The Commission believes that a future delivery assurance framework should ensure the regulator has a clear view of delivery across all areas. This means it should cover additional infrastructure spending across both base and enhancement allowances, especially larger critical projects that currently sit outside of RAPID or large scheme gated processes. Smaller projects should be monitored at a programme level, rather than tracked individually, and there should be embedded flexibility for the delivery of smaller projects to change based on need. A future framework should also incorporate reporting on RAPID and other projects that are tracked through large, gated processes.

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<sup>133</sup> Engagement with the Commission, 2025

<sup>134</sup> Engagement with the Commission, 2025

<sup>135</sup> Figures provided to the Commission from Ofwat

<sup>136</sup> Water UK response to the Call for Evidence, 2025

**Recommendation 78: A review of the current PCD framework in England and Wales should be completed before the end of AMP8, to inform a more robust and flexible framework, broadly set at programme level spending.**

227. The Commission believes it is important to maintain a clawback mechanism within the PCD framework, to ensure effective accountability where companies have received revenue for projects but have failed to deliver. There should, however, be flexibility built into the framework – to allow for innovation where new opportunities arise, and for reprioritisation to more urgent infrastructure needs. Future PCDs should not include operational expenditure but should cover additional enhancement spend and base spend where this is for capital renewal.

**Recommendation 79: Under the supervisory approach, the regulators in England and Wales should provide assurance on how companies are delivering infrastructure spend.**

228. Supervisory activity would be risk-based, proportionate, and informed by company performance rather than checking all infrastructure delivery in detail. Most infrastructure expenditure across enhancement and maintenance would be in scope; and any future delivery assurance framework and future PCDs would be key metrics to inform supervisory activity.

## **7.5: Supply chain and labour force capacity**

229. The smooth operation of supply chains is critical to the provision of water and the management of wastewater, as well as to the delivery of infrastructure to address future challenges and enable growth. For the provision of new infrastructure, the water industry is heavily reliant on the construction industry alongside a skilled workforce.
230. The Commission has heard concerns around an ageing workforce in the water industry, raising the risk that critical expertise in delivering infrastructure may soon be lost.<sup>137</sup> Moreover, this is at a time when other industries are competing for limited resources to deliver major infrastructure projects. Across the supply chain, stakeholders have also noted a lack of clarity and confidence in the long-term plan for water infrastructure delivery.<sup>138</sup> This is deterring the supply chain from building the necessary capacity to invest beyond the current Price Review cycle. Some water companies have questioned whether spending in the water industry is already outpacing supply chain capacity.

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<sup>137</sup> Murray McIntosh, '[The Water Industry Labour Report](#)', 2025

<sup>138</sup> British Water and the Future Water Association engagement with the Commission

231. The Commission believes that water companies must be able to demonstrate they have the workforce and supply chains to deliver future infrastructure plans. Given the future pressures on water, and the scale of infrastructure delivery needed to meet those pressures, greater assurance over the ability of water companies to deliver is essential. As part of this, the Commission believes it is important that water companies collaborate and share best practice on engagement with the supply chain, to raise the performance of the whole industry.
232. Reflecting the concerns it has heard and the conclusions it has reached, the Commission is making 3 recommendations in relation to supply chain capacity.

**Recommendation 80: The regulators and systems planners, in England and Wales, should jointly undertake a water industry infrastructure delivery needs assessment against an assessment of supply chain capacity.**

233. The national coordinator of the systems planners in England, and the national systems planner in Wales, should publish a national supply chain requirements dashboard every 5 years, in line with their regional plans. Alongside that, the National Water Strategy should provide a 25-year high-level view of the priorities for the water industry. This should reduce uncertainty and encourage investment in the capacity and skills needed for the supply chain to deliver.

**Recommendation 81: Water companies, through Water UK, should share best practice on supplier contracts and procurement strategies to help improve water company relationships with the supply chain in England and Wales.**

**Recommendation 82: The regulator, under its supervisory approach, should gain further assurance from companies in England and Wales on workforce and supply chains to ensure companies can sufficiently deliver.**

234. Under the wider supervisory approach, the regulator should continue to require company boards to assure delivery plans, including workforce and supply chain considerations. Using a risk-based approach, the supervisors should provide additional scrutiny where companies have previously experienced challenges to allow the regulator to ensure companies strengthen their workforce and supply chain strategies. Companies will need to demonstrate that they are appropriately considering their current and future workforce needs, and whether they can sufficiently deliver on both business-as-usual activities and future infrastructure requirements. Further evidence of engagement with suppliers should be required as part of approval of plans in some situations.

## 7.6: Innovation and technology

235. Innovation in the water industry is critical for productivity growth and has the potential to facilitate better quality outcomes and lower customer bills. Since 2008, the water industry has experienced a significant slowdown in productivity growth.<sup>139</sup> Despite various attempts to boost innovation in the sector – including by Ofwat, government and some water companies – it remains stubbornly low.
236. The Commission has identified 4 main issues contributing to a lack of innovation in the water industry:
- Risk aversion and regulatory constraints: the Commission has heard that the public and political scrutiny the industry is under is making it more difficult for companies to justify experimental or high-risk innovation.<sup>140</sup> Inflexible legislative frameworks also make it difficult for companies to trial novel approaches.<sup>141</sup>
  - Insufficient access to funding for innovation: Ofwat introduced an Innovation Fund, which was welcomed by the industry. However, water companies have noted that it is relatively small and have expressed concerns that the competitive way in which it is distributed may advantage larger, higher performing companies.<sup>142</sup>
  - Lack of collaboration across the water industry: the Commission has heard from some industry bodies that Ofwat's comparative benchmarking discourages water companies from sharing knowledge and best practices, including for innovation.<sup>143</sup>
  - Lack of visibility in long-term delivery requirements: stakeholders further note that the drive to see progress over the short length of the 5-year Price Review cycle may deter longer-term innovative initiatives, such as nature-based solutions, in favour of standard grey solutions that deliver over shorter timeframes.<sup>144</sup>
237. Recommendations throughout this report should benefit innovation, including through greater direction for the water industry, a move towards more outcome-based regulation, more constrained discretion for regulators and planners, and greater use of technology in environmental regulation. Alongside these, the Commission believes there is a need to address issues

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<sup>139</sup> Frontier Economics, '[Productivity improvement in the water and sewerage industry in England since privatisation](#)', 2017

<sup>140</sup> Regulator engagement with the Commission, 2024-25

<sup>141</sup> Water Company and regulator engagement with the Commission, 2024-25

<sup>142</sup> Water Company engagement with the Commission, 2024-25

<sup>143</sup> Water Company and industry body engagement with the Commission, 2024-25

<sup>144</sup> Water Company engagement with the Commission, 2024-25



around risk aversion, funding, and industry collaboration. Reflecting this, it is making 3 recommendations in relation to innovation and technology.

**Recommendation 83: The UK and Welsh governments should introduce structured regulatory sandboxes to support innovation uptake.**

238. A sandbox would allow water companies to test new concepts and innovative approaches, potentially in real world conditions. It should offer a range of regulatory flexibilities so that companies are aware of what flexibility is available to support their proposals. The exact flexibilities would be decided on a case-by-case basis. The regulator should lead an eligibility and desirability risk assessment for each proposal. Overall performance should not automatically prevent companies from participating in the sandbox given that engaging lower-performing companies in developing innovative solutions could drive improvements in performance. The UK and Welsh governments should consider whether establishing sandboxes would need specific legislative provision as has been the case in some sectors or could operate within constrained discretion.

**Recommendation 84: The regulator in England and Wales should consider whether innovative funding mechanisms for the water industry are sufficient and effective.**

239. A review of the efficacy of the Ofwat Innovation Fund by the regulator in England and Wales when the current round comes to an end would help ensure the Fund works effectively alongside other recommendations that support innovation. A new innovative funding mechanism should also be considered through the price control process.

**Recommendation 85: Water companies should work with Water UK to disseminate innovation learnings across the water industry in England and Wales.**

## **Chapter 8: Implementation**

240. Delivering a fundamental reset of the water sector requires transformative change. The scale of change proposed in this report is significant. It cannot take place overnight, and it must be handled carefully. As a first step, the Commission expects the UK and Welsh governments to respond to its report later this year. This response should set out their respective positions in detail on the 85 recommendations.
241. There is pressure for government to move quickly. While many reforms will take time, the Commission believes there are some recommendations that can be delivered in the short-term. These are:
- Regional Water System Boards

- Supervisory approach
  - Social tariff
  - Development of infrastructure resilience standards
  - Strategic policy statements and directions to regulators
  - Reset approach to strategic communications
242. As part of early changes, shadow running could also be considered in the implementation of regulator structural changes.
243. Many of the reforms proposed require primary legislation to be delivered. The UK and Welsh governments may also want to consult on some of the more substantial recommendations ahead of legislation. The Commission believes that the introduction of primary legislation is likely to be centred on the following 5 strategic themes:
- Strategic direction and effective planning.
  - Rationalisation of the legislative framework.
  - Regulatory reform
  - Ensuring water companies are attractive to stable, long-term investment.
  - Infrastructure and asset health.
244. The interim period prior to changes coming into force could create uncertainty and instability for the water industry, investors, and regulators. Recognising this, the Commission is making 3 further recommendations:

**Recommendation 86: The UK and Welsh governments should respectively outline transition plans for regulators, water industry and investors as part of their response to this report.**

245. These transition plans should outline the timeline for change, transitional arrangements for moving from the status quo to suggested reform, and the expectations upon the regulators and water industry. The plans should be given legal underpinning to regulators, through an updated Strategy Policy Statement to Ofwat and statutory direction given to the EA. Transitional arrangements would support interactions with other recommended reforms. They should present a roadmap for regulatory change.

**Recommendation 87: To ensure effective collaboration during implementation, the UK and Welsh governments should establish an implementation advisory group for England and Wales.**

**Recommendation 88: An independent review of the follow up to the Commission's report should be carried out in 2 years' time.**

**Image credits**

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