Sub-Regional Governance for Water

Discussion paper

This paper, and the attached slide pack [link], explores options for reforming the governance of water in England to better reflect its inherently local nature (particularly but not exclusively with regard to catchments), align with the UK Government's devolution and growth agendas, return more say to local communities, mayors and councils, and better integrate water with housing, flood risk, skills development, climate mitigation and environmental planning. It highlights emerging regional approaches, assesses governance models, and sets out recommendations for more place-based and accountable water management, including through deliberative engagement. It takes as its starting position options for the South West – which could form a pilot for a new approach - given that: SWW is a fast track company; the local authority landscape is relatively stable, based around stable councils; there are singular issues, such as the seasonal nature of demand and treatment pressures, which national decision making is unlikely to optimise responses to; regional fora and identify are well established and overlaps in terms of common catchments and water resource transfers are quite limited.

Why reform is needed

England's current national model for water regulation is overly centralised, complex, and opaque. Key decisions often made nationally for issues that are fundamentally regional or sub-regional in nature. Many of these decision-making processes, particularly on environmental water quality, are inflexible and pay little if any account to implications for flooding, wider biodiversity or even Carbon. This limits local autonomy and contributes to a democratic deficit, where communities and their representatives have little formal influence over how water services are governed in their areas. This is one important factor behind the disconnect between water companies, customers and the communities they serve, and the lack of trust and accountability.

Many of the challenges—such as water's interface with surface water flooding, planning, and capacity for new housing—require coordination across local government, regulators, water companies and communities. Further responsibilities for housing and skills are also being devolved to Mayors and Unitary Authorities, the new local nature recovery strategies and landscape designation primacy are starting to take off and many local authorities have declared climate emergency. However, water governance remains largely separate from these locally led agendas, despite the clear interdependencies. Trade-offs between environmental, social and economic objectives are often made at national level (or ignored altogether), despite the clear regional variation in water systems and challenges. This results in inefficiencies, poor outcomes and a disconnect from what matters locally.

The Cunliffe Review calls for a stronger national framework to guide water-related decisions, while also recognising the need for region-specific management, acknowledging

that water systems vary across the country and require tailored, locally accountable approaches.

Principles for a new governance approach

Any reformed governance model should work up from a place and catchment-based approach that recognises the unique environmental and socio-economic characteristics of each region. By default, decisions should be made closer to communities, supported by stronger local democratic input and aligned with strategic local authorities such as Mayors and Unitary Councils. Better integration across water quality, flood risk, water resources, housing, planning and land use is essential. More co-ordinated and systems based national policy should set outcome-focused targets, while enabling flexibility in how those outcomes are achieved locally and should otherwise concentrate on things only national regulation can do. Regional fora such as RFCCs can be expanded to achieve better integration at the level, and also to create critical mass for the kind of biodiversity trading/markets approach recommended by Dan Corry's review.

National system planning

Even within a more devolved or regionalised model, there remains a clear and important role for national system planning. While local and regional governance structures are best placed to respond to place-specific pressures—such as surface water management, local housing growth, and catchment resilience—some aspects of water infrastructure and service standards require national coordination. This includes long-term planning and assurance for nationally significant infrastructure, and ensuring coherence across regional plans, particularly where catchments, markets or risks span multiple boundaries.

National system planning should also provide strategic oversight for areas where scale and consistency matter—such as major water transfers, inter-regional resilience, and assurance on major projects. This role must align with wider national infrastructure strategies, including housing and environmental targets, with input from regional groups and local planning authorities. By anchoring regional plans within a shared national framework, system planning can ensure consistency, enable efficiencies of scale, and support equitable service delivery across the country—while still enabling the flexibility and responsiveness of place-based approaches.

There also seems a logical continued role for national regulation on issues such as financeability and for oversight of regional approaches.

Regional governance models explored

A number of players have made a credible case that there is at present a 'missing middle' in water. Potentially complementary approaches to regional governance – sitting over catchment approaches for environmental water quality and the public health aspects of water bodies – include (with further detail later in this paper):

- **Negotiated settlement model**, based on the Scottish example, where service levels, investment plans and customer charges are co-developed through a structured process involving communities, regulators and companies. This approach retains national oversight but gives regions more control over how outcomes are delivered.

- **Greater use of deliberative approaches**: while stopping short of full negotiated settlements, this would create more informed local and community input and could also, with regulator support, devolve certain decisions to customers/citizens.
- **Strengthened role of Mayors and Unitary Councils**, aligning water governance with local responsibilities for housing, planning, flood risk and economic development. This reflects current policy direction and could be applied more immediately in areas with established mayoral institutions or stable council structures.
- **Building on Regional Flood and Coastal Committees**, which already bring together elected members, regulators and technical experts. RFCCs could evolve into regional water and flood boards with broader responsibilities, enabling more integrated decision-making while retaining links to national strategy. By allowing for integration across catchments and join up with natural flood management his could also provide the critical mass to allow for participation in the nature trading approach recommended in Dan Corry's review.

Hybrid models could retain necessary national functions (e.g. drinking water standards, economic regulation) while allowing different regions to move at different speeds and adopt structures that reflect local governance and hydrological realities.

In order to avoid an excessive number of 'tiers' it is likely that a degree of 'variable geometry' will be required between water resources and wastewater. Water resources already benefit from supra regional governance reflecting the need for increased transfers between catchments. Wastewater needs to align more closely to catchment and flood governance.

Regional differences and catchment areas

From an environmental and socio-economic perspective, no two catchments are the same. Factors such as geology, rainfall, land use and population dynamics create complex, region-specific challenges that require tailored responses. National standards, while important, often fail to capture this diversity and can lead to suboptimal or inefficient interventions when applied without local flexibility.

In many regions, chronic pressures such as diffuse pollution or land degradation (or for that matter run off from roads and the built environment), are as or more significant as acute issues like storm overflows. These challenges are linked to how land is managed and used, often beyond the reach of traditional water companies. This reinforces the need for integrated, catchment-based governance that connects water policy with agriculture, housing, infrastructure, and climate adaptation.

Strategic planning at the catchment level – federated up into regional strategies – offers a practical way to coordinate policy, funding and delivery. Catchment partnerships are increasingly mature and could form the core of future governance, supported by stronger democratic input, wider responsibilities and more coherent integration with local strategic authorities.

Current regional groupings

	WFD/EA	WASC/RFCC	Regional Groups	Strategic Authorities
Boundary Type	RBMPs / 100+	Hydrological/ FRMPs	Federated	Political
Description	River Water Quality objectives based on operational catchments federated up	Water authority and flood management boundaries broadly similar but don't match with EA zones	Federated Water Resource Zones	Federated up (Local Authorities & Down (devolution) Socioeconomic with increasing remit on environmental objectives
Number	10/100+	10/12	5	A lot of them!
Further considerations	Works well for water quality objectives. Catchment partnerships (CPs) increasingly mature would require federation up to RBMPs	The RFCC governance structure is closest to the model for regional governance	Probably too remote from catchments to make appropriate choices	SAs don't match with hydrological areas. Difficult to federate
Democratic Input	Strategic Authorities represented on CPs would need to be included on River Boards	Existed on water authority boards and currently on RFCC Boards	Involved in some regional water resource groups but no mandate	Most aligned

How the tiers might work

	Catchment level	Unitary/ mayor	Regional	Supra-regional	national
Water resources		X		X (e.g. WRSE)	X National system planner
Waste water	X (operational)	X (strategic)	X RFCC type model or strategic infra board		X National system planner

The aim is to simplify governance by limiting it to no more than three tiers for both water resources and wastewater or the water environment. This should include a meaningful role

for Unitary Councils and Mayors, while also addressing the current 'missing middle' between national oversight and local delivery.

This may of course require or be facilitated by creating separate licenses for water and waste water operations.

Lessons from regional case studies

Several regional initiatives already offer promising models of integrated governance:

- **South West** The Upstream Thinking Programme established a partnership approach to diffuse and point source pollution issues in 11 catchments across Devon and Cornwall. Using natural landscape-scale solutions and on-farm mitigation, the project worked with farmers, landowners, national parks and NGOs to mitigate the impact of farming on river ecosystems in the lowlands, and therefore on the production of drinking water. The outcome based project was nested within the Water Framework directive.

- **Greater Manchester**, an Integrated Water Management Plan has been established through collaboration between the Greater Manchester Combined Authority, United Utilities and the Environment Agency. Embedded within existing Mayoral governance, it aims to align environmental infrastructure with regional economic priorities, delivering flood resilience, improved water quality, biodiversity gains, and inclusive green growth.

- **Isle of Wight** provides a more infrastructure-focused example, where Southern Water and the Unitary Council are working together on sustainable drainage solutions to jointly reduce sewer overflows and surface water flooding. This includes topographical modelling, rain gardens, water butt distribution, and permeable roads/pavements although challenges remain in integrating Environment Agency funding streams.

- **Norfolk** has developed a strategic regional water partnership through its Advanced Water Industry National Environment Programme (WINEP), bringing together Anglian Water, Norfolk County Council, the Environment Agency, and local stakeholders. This partnership is co-developing an investment pipeline that attracts both public and private finance and delivers nature-based solutions with community support.

- In **London**, the Mayor has taken forward a surface water strategy following severe flooding in 2021. The governance model includes borough councils, the Greater London Authority, the Environment Agency, Thames Water, Transport for London, and emergency services, meeting quarterly to monitor progress. Seed funding has been matched with innovation finance from Ofwat, and Thames Water is piloting a market-based mechanism to incentivise sustainable drainage.

These case studies demonstrate that while governance structures differ, the principles of local leadership, multi-agency collaboration, and outcome-focused planning remain consistent. They also reveal the importance of flexible, region-specific approaches that draw on existing institutions to meet current and long-term needs.

South West Water

South West Water (SWW) provides a strong candidate for piloting more devolved models of water governance. As a fast-track company, it has already been recognised as suitable for greater autonomy. Its operating area is relatively self-contained, with few cross-boundary water transfers and no water-only companies, simplifying coordination and accountability. The region also benefits from a single, effective Rivers Trust and a good degree of alignment with local authority structures. Pennon's ownership of Bristol Water, Bournemouth Water and SES Water also offers opportunities to explore different governance approaches across varying local contexts.

The South West faces distinctive challenges, including a long coastline, strong seasonal demand from tourism, and persistent water scarcity despite high rainfall. Its catchments are small and fragmented, requiring tailored, catchment-scale approaches. Socio-economic variation is also significant, with deep pockets of deprivation alongside more affluent areas. Importantly, SWW's footprint aligns well with stable and often unitary local authorities—Cornwall, Devon, Somerset and Dorset—creating a practical basis for more integrated and accountable governance. There is also precedent for cross-regional coordination, such as through the South West Regional Flood and Coastal Committee, supporting the case for a coherent regional model.

Public engagement and deliberative approaches

Effective public engagement is essential for trusted, legitimate, and resilient water governance. Yet conventional tools—such as willingness to pay (WtP) surveys—often struggle to capture informed public opinion – and tend to be confined to the narrow period in price reviews surrounding the preparation of business plans. These methods typically rely on either stated or revealed preferences, which offer limited insight in a sector where public awareness is low and the issues are often technical or unfamiliar. People can appear to answer the questions, but the preferences they reveal may be based on incorrect assumptions.

Deliberative public engagement offers a more robust alternative – and one which can be more divorced from the narrow business planning period. Approaches such as citizens' panels or representative fora create the space for participants to engage in dialogue with experts, consider evidence, and reflect on priorities and trade-offs. This results in more considered and meaningful input. When given the opportunity to explore issues like long-term water security, environmental protection or bill fairness, people often adjust their views and develop more nuanced positions than they might express in a traditional survey.

Importantly, deliberation focuses not just on consumer preferences, but on values and principles. While surveys tend to capture what individuals want for themselves, deliberative methods support a more collective, citizen-based view—allowing people to consider societal outcomes, fairness, and future generations. These approaches have been used successfully by local authorities, the NHS, and the Climate Change Committee among others to inform strategic decisions and shape public value frameworks.

A range of formats can be tailored to different questions:

- **Citizens' assemblies** bring together a representative cross-section of the population to develop recommendations over several sessions.
- **Deliberative fora** involve both citizens and stakeholders in co-designing strategies or exploring policy options.
- **Multi-stakeholder water panels**—bringing together residents, landowners, regulators and environmental groups—can support shared solutions to regional challenges, though these require structure and support to ensure public voices are heard meaningfully.

Deliberative engagement does not mean passing the buck for much decision-making to the public. Most people do not expect to make final choices, but they do want to be heard—and to see that their views have been taken seriously. When done well, deliberation can improve decisions, and reduce the risk of public opposition by strengthening trust through aligning policies more closely with public values. When done poorly—or seen as tokenistic—it risks reinforcing negative perceptions of the sector. For that reason, early, thoughtful, and transparent engagement is critical.

Negotiated settlements

Negotiated settlements offer an alternative to traditional regulation by allowing water companies, regulators, and stakeholders—such as consumer groups, environmental bodies, and businesses—to agree investment plans, service levels, and price profiles through a structured, facilitated process. Instead of decisions being imposed by the regulator, the parties co-develop solutions based on shared evidence and deliberation. This approach has been used internationally, including in the US gas sector and the Scottish water sector. In Scotland, where a single public provider operates, negotiated outcomes have helped balance public priorities with service delivery. A similarly structured, regionally focused approach could be well suited to areas like the South West.

The process typically involves early engagement, information sharing, and structured negotiation around key issues such as affordability, resilience investment, and environmental goals. If agreement is reached, the regulator formalises the settlement as a regulatory determination. This model can reduce regulatory burden, improve trust, and encourage longer-term, collaborative planning. It helps move away from the traditional 'parent-child' relationship between regulator and company, replacing it with co-ownership of outcomes. As Stephen Littlechild noted in evidence to the Competition and Markets Authority, negotiated settlements can be "more efficient…easing the burden on the regulator" while securing more widely supported outcomes.

However, the model brings risks. Information asymmetries between companies and consumer groups can undermine fairness, and there is potential for stakeholder capture if customer panels are unrepresentative or weakly supported. These risks are heightened where customers are effectively involved in price-setting. Protection is needed for vulnerable groups. Some elements—such as assessing cost of capital or ensuring financial resilience—may still require regulatory oversight. Nevertheless, with careful design,

negotiated settlements offer a credible route to more democratic, accountable and efficient water governance.

Roles of Ofwat and the Environment Agency, with and without new legislation

Even without new legislation, both Ofwat and the Environment Agency (EA) have flexibility to take a more enabling approach within their existing statutory frameworks. For Ofwat, there is little in its statutory duties that requires reliance on comparative competition, delivery incentives or rigid price-setting mechanisms. A revised Strategic Policy Statement from Defra could provide the political cover needed to support more local autonomy.

The EA's scope is more constrained due to the risk of judicial review under current process-based regulations (e.g. Urban Waste Water Treatment Directive, the Environment Act's phosphorus targets, and the Storm Overflows Reduction Plan). However, the EA could still take a more outcomes-based, strategic role—drawing more fully on its sustainable development duty—provided that core environmental protections are not subject to local discretion.

With primary legislation, far deeper reform would be possible, including devolving elements of water oversight to customer bodies, Mayors or local authorities. However, full devolution would risk undermining key regulatory functions. Even in Scotland, where negotiated approaches are well developed, the economic regulator retains a role in assuring fairness and setting core parameters. Market failures—particularly those arising from monopoly power and information asymmetries—still require regulatory oversight.

National oversight of environmental outcomes will likely remain essential, especially given cross-boundary impacts and the continued role of agricultural funding and land use. That said many existing permitting systems can and should be replaced with outcome-based frameworks. And even without this, there is significant space for regulation to a less risk averse lighter tough, recognising also impacts on carbon and flooding.

Conclusion

Reforming and strengthening the role of sub-regional water governance is not only possible but necessary. The current system is not delivering the outcomes needed for the environment, the economy or communities – and it is increasingly out of step with the direction of wider public policy. A shift towards place-based, integrated and democratically accountable governance can unlock better performance, greater efficiency, and stronger public legitimacy.

This transition should build on existing partnerships, recognise regional variation, and be supported by clear national frameworks that set outcomes without prescribing uniform solutions. Water is both a public service and a vital enabler of long-term sustainable development. It is time for its governance to reflect that reality.

South West Water provides a compelling test case for trialling a more regionalised approach to water governance. With a self-contained geography, relatively aligned local authority structures, and distinct environmental and socio-economic challenges, it offers the practical

conditions—and public legitimacy—needed to pilot a place-based model that could inform wider reform across England.