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Sub regional governance for water

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Sub-regional governance for water

This pack:

- Explores options for regional and sub-regional water governance, aligning with the government's devolution agenda and enabling England to move away from primarily national decision-making on local issues.
- Discusses how this approach can integrate water, flood, and housing decisions (as well as likely devolved responsibilities for skills) at the local authority or Mayoral level.
- Considers how new models might interact with existing structures, such as Regional Flood and Coastal Committees (RFCCs) and Regional Water Resources groups.
- Assesses the implications of regional variation in catchments and local authority structures across the country.
- Explores whether different models may be more suitable for water resources, wastewater, or both.
- Presents models for enhanced customer involvement, including deliberative forums (with expert input) and negotiated settlements, referencing examples from Scottish Water.
- Offers options for legacy roles for national economic and environmental regulators, both before and after legislative change.
- Argues that the case appears strong that if a pilot is required SWW would be an obvious choice, as a fast track company with specific issues, stable local governant and relatively self contained water supply, waste water and catchment systems.

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Cunliffe review – key 'pegs'

- Establishing a national strategic framework: the review calls for a stronger national approach to guide water-related decisions and balance competing priorities including environmental protection, public health, and economic growth.
- Recognising water's local nature: the water system is made up of regional networks and local catchments. The review stresses the need for region-specific management and tailored solutions.
- Promoting integrated regional management: highlights Greater Manchester's integrated water management model, led by the Mayor, as a potential blueprint for other areas.
- Advocates outcome-based regulation in relation to the Water Framework Directive.
- Uses Scotland's approach as a comparator.

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The problem, why SWW and high level issues

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Current issues with water regulation

- Complex and opaque national decision-making, with limited local autonomy.
- Technocratic economic and econometric approach inhibits transparency and limits account taken of local issues.
- Disconnect between customers, communities, and water companies/the water in their area.
- Existing ‘democratic deficit’ and misalignment with the government’s devolution agenda
- Trade-offs are made implicitly and inconsistently – often made nationally for what are essentially regional or sub regional issues
- No strategy for how water can best integrate with housing, planning/BNG or flood defence: all of which also have a strong unitary/mayoral and regional governance.

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Government and regulation

- The extent of devolution will depend on the willingness of government and national regulators to cooperate and enable change.
- Drinking water standards are unlikely to be devolved, and likely to remain some overarching national environmental legislation, such as amended WFD/Apex approach.
- Effective devolution may require a shift by the Environment Agency (EA) from process-based to outcome-based regulation — as advocated by the Swann review. This would require primary legislation, although significant change could be achieved without legislation given political backing.
- An economic regulator (Ofwat) would still play a role, even under a negotiated agreement model, though its influence could be significantly reduced.
- Reductions in economic regulation are less dependent on primary legislation than changes to environmental regulation.
- Less radical options include relaxing elements of price-setting and performance incentive regimes where robust local assurance is in place.

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Why South West Water (SWW) as a case study?

- SWW is a fast-track company, already recognised as meriting greater autonomy.
- It operates in a defined geographic area, with minimal cross-boundary catchments or water transfers.
- The absence of water-only companies simplifies governance options.
- There is reasonable alignment between water boundaries and local authorities.
- A single, well-established Rivers Trust operates in the area.
- Local authority structures are relatively stable, and the inclusion in the area of 2 national parks is also important given new legislation on their role.
- Parent company Pennon also owns Bristol Water, Bournemouth Water, and SES Water — offering chance to test different governance models for water resources.

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SWW: unique water challenges

- SWW's specific challenges do not fit well with conventional regulatory approaches.
- Long coastline with dispersed population: bathing water quality is a higher relative priority than river quality.
- High seasonal variation in demand:
    - Summer demand doubles in some areas due to tourism
    - Post-COVID population shifts have increased year-round demand.
- Risk of water shortage persists despite above-average rainfall.

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SWW: environmental water quality and socio-economic context

- **Catchment complexity**: numerous smaller catchments rather than large river systems (e.g. Severn, Thames). Also applies to Wessex and Southern Water. Greater emphasis on coastal and bathing waters. Geological variation across the region necessitates tailored water management strategies.
- **Regional identity and socio-economic variation:** relatively rural based, dispersed popoulation. Cornwall remains one of the poorest counties in the UK. Devon, Somerset, and Dorset include both affluent and deprived areas — the latter notably in Plymouth and some rural locations. Although Cornwall maintains some distinction, there is a broadly accepted concept of the South West as a coherent region.
- Both mean that the **water system is more dispersed and many treatment assets are smaller** than for companies with a more urban population.

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Devolution models explored

This document explores several governance models, including:

- **Scottish model** – water company enters into a negotiated agreement with customers, overseen by the regulator under a broad framework.
- **Catchment governance integration** – with enhanced roles under Water Resources Management Plans (WRMPs) and Drainage and Wastewater Management Plans (DWMPs). Mayoral authorities (e.g. Greater Manchester), local councils, and RFCCs would have expanded powers. Supra regional water resource groupings should probably continue.
- **Deliberative forums** – enable devolved decision-making on specific issues, led by representative public groups, informed by expert input.

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Local / Mayoral decision making

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Local / Mayoral decision making

- Housing, planning reform, economic growth, and devolution are all central to the government's strategy.
- These priorities are increasingly converging at the Mayoral/Unitary authority level, alongside some (but not all) flooding responsibilities — including coastal erosion, surface water flooding, and smaller ('non-main') rivers, and local nature recovery strategies. Mayors are also likely to lead on the skills agenda.
- Water and wastewater are critical enablers for these priorities: both systems must expand to meet growth and better coordination with flood responsibilities can unlock co-benefits/land.
- The ease of expanding water and wastewater networks should influence where new housing development is located.
- There is a clear rationale for planning authorities to have direct relationships with water companies.
- Local authorities also have flooding responsibilities, shared with the Environment Agency's (EA) area teams and overseen by regional flood and coast committees — most of whose members are elected councillors.

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Case study 1: Greater Manchester

- **A strategic partnership** addressing environmental barriers to economic development through an Integrated Water Management Plan. Led by Greater Manchester Combined Authority (GMCA), United Utilities, and the EA, under a Memorandum of Understanding (MoU), but embedded in GMCA's governance to ensure alignment with regional priorities.
- **Key objectives** include breaking down barriers to collaboration, improving water quality, flood resilience, and climate adaptation, engaging communities to create inclusive spaces and support skills, managing rainwater as a resource, reducing pollution, and investing in infrastructure to enhance biodiversity and enable local, community-led solutions.

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Case study 2: Isle of Wight

- **Southern Water is working with the Isle of Wight unitary council** to reduce surface water flooding and prevent surface water from entering the sewer network. The partnership includes detailed system and topographical modelling, the installation of rain gardens to capture runoff from large flat roofs (e.g. schools and hospitals), provision of free water butts in targeted areas, and a focused effort to address misconnections.
- **Additional measures** include sustainable drainage solutions and the use of permeable paving, delivered in collaboration with the council's roads department. Together, these interventions help reduce both surface water flooding and sewer overflows. However, the programme has not yet succeeded in integrating Environment Agency flood funding.

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Case study 3: Norfolk

- **The Norfolk Advanced Water Industry National Environment Programme (WINEP)** is a key strategic partnership addressing the region's water management challenges. It supports the Norfolk Water Strategy and associated investment fund by developing an investible pipeline of integrated projects, attracting both public and private funding.
- **Core partners** include Anglian Water, the Environment Agency, Norfolk County Council, and the Norfolk Rivers Trust. The partnership focuses on collaborative, innovative solutions to improve water quality, enhance biodiversity, and reduce flood risk.
- **Community engagement is central** to the programme, with local residents, businesses, and conservation groups involved in co-designing and delivering projects. This approach helps ensure outcomes that are both environmentally sustainable and socially beneficial.

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Case study 4: London surface water

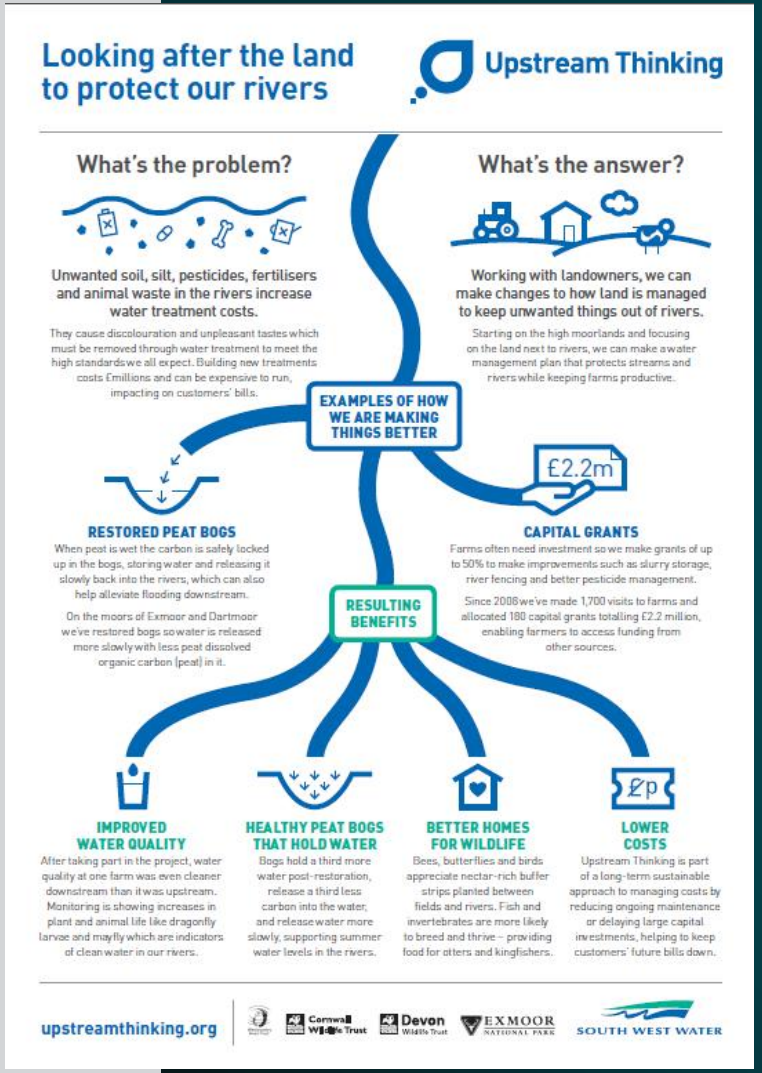
- **London surface water strategy** was launched by the Mayor of London following the severe flooding in 2021. It was supported by a multi-agency governance group. This includes London boroughs, the Deputy Mayor, the Environment Agency Area Director, Transport for London (TfL), Thames Water, the London Fire Brigade, and the Thames Regional Flood and Coastal Committee (RFCC). The group meets quarterly to track progress.
- The strategy has received £1 million in seed funding, now matched by £1.3 million from Ofwat's Innovation Fund. Thames Water and the Greater London Authority (GLA) are piloting a market-based mechanism to incentivise utility companies to adopt Sustainable Drainage Systems (SuDS).

Case study 5: Devon and Cornwall Upstream thinking

Integrated approach, with SWW working with National Parks (important for future regional approaches, given their enhanced rule under recent legislation) land managers and NGOs

Based on achieving outcomes for water environment and drinking water

Assurance/assessment of impacts by Exeter Univeristy



SWW Local Authority landscape

- South West Water operates across Cornwall, Devon, and parts of Somerset and Dorset.
- There is precedent for regional governance across this area (e.g. Devon and Cornwall Police Authority, South West RFCC).

Local authority structure:

- Cornwall is a unitary authority.
- Devon is consulting on move to unitary status (excluding Plymouth or split into 2–3 unitaries), but may well not be imminent.
- Somerset (since 2023) and Dorset are both unitary councils.

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Pennon Group water-only companies

- **Bristol Water** serves the city of Bristol and parts of Somerset and Gloucestershire. Bristol has a directly elected Mayor, and Somerset is a unitary council. Gloucestershire may move towards a unitary structure in the future. The company is part of the West Country Water Resources Group (WRW).
- **Bournemouth Water** operates mainly within Dorset, a unitary authority, and falls under the Wessex Regional Flood and Coastal Committee (RFCC). It is a member of the West Country Water Resources South West (WRSW) group, contributing to regional planning and coordination.
- **SES Water** supplies areas that straddle the London Mayoral Authority and Surrey, which is currently a two-tier system but is set quickly to undergo structural reform. It falls under the Thames RFCC — a group focused largely on major river issues beyond SES Water's immediate geography — and is part of the Water Resources South East (WRSE) group. Unusually for the South East its drought risk is manageable without major intervention.

Opportunities for localised water governance

- These water-only companies, though outside South West Water's core area, offer scope to test more localised water resource governance models.
- In many cases, their operational boundaries align reasonably well with existing or emerging local government structures (e.g. Mayoral authorities, unitary councils).
- There is particular potential for devolving water resource decision-making — especially where local priorities are distinct from larger regional or river-based governance. There is also a good case for devolving decisions about what constitues and acceptable (and affordable) security of supply/standards of service to regional and sub regional level.
- However, some strategic projects (e.g. under the RAPID programme — such as Poole Harbour, the Mendips, and Cheddar) may require retained national or cross-boundary coordination/assurance.

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Regional differences and catchment areas

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Why the current system falls short

- The current water governance system isn’t working. National standards applied uniformly at catchment level often ignore local characteristics and lead to sub-optimal outcomes.
- Historically, water was approached as a whole system. Over time, it became fragmented to focus on asset investment and service delivery. There are still sound building blocks to build on — they don’t need to be torn up.
- A catchment-oriented, "catchment first" approach is needed — one that improves resilience to climate, environmental, and social pressures, with catchment plans at its core.
- We must stop treating flood risk, drought, water quality, and water resources as separate issues. The system needs to be understood and managed holistically.
- We also need to build in Carbon impacts

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Adopting a place-based approach

- Governance should reflect the full range of pressures — including those impacting water quality and public health, such as flooding and socio-economic challenges.
- Set high level outcome-focused targets at a national level, but give catchments the flexibility to decide how best to achieve them. This allows nature-based and locally led solutions to scale.
- Different approaches are needed for chronic (diffuse) vs. acute (point-source) pressures. Many chronic pressures stem from land management and are highly climate-sensitive.
- Make explicit the trade-offs that arise between competing demands and determine how best to resolve them at the right governance level — national, regional, or local.

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Enabling local decision making and system reform

- Empower local decision-making, reflect diverse community needs, and be accountable — in line with the subsidiarity principle (decisions made as close as possible to those affected).
- The problem isn't a lack of funding, but ineffective spend: numerous fragmented funding streams can't be pooled intelligently, and investment is often misdirected.
- Governance should align with the government's devolution agenda, recognising the role of devolved bodies and their links to land and river health.
- It should also support wider reforms, including planning, skills and infrastructure policy — and explicitly enable the government's growth agenda

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The case for local democratic input

- In the absence of nationalisation, there is growing support for stronger local democratic input in water governance.
- Catchment management involves multiple actors — from landowners and regulators to councils and local communities — requiring place-based solutions.
- Land use is a major driver of catchment health. Integrating socio-economic and environmental policies at local strategic authority level could improve outcomes and build democratic legitimacy.
- Local authorities are well placed to engage communities and support decision-making that reflects shared social and environmental values.

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Catchments have unique profiles

- No two catchments are the same. Even within regions, environmental pressures and socio-economic contexts vary significantly.
- While similar issues may arise across areas — such as pollution or flood risk — the mix of causes and impacts creates a unique local fingerprint.
- National targets are often applied uniformly, but this “one-size-fits-all” approach can be costly and ineffective.
- It risks delivering poor outcomes where local priorities and environmental conditions are poorly aligned with national metrics.

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Emerging local-regional partnerships

- New partnerships are forming around urgent environmental concerns — particularly where flooding affects local growth and prosperity.
- These partnerships often bring together water companies, local authorities, and regulators to coordinate planning and funding.
- The government's devolution agenda provides an opportunity to strengthen the role of Strategic Authorities in environmental management.
- With greater powers, these bodies can help deliver sustainable, long-term improvements in water and land stewardship.
- Also a link to Local Authority led Local Nature Recovery Strategies and enw primacy duty with regard to protected landscapes.

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Designing fit-for-purpose governance

- Water system governance is evolving, with growing focus on new local structures to co-design, co-finance, and deliver environmental services.
- These structures may operate at catchment level but be federated up into more formal regional governance models.
- At the same time, work is underway to define the role of a system planner for water infrastructure — particularly for water resources and distribution.
- The South West is well positioned to trial such governance models, but similar opportunities exist across the country.

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UK water governance models

- **England:** The privatised model is well established, though variably understood – particualrly given the complexity of a system which has grown by accretion. Ownership structure varies across regions.
- **Wales:** Operates a not-for-dividend model with no shareholder influence, governed by a local stakeholder group. It has closer links to national policy, supported by legislation such as the Well-being of Future Generations Act. Its hydro-morphological conditions are similar to the South West Water area.
- **Scotland:** Features public ownership with state contractor accountability. Reforms aim to devolve funding and delivery further, and improved procurement could reduce reliance on the Water Industry Commission for Scotland (WICS). Environmental agencies like SEPA and NatureScot are open to reform.
- **Northern Ireland:** Maintains a centrally funded, not-for-profit model under direct public ownership.

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Lessons from the Welsh and Scottish Models

- **Wales** operates a not-for-dividend model with no shareholder influence, guided by a stakeholder board. Its closer policy links to government and the Well-being of Future Generations Act support long-term sustainability. However, policy divergence in Wales is not always well accommodated by the current Ofwat/Environment Agency model.

- **Scotland**'s model features a publicly owned "state contractor" (Scottish Water) with democratic accountability. With improved public procurement, Scotland's economic regulator WICS could become less essential. Ongoing reform is opening up space for more devolved delivery, with SEPA and NatureScot exploring new models for community-led action.

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Linking with catchment bodies

	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

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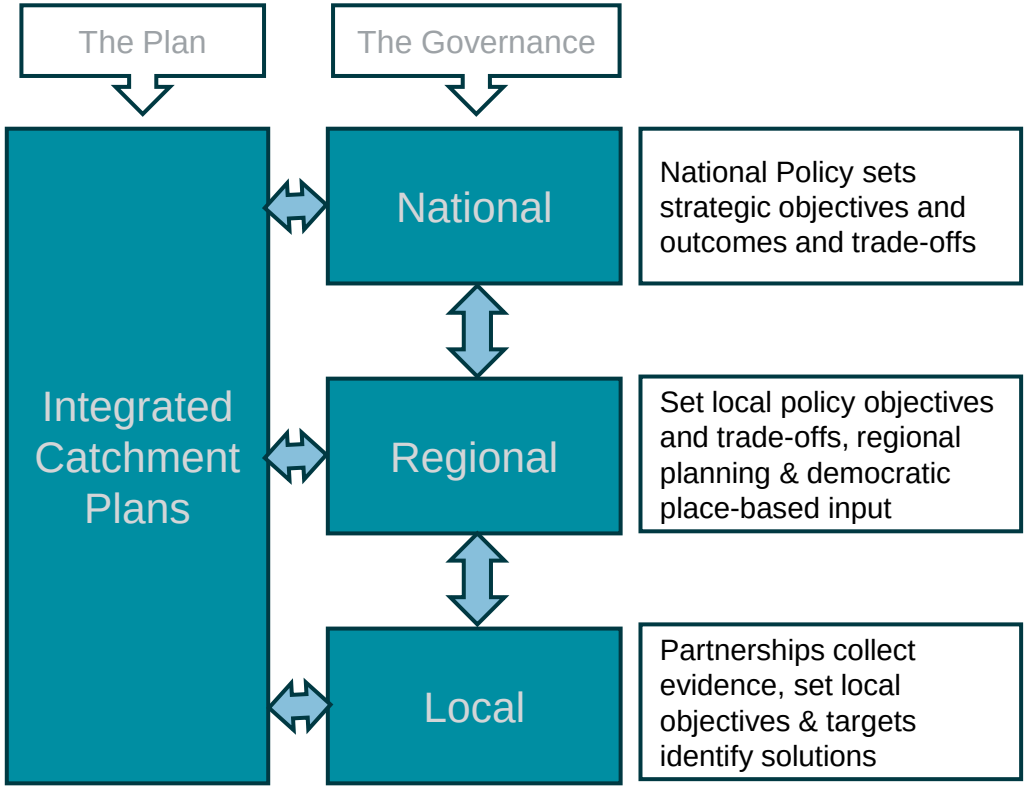
River basin and catchment planning

- The 2016 Indepen report, Catchments If You Can, identified over £13 billion per year spent on environmental outcomes across 50 organisations, through 30 funding streams and 20 plans — with little coordination.
- Lack of integrated, evidence-based River Basin Management Plans (RBMPs) means national policies are applied at local level without regard to context — often focusing on areas with a single, siloed investment stream (e.g. water companies).
- Water quality cycles don’t align with those for flood or water resource planning.
- More joined-up planning is needed, especially to address diffuse, chronic pressures.

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Proposed waste water approach

- Catchment Plans should be the core unit, reflecting local environmental and social needs — and shaped with community (democratic) input.
- Regional bodies should support coordination across catchments, particularly for land management and translating national policy into local outcomes.
- National frameworks should help manage trade-offs between priorities.



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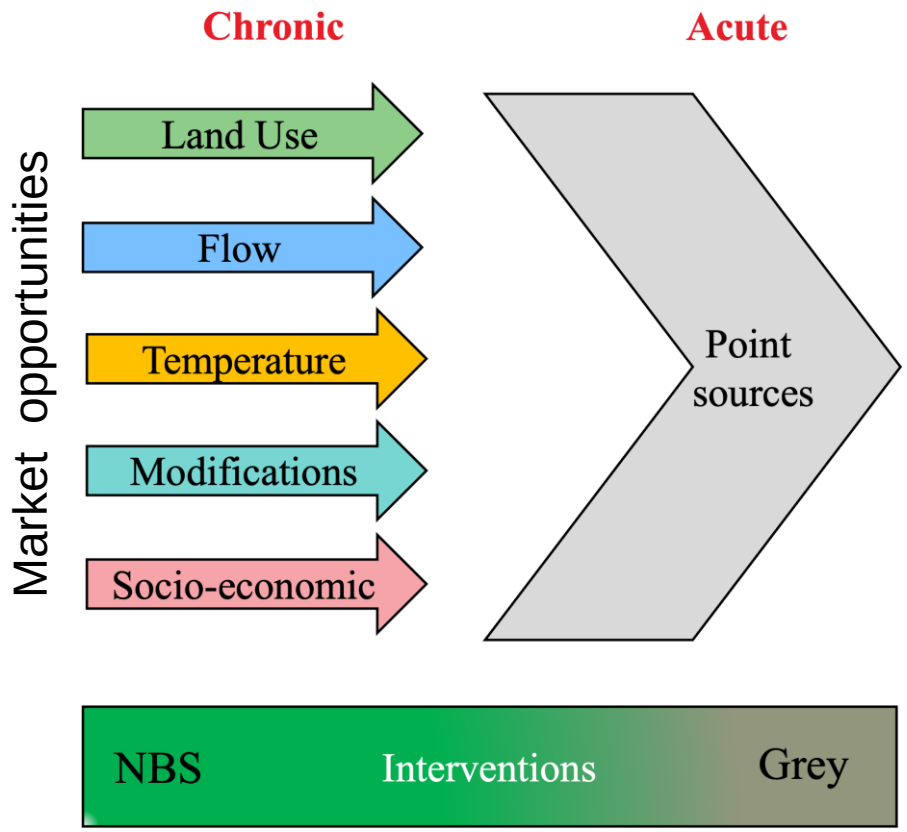
The role of markets

- Economic regulation is introduced where there is monopoly power, as a proxy for markets and competition.
- Where markets are present the nature of regulation should be less interventionist.
- Competition in water has historically been considered in the light of vertical disaggregation such as non-household retail.
- More recently direct procurement has also been required for large projects.
- A more effective way to address multiagent pressures is to consider the market for interventions – i.e. who is best place to act.

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Markets in a catchment-based system

In a catchment where the outcome is water and environmental resilience for nature and society, the opportunity is to find the right blend of grey assets addressing acute problems (point sources) with a greater role for addressing the chronic issues (defuse sources) where land management and community action plays a much bigger role. This is because chronic pressures can become acute (such as rainwater management resulting in storm overflows).



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Environmental markets

- Environmental markets are emerging at national and local levels.
- High-integrity markets can improve investment and procurement where many actors are involved.
- Examples of where markets may work well: nutrient trading (e.g. Entrade platform), local carbon offset schemes (e.g. Warwick district), Biodiversity Net Gain (BNG) markets (where LAs have a key role).
- Key considerations for effective design include: market size and liquidity; fungibility of credits or interventions; alignment with wider nature financing systems; and ability to reflect local and regional variability (e.g. geology, ecosystems).
- Corry report recommended that greater efforts be made to establish and build natural environment trading, building on work by e.g. the Broadway Group

National system planning

- Local planning should address place-based issues and opportunities — such as local water stress, flood risk, or land use pressures.
- There is also a clear role for national planning to coordinate critical infrastructure and service standards, particularly for major water resources and wastewater infrastructure.
- Regional planning groups (e.g. WRSE – Water Resources South East) already provide some of this coordination.
- Planning for water infrastructure must align with strategic housing and growth plans, with input from regional and mayoral authorities.
- National system planning is also important for wastewater — particularly in assessing future needs from housing growth and other drivers.
- A national infrastructure perspective is vital for optimising resilience and delivery across sectors.

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How the tiers might work

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Mapping tiers for water resources and wastewater

	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

Aim is to have no more than 3 tiers of governance for either water resources or waste water/water environment. And to involve unitary councils/mayors; and address the 'missing middle' between national and local.

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Planning framework integration

There is an urgent need to integrate across the following key planning processes:

- Water Resources Management Plans (WRMP)
- Drainage and Wastewater Management Plans (DWMP)
- River Basin Management Plans (RBMP)
- Long-Term Development Statements (LTDS) for electricity networks
- Flood area plans, managed by the Environment Agency

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Wider infrastructure

Water infrastructure cannot be delivered in isolation. It has direct interaction or dependence with many of the following. But they also compete to greater or lesser extent with supply chain and in some cases international finance supporting:

- Electricity distribution & transmission
- New electricity supply (renewables, nuclear)
- Decarbonised heat (heat pumps, Hydrogen)
- Strategic transport
- Digital
- Flood defence
- Schools, prisons, hospitals
- Housing and the wider built environment

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Wider infrastructure governance

- The National Infrastructure and Service Transformation Authority (NISTA) has been created to coordinate national infrastructure, including electricity transmission, rail, nuclear and hydrogen.
- The national tier of water governance needs to actively input to this. National planning statements are a key tool.
- Many infrastructure decisions are already devolved to mayors and unitary authorities, including those on surface water management, local electricity distribution, the built environment, and increasingly skills.
- There is a strong case for establishing regional or sub-regional infrastructure boards, where water can be a central voice in infrastructure planning.
- Cross-cutting resilience issues — particularly climate and cyber resilience — are shared across sectors and need stronger representation.

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Water interdependence with other infrastructure

Sector	Finance	Materials	Labour	Interdependence with Water
Electricity distribution (Local)	Medium	Medium	Medium	Medium/Low
Floods (National/Local)	Low	High/Medium	High	Medium
Electricity transmission (National)	Medium	Medium	Medium	Medium/Low
Renewables, nuclear, hydrogen, CCS	High/Medium	Medium	Medium	Medium/Low (High for hydrogen)
Transport (National/Local)	Low	Medium	Medium	Low
Housing/built environment (Local)	Medium	High/Medium	High/Medium	High/Medium
Schools, prisons, hospitals	Low	High/Medium	High/Medium	Medium
Decarbonised heat (mainly local)	Medium	Medium	High/Medium	Medium

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Local engagement and deliberative methodologies

Background on reporting and EPA

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Why engage the public

- Involving the public, including residents, small businesses, and future customers, can lead to better, more trusted decisions.
- Engagement helps ensure decisions reflect public priorities and feel fair, supporting legitimacy and confidence.
- Done well, it can highlight both opportunities and risks, reducing the likelihood of backlash.
- Done poorly, it can backfire, reinforcing perceptions of the sector as distant or driven by shareholder interests.
- Public engagement can also provide ‘revealed preference’ data on what people value.

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Considerations for engagement

- Most people take water for granted, unless something goes 'wrong' (water use restrictions, significant bill increases, local water pollution), it isn’t top of mind.
- Water issues can seem highly technical and complex, which discourages engagement from the average consumer.
- It's best to ask about things people understand, like their experiences, bill impacts, local priorities, or the principles / values on which a decision should be based, rather than something abstract or technical.
- One in six adults (aged 16-65) in the UK has poor literacy, according to the National Literacy Trust. Reaching a representative audience means reducing reliance on text-heavy materials.

* Engaging-water-customers-for-better-consumer-and-business-outcomes.pdf

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Economic willingness to pay vs informed public engagement

- Willingness to pay (WtP) surveys can produce unreliable results because few people have well-formed views about water.
- People’s responses may reflect familiarity with certain words or ideas, rather than considered judgements.
- That said, if no value is attributed to a benefit or cost then it is often discounted in decision making, and WTP practice and theory has definitely evolved
- Deliberative approaches give people time to reflect, learn, and form more meaningful preferences.
- People may respond differently when thinking as individuals (personal benefits) versus citizens (community and societal benefits).
- Local government and the NHS increasingly use citizen engagement to support strategic planning.

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Limits of willingness to pay methods

- Stated preference surveys depend heavily on design and often reflect hypothetical decisions.
- Revealed preference methods (e.g. how people actually act) can offer richer insights but are less transparent and harder to explain.
- What people say they'll do often differs from what they actually do — as seen in water butt or behaviour change programmes.
- Water is low-salience, so some people may not hold clear preferences at all.
- Survey tools should be rigorously tested to ensure they're capturing what they intend to measure.

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Deliberative methodologies

- Deliberative methodologies bring together diverse voices to have an informed discussion on the issues that matter. They can give people time and space to think about important issues and trade-offs such as environmental impacts, long-term water security, and intergenerational equity.
- Through informed debate and expert input, deliberative fora help develop more balanced, practical, and sustainable water policies, which take into consideration the things that matter most to customers.
- Different designs can be used depending on the intended outcome. Sometimes it is appropriate to keep different customer groups separate to fully understand their views, while it is also possible use deliberative methods to bring different stakeholders together (e.g. local communities, industry representatives, and environmental groups) to consider different perspectives and develop shared solutions.
- The method should be chosen to fit the question being asked.

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What does this look like? E.g.

- **Deliberative fora** – bring together citizens, potentially with scientists, and/or policymakers (or other experts) to develop design principles or potentially to co-design different things (e.g. regional water strategies). Typically, the output will be a research report which highlights learning about the values/principles which customers believe are important.
- **Citizens' assemblies** – involves a representative group of citizens (randomly selected to reflect the population) who meet over several sessions to deliberate on specific issues. They will be provided with information and access to experts to help develop their thinking. In water this could include pricing, conservation strategies, or infrastructure investment. Typically, the output is a list of recommendations, with an indication of the strength of sentiment behind each one. The commissioning body would then be expected to respond and either act on the recommendations or explain why not.
- **Multi-stakeholder water panels** – regular meetings of local residents, farmers, industry representatives, conservation groups, and regulators, to co-create regional water plans, ensuring they balance environmental, economic, and community needs. These may need further infrastructure behind them to ensure residents continue to be grounded in wider customer views.

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Case studies

It's important to choose the right tool for the question

Some local authorities (e.g. Camden) use budget-workshops to involve residents in difficult decisions about budget priorities and to help with strategic planning	The Climate Change Committee often commissions large-scale deliberate methods to help understand how the public feel about different measures	The NHS has just held a big conversation using multiple different methods to sense-check its 10 year plan

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Building community buy-in

- Building community buy-in is challenging in a sector people take for granted, and rational ignorance is not necessarily bad.
- Therefore, while building community buy-in may be optimal, the more realistic goal may be to avoid community conflict.
- Deliberative methodologies can help with this by helping to ensure that policies broadly align with public perspectives, and can highlight where potential tensions exist so that appropriate communications can support any potentially contentious decisions.
- Realistically, few people will say that hearing that a randomly selected member of the public engaged on their behalf in and of itself increases their trust- the public can be as sceptical as policy-makers. However, what does build trust and buy-in is seeing sensible policies, well communicated. And that is where public engagement can help.

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Schema of possible models

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Model A: Negotiated settlements

- Are used all around the world, such as in the US gas sector, elements of Australian energy (see Microsoft Word - Mountain 2013 evidence and thinking on negotiated settlements .docx) and (at times) the Scottish water sector.
- If successful, reduces the burden on both company and regulator, securing greater buy in/increases trust.
- Involves early engagement and agreements between water companies, regulators, and stakeholders to set water prices, investment plans, and service levels.
- Instead of regulators imposing decisions, parties negotiate a mutually acceptable deal, often leading to more efficient, transparent, and widely supported outcomes.
- Used with some success in Scotland, where there is only one water company: a free standing regional model, such as in the south west, could be an obvious parallel.

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How do they work?

- **Stakeholders** – water companies, regulators, consumer groups, businesses and and environmental organisations come together early in the process, facilitated by the regulator.
- **Evidence gathering** – the regulator provides information to the interested parties. Participants then review financial, environmental, and infrastructure data to understand challenges and trade-offs.
- **Deliberation & negotiation** – Stakeholders discuss key issues, such as: future water bills and affordability; investment in infrastructure (e.g., leak reduction, sewage upgrades); and environmental protections (e.g., pollution control, water conservation).
- **Agreement & approval** – once a compromise is reached, the regulator reviews and turns the settlement into a regulatory determination.

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What are the benefits

- **More efficient regulation** – reduces lengthy disputes and costly formal regulatory interventions. Moves away from 'parent child' relationship between regulator and company.
- **Greater public trust** – increases transparency and accountability, as customers and stakeholders help shape decisions.
- **Better long-term planning** – encourages collaborative, future-focused water management rather than short-term fixes.
- **Balanced outcomes** – ensures affordability, environmental responsibility, and financial sustainability.

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Negotiated settlement - benefits

"this [negotiated settlement] route was much more efficient than the conventional rate case: it took months rather than years. It eased the burden on the regulator…and it left both customers and the company feeling satisfied because they had negotiated an outcome that was mutually acceptable and preferable to the regulatory alternative".

Stephen Littlechild to the Competition and Markets Authority (CMA)

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Considerations and risks

- **Information asymmetry** – Companies often know more than regulators, and far more than consumers
- **Representation issues** – Customer groups may not be fully representative (risk of self-selection or capture)
- **Technical issues** – Some matters (e.g. financeability, cost of capital) may still require regulator oversight. Regulator will also need to monitor delivery of the agreed settlement and service standards and application of any in period incentives or re-openers

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Model B: mayoral/unitary governance

- Mayoral/unitary councils form oversight body for SWW, with ability to frame/negotiate key decisions.
- Possible seats on SWW board.
- Regional or unitary level strategic growth board with housing, transport , business, flood and water responsibilities – and link also to energy, telecoms companies.

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Option C: Regional Flood and Coastal Committee expanded

- The Regional Flood and Coastal Committees (RFCCs) would have an expanded remit, overseeing total spend by South West Water (SWW) and Environment Agency (EA) grant-in-aid funding across both water and flood management.
- As with current RFCCs, membership would include councillors or cabinet members from all relevant counties and unitary authorities, along with independent members. These typically include representatives with expertise in conservation and coastal issues.
- An additional consumer representative could be considered — for example, the Chair of SWW's Customer Challenge Group or an elected local member.

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Option C: Regional Flood and Coastal Committee expanded (2)

- There are growing synergies between water and flood agendas, particularly as flood investment is increasingly being directed towards nature-based solutions and surface water management — both of which align with water sector priorities.
- While this model would require primary legislation to formalise, several RFCCs are already informally expanding their focus in this direction. Examples include:
- Northumberland Integrated Drainage Partnership
- Southern RFCC, which is exploring integrated approaches

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Hybrid/transitional models

- Ofwat and the Environment Agency would retain key responsibilities — such as setting the regulatory asset base (RAB), determining the cost of capital, and supporting coordination and data provision.
- However, regional structures and local authorities would have a significantly greater role — building on existing models like: the RFCC's influence over flood investment, and a potential local seat on the South West Water board to strengthen accountability.
- These bodies could also have greater powers to influence outcomes and customer bills — similar to the Scottish income tax model, where rates can be varied by +/- 3% and revenues spent according to local priorities.
- This would require an expanded role for RFCCs and/or cabinet members from unitary authorities, embedding local voice more firmly in water governance.

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Legacy roles for Ofwat and EA

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Without primary legislation

- Both Ofwat and the Environment Agency (EA) have flexibility under existing powers, but are currently risk-averse.
- **Ofwat** - statutory duties do not require comparative competition or rigid incentive regimes. Could enable more local autonomy, especially for fast-track companies. A revised Defra Strategic Policy Statement could support this shift, or indeed ofwat could changes is approach of its own volition.
- **Environment Agency** - more constrained by risks of judicial review under process-based regulations (e.g. Urban Wastewater Treatment Directive, Environment Act targets). However, could interpret its sustainable development duty more expansively and adopt a more hands-off approach. Cannot currently devolve decisions on environmental protection to customers (i.e. full negotiated settlements not feasible under current law).

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Deeper assessment of Ofwat role: financial aspects

WACC – in principle Ofwat could facilitate a negotiated settlement on the level of WACC (informed by Ofwat analysis of relevant market data/comparators) or indeed enable a negotiation around the methodological approach to WACC setting (e.g. indexing of cost of debt, or even ex poste reconciliation of an agreed regulatory return on equity subject to Ofwat-facilitated audit)

Financeability – Ofwat can provide technical advice/financial modelling to inform regional parties negotiating a settlement, enabling them to critically assess the arguments put forward by the appointee on financial matters.

Financial modelling - Ofwat's financial modelling capability will be a vital input to facilitate informed decision-making and priority setting, enabling regional stakeholders to understand the bill impacts of alternative packages of outcome mixes, priorities, choices around service standards & cost of negotiated incentive payments/mechanisms. Longer-term financial projections can also inform decision-making around 'slow-burn' reforms/regional choices (e.g. greater reliance on SUDS or nature-based solutions to manage down long term demands placed on networks). It can also inform input to regional oversight to increase the legitimacy of executive remuneration/bonus structures.

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Ofwat role: outcomes, outputs & priority-setting

PCDs/ODIs – a primary role for regional decision-making and negotiation, informed by Ofwat analysis of relevant comparators (leveraging Ofwat's information advantage in access to detailed cross-industry analysis and asset management plans), along with Ofwat financial modelling of scale of bill impacts associated with different mixes of delivery incentives.

Enhancement programme – this would be a key area for regional decision-making around priorities and sequencing. Ofwat can play a role in assisting/facilitating discussion and priority-setting among regional stakeholders by providing analysis of bill impacts of alternative investment scenarios.

- Ofwat should also provide independent analysis of the quality of asset management planning and integration between the base and enhancement programmes
- Ofwat can also inform the debate around the regional enhancement programme by providing comparative analysis of approaches to solution scoping/identification

Asset health / capital maintenance output targets – Ofwat can provide independent analysis and commentary of asset health trends and the quality of asset management data and optioneering used to set base expenditure plans. This should build on Ofwat analysis of asset health/serviceability trends delivered during the current period.

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Potential Ofwat role: cost assessment

Comparative competition – Ofwat can continue to run comparative benchmarking processes & analysis, but regional parties can take a view on the weight they ultimately attach to the results and arguments around special factors. Ofwat can provide published independent advice on specific regional factors/strength of evidence, but the weight placed on these arguments can be weighed in the round as part of the negotiation.

Enhancement – Ofwat can provide relevant input to challenge company enhancement costings where relevant unit cost comparators can be drawn out. This is usually more difficult to achieve in the enhancement programme. It would however make sense to retain some unit cost benchmarking to sense check company cost projections.

Baseline totex – Ofwat can provide a critical assessment of company projections of baseline totex to inform regional stakeholders, this would also include analysis of alternative efficiency improvement scenarios and relevant unit cost benchmarking. A negotiated approach would imply a significant reduction in the reliance placed on econometric modelling to inform cost assumptions.

Market testing – an alternative approach to comparative competition is for companies to demonstrate the robustness of their cost projections through evidence on market testing. This could be subject to review by Ofwat. An alternative could involve acknowledging more cost uncertainty in certain elements of the agreed programme with a negotiated approach to risk sharing of outturn costs. Ofwat could play a role here in sense-checking such agreements and ensuring internal consistency of incentives with other elements of the negotiated package (e.g. ODIs). Further weight could be placed on market testing over time, if appointees and regional decision-makers agree that this represents a fair and efficient approach to revealing best value for customers over time.

Ofwat role: monitoring & reconciliation over successive settlements

Under any model of negotiated settlement there will be a need to monitor output delivery independently and to ensure and audit the implementation of agreed financial reconciliations / incentives.

This could theoretically be done by a regional secretariat of some kind, with no residual role for Ofwat. However, it seems likely that a national body with appropriate regulatory, financial and sector expertise can play a key role on an ongoing basis, providing required services to the regional parties responsible for negotiating settlements and comparative oversight and intelligence across the sector to inform balanced judgements.

Ofwat can also play a key role in monitoring the success of alternative approaches / incentive mechanisms adopted by different regions, and in promoting diffusion of innovation and best practice across the sector.

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With primary legislation

- In theory, primary legislation could allow fuller devolution to mayors, local authorities or customer bodies.
- In practice however we think that would go too far. Even at the peak of negotiated approaches in Scotland there was still a role for the economic regulator in assuring fair play and setting key parameters.
- Information asymmetry and monopoly power still require regulatory checks — complete deregulation would be risky.
- National environmental oversight would likely remain necessary — even with outcome-based regulation (e.g. a reformed WFD). SEPA still has a role in Scotland.
- Some functions could be localised, but cross-boundary issues and agricultural policy still require national coordination.
- There is no reason why the current permitting based system should remain.
- The UK's relationship with the EU may also limit flexibility, depending on future agreements.

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For more information on our water workstream and response to the Cunliffe Review, get in touch today:

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