Sustainability First's Response to the Cunliffe Review

Introduction

Sustainability First welcomes the Cunliffe Review as a much needed and timely opportunity to reset the direction of water regulation. We commend the independence of the review and the ambition to take a long-term, systemic approach. The calibre of its leadership and advisory group is reassuring and creates a strong platform for meaningful reform.

That said, the consultation process itself presented barriers to open and inclusive engagement. The design and structure of the online submission, including a lack of accessible formats and an emphasis on ranking outcomes in isolation, risks undermining the legitimacy of the evidence gathered. These practical issues should be addressed to ensure public confidence and transparency in future policy consultations.

Section 1: About You

This response is submitted on behalf of Sustainability First, a UK-based think tank and charity focused on promoting fairness, sustainability, and long-term thinking in essential services, particularly across the energy and water sectors. We work with a wide range of stakeholders, including policy, regulatory, industry and civil society at national, regional, and local levels, to explore systems-based approaches and champion public interest outcomes. Sustainability First operates across the UK. The organisation is happy to be contacted by the Independent Water Commission regarding this submission. Sustainability First will publish this response and not treat the contents as confidential.

This response has been developed by Sustainability First's expert team of associates. For further information, please contact David Murray, Executive Director, at david.murray@sustainabilityfirst.org.uk

Section 2: Overarching Framework for the Management of Water

We noticed a number of major omissions from the review:

Addressing the carbon footprint of water - the UK is legally committed to achieving net zero emissions but is currently struggling to meet its interim carbon budgets. The water sector contributes significantly to national emissions, due to the energy required to treat and transport water. Current infrastructure plans—particularly those favoured by the Environment

Agency—prioritise carbon-intensive materials such as concrete and steel, alongside chemical treatment processes. This approach risks locking in a high and growing carbon footprint for the sector, potentially even after electricity generation is fully decarbonised.

Despite its environmental remit, statutory duty to promote sustainable development, and internal net zero targets, the Environment Agency does not currently consider carbon as part of water companies' environmental performance. This is based solely on carbon not within its formal regulatory scope. This omission represents a major missed opportunity to integrate carbon reduction into infrastructure and regulatory decision-making.

The carbon footprint of regulatory programmes such as WINEP and major infrastructure investments like reservoirs remains unevidenced. This lack of clarity prevents a robust evaluation of whether current investment approaches align with wider environmental goals. The Environment Agency has an opportunity to improve the rigour of environmental assessments by incorporating carbon metrics, which could also inform smarter, lower-emission approaches such as nature-based and hybrid infrastructure solutions.

Tackling the legacy of process-based regulation to achieve better outcomes - the move to outcome-based regulation is welcome, but there has been insufficient critique of the legacy of rigid, siloed process-based rules, which could hinder the effective delivery of outcomes. Over time, new layers of regulation have been added—such as phosphorus limits and storm overflow targets—without reviewing or reforming existing requirements. This has created complexity and confusion and often shifts focus away from the goals of improving environmental and public health outcomes. Overinterpretation of directives like the Urban Wastewater Treatment Directive has further entrenched process-driven compliance, limiting innovation and responsiveness in the sector.

Responding to public pressure for public ownership model - there is significant public interest and pressure regarding the ownership model of the water sector, with recent data indicating support for moving towards public ownership. Despite this, the Cunliffe Review does not directly address the issue of privatisation versus public ownership or alternative models. Clearly communicating the costs and benefits of any proposed reforms in the context of this public debate is essential. Transparent analysis can help the public understand how reforms, regardless of ownership structures, could support affordability, investment levels, service quality, and accountability. We encourage the Independent Water Commission to take these issues into account as it develops its recommendations. It is essential that any future governance model addresses the current democratic deficit, which has contributed to public frustration.

The Review is principally about the water utility sector, who in England are responsible for investing about a third of total investment in environmental outcomes related to water, with some of the strictest targets and regulation around it. The other 2/3 of the investment is by the state grants and subsidies to landowners, or state-owned entities (such as Environment Agency flood management delivery functions), and local authorities. In the absence of integration and a holistic view of water, many of the issues arise, with the water utilities, and their customers internalising many of the systems' problems and pressures.

Outcomes for water

Q10a–c. Thinking ahead to what you would like the water system to look like in the future (e.g., in 25 years' time), what outcomes from the water system are most important to you?

The consultation's approach of asking participants to rank water system outcomes in binary terms oversimplifies the complexity and interdependence of real-world trade-offs. In practice, people value a combination of safe, affordable, and reliable water services alongside environmental protection, particularly clean rivers and healthy ecosystems (it's not an either/or). These priorities have remained remarkably stable over time, though concerns about environmental protection have steadily risen up the agenda, accelerated by Covid-19 pandemic and changing leisure patterns. Climate resilience and net zero are also critical long-term goals but typically ranked lower though this may change in the future.

Good customer service for all (including those in vulnerable situations) also matters to people. With an increasingly aging and disabled population (Ofwat estimates on average 52% of households in England and Wales are eligible for at least one service on the Priority Services Register) - inclusive design becomes all the more important but is still poorly understood and implemented.

In practice, public priorities can vary to some extent by region, depending on context, and effective decisions must be informed by transparent, inclusive engagement and supported by governance at the appropriate scale—local, regional, or national.

There is a body of evidence that suggests *how* outcomes are delivered matters and that understanding and meeting public values which are remarkably consistent over time is a good basis for building public trust. These are: efficiency, not wastefulness; environment and nature; security and stability; social justice and fairness; autonomy and power; and transparent processes for change.

Q11a–c. To what extent do you believe the current water regulatory framework already delivers the outcomes you identified as your top priorities? The current framework delivers basic water safety but falls short on long-term resilience, affordability, environmental

outcomes, and public trust. Its effectiveness is limited by fragmented regulation, a focus on short-term economic incentives and a regulatory desire for one-size fits all performance metrics to enable comparative regulation that fail to sufficiently recognise the need for regional differences in how outcomes are best delivered. Citizens' voices and interests of future generations are often underrepresented, and the necessary trade-offs or compromises are not clearly communicated or co-created.

In recent years Ofwat has significantly strengthened the regulatory framework to support customers in vulnerable situations, including those on low incomes, which is very welcome. However, the incentives framework is weak, not sufficiently outcomes based and in practice as funding is low and not ring fenced, and there are no dedicated consumer vulnerability innovation funds (unlike in the energy sector), this is often one of first areas companies' cut funding (along with engagement).

In general, the regulatory framework appears to put insufficient value on common public company touch points which are visible to customers and communities, impact their lives day to day, and therefore levels of trust. E.g., call waiting times or poorly positioned, timed or over-running road works – despite the frustration and time lost, impact to local businesses and the economy. Tone, frequency, and clarity of communications is another area which isn't sufficiently captured by current customer service metrics.

We strongly support an approach based around environmental outcomes rather than process regulation – as for example advocated by SSWAN and where we were proud to be peer reviewers for the excellent Fontier economics assessment, commissions by Wessex Water a few years ago. We believe this would be much more efficient. As mentioned, it is also important to do a fuller analysis of the range of costs and benefits of interventions, including on carbon, flood reduction and terrestrial biodiversity – these considerations are so far as we can see completely absent from the EA's analysis.

In this context we note that there is a near complete lack of join up between EA floods, EA water, natural England agriculture and water company funding streams. This has led to highly fragmented delivery and excessively burdensome regimes for on the ground NGO and land management deliverers.

High-quality deliberative engagement is essential to better understand and reflect public priorities. However, current approaches can cut corners, lack sufficient time, are poor quality, and concentrate more on focus groups rather than in-depth meaningful discussions which genuinely advance insights. Consumers, and wider stakeholders, often express frustration at being asked the same questions without seeing change—they want to know their concerns are heard and acted upon. The proposed consumer panels sadly are at risk of continuing this

problem. Ofwat and others could consider organising in depth, citizen assembly-style deliberative engagement on key issues such as what is a fair return, where does the role of the water company end on affordability and the state begin, balancing resilience levels and affordability; who should pay for high water use.

There is also a need to clarify the distinction between engaging with people as customers (focused on individual preferences) versus as citizens (considering societal trade-offs). Willingness-to-pay surveys, while useful, often fail to capture informed or context-sensitive preferences—especially for low-salience, technical topics like water. Revealed preference experiments and deliberative approaches may offer more meaningful insights into what the public values when they have had time to consider the options.

Ofwat has welcomely set some standards for high quality engagement, but these are inconsistent with those set by the Environment Agency for water resources management plans (which are lower) and in practice neither regulator 'walks the talk on engagement' or in assessing the plans appropriately explain how consumer insight has influenced its decisions. This undermines the effectiveness of the standards and water companies' motivation to meet them.

Language also matters. Research shows that terms like "net zero" are often deprioritised by the public, as it is not widely understood[1], while more relatable issues like pollution rank much higher. Similarly, the concept of "trade-offs" can feel abstract people respond more to the idea of compromise, which better reflects their lived experience.

Finally, we think it impossible to ignore the Government's devolution agenda. This is not simply because it is a political commitment but because it would both move decision making closer to communities and also align water more fully with housing and growth decisions. We attached a detailed think piece on this, conducted for Southwest Water, but produced as an independent piece of work.

Management of water

Q12. Who do you believe should be responsible for making decisions about which outcomes to prioritise from the water system?

Decisions about water system outcomes should be made at the most appropriate spatial level, with national institutions responsible for setting strategic direction, long-term infrastructure

[1] HM Government (2021) Climate Change and Net Zero: Public Awareness and Perceptions.

planning, and service standards, while regional and local bodies are empowered to respond to place-based priorities. A clearer framework is needed to allocate responsibilities across these tiers, recognising those decisions about investment trade-offs and environmental outcomes—particularly those linked to housing, flooding, and local growth—are often best made closer to communities.

Greater local democratic involvement would also enable communities to shape the compromises that affect their environment and help identify outcomes that reflect local needs—such as improving river quality for recreation or biodiversity—particularly when engagement begins early in the process.

The process of making decisions is just as important as the decisions themselves. Ensuring fairness, accessible engagement, and transparency—known as procedural justice—is essential. Currently, there is limited transparency around how decisions are made and how public input is considered, which leaves people unsure whether their views have been heard. Engagement is often one of the first things to be cut when resources are tight, despite its value. Decision-making should involve a negotiated settlement approach that brings together a wide range of stakeholders, including regulators such as Ofwat, consumers, environmental organisations, and residents.

Negotiated settlements—already used successfully in other sectors and regions—can offer a structured and transparent way of surfacing trade-offs, building consensus, and setting long-term priorities. These approaches can complement formal regulation by creating space for informed, multi-party agreement on issues such as affordability, service levels, and environmental protections. They are particularly valuable where decisions affect diverse local interests or involve competing outcomes.

We cover in the previous section our thinking on alignment also with unitary counties and mayors.

Q13. Do you believe there should be changes to roles and responsibilities for water management across local, regional, and national levels?

Yes. A more integrated, place-based model of water governance is needed – the current approach of largely national decisions for local issues has been a major contributor to the disconnect between customers, companies and regulators and the wider lack of trust in water. Please see an Appendix to this formal submission, which is a Discussion Paper that Sustainability First was commissioned to write setting out our thinking on reforms to governance in water in England.

It also largely ignores the almost differentiated blend of physical and socioeconomic characteristics and pressures that are present at each catchment and water body levels, where application of a limited number of national targets can lead to conflicting investments, duplication and gaps appearing in the efforts to achieve desired outcomes. This resulted in the OEP commenting that the considerable investment and efforts to improve the quality and resilience of our water environment were in danger of being misaligned with the pressures. The lack of local integrated planning and regional governance is often referred to as the "missing middle."

The benefits of Integrated catchment management have been understood for over 50 years with the creation of the Water Authorities but has subsequently been eroded as our focus turned to the need for improved utility infrastructure and the associated regulation of the utility performance. We may need some variable geometry between nature, wastewater, and water resources.

For nature and the impact of waste water (including excess rainwater) water on public health and flooding , we need to build on the existing catchment-led approach would enable communities and stakeholders to respond to the unique environmental and socio-economic characteristics of their rivers and water systems – probably with some co-ordination at unitary council/mayor level to build the links to local nature recovery strategies and to housing, skills and transport agendas and to create critical mass for market based approaches, as advocated by Dan Corry's review.

Regional democratic accountability could be achieved through for example an expanded role for regional flood and coastal committees, which already provide this role for floods, and which have elected councillors from unitaries and counties as their members.

Integrated Catchment plans are the point at which the governance begins; preparing well evidenced plans that identify what each of the agents needs to do would help to deliver

environmental and social outcomes, supported by meaningful community input and accountability mechanisms to identify the local trade-offs.

Scaling up catchment partnerships and establishing formal advisory boards could improve coordination and legitimacy at this level.

For water resources, we again think there is a key role for unitary councils/mayors, in part again to join up decisions with housing, skills and transport. But the regional tier probably needs to remain, as at present supra regional, through the water resource groups, reflecting the number of strategic transfers we are likely to require.

At the national level, a clearer strategic framework is needed to coordinate infrastructure investment, manage demand, and ensure consistency in environmental and public health standards. A national water system planning function—akin to the National Energy System Operator (NESO) in the energy sector—should be developed to guide long-term investment in strategic assets such as reservoirs and inter-regional water transfers, ensuring resilience and equitable distribution.

Local and regional plans should feed into this national strategy, with national bodies retaining a core role in setting outcome-based standards and ensuring regulatory coherence and ensuring that the trade-offs that occur at policy levels are addressed. However, delivery should increasingly be devolved, supported by a simplified governance structure and clearer allocation of responsibilities. This would support a more adaptive, place-based, and accountable system.

Q14. Do you believe changes are needed to help reduce the siloed approach to water management across different sectors? If so, what changes do you believe would be beneficial?

Yes. The current regulatory and governance framework is highly fragmented. Bodies such as Ofwat, the Environment Agency, the Drinking Water Inspectorate, and others operate with separate mandates, timescales, and priorities—leading to conflicting incentives, duplicated efforts, and inefficiencies. There is also a near total lack of join up with Natural England's agricultural support and indeed with the EA's own flood reponsibilities: ironically the flood part of the EA are advocating for nature-based approaches, whereas the EA's water part appear to only support them for flood purposes, but don't see them having a significant role in addressing the issues of nature and water quality. This is limiting the ability to restore the quality of our water bodies and the catchments supporting them. Whilst regulators acknowledge the need for innovation, their prescriptive approach is inimical to the scale of innovation required in nature and community-based solutions for addressing both quality and resources.

This fragmentation also hinders collaboration with other critical sectors like energy and agriculture, which are essential for integrated water management, climate resilience, and demand reduction. These challenges must be tackled at a system level, not through siloed, company-by-company planning.

Changes to the way the licensing and permitting of regulation also need to be radically simplified and expedited to enable new approaches to emerge. In short policy and regulation needs to adapt to sit around and support the local and regional structures, not become channel back to taking national decisions.

Regulatory objectives need to be better aligned to deliver shared environmental and social outcomes. Major infrastructure projects and nature-based solutions—which often provide multiple benefits—require coordinated decision-making and funding models that move beyond narrow cost-benefit analysis and single-agency oversight. We think it is essential that water regulation works in tandem with the new NISTA, so that water supplies chains and finance are best coordinated with other demands on supply chains and finance.

Improved collaboration is also needed within the water sector. Sharing of best practice between companies is largely ad hoc. While existing working groups and industry forums are helpful, more structured platforms for collaboration—within the sector, across sectors, and internationally—are needed to accelerate learning, drive innovation, and improve delivery.

A systems approach would also benefit from aligning the multiple existing planning frameworks—such as Water Resources Management Plans (WRMPs), Drainage and

Wastewater Management Plans (DWMPs), the Water Industry National Environment Programme (WINEP), and Flood Risk Management Plans—into a more coherent and coordinated structure. Introducing a regional governance tier could help bridge institutional and sectoral boundaries, enabling more integrated decision-making and investment planning that balances environmental protection, public health, economic development, and community needs.

Finally, we doubt the changes required can be achieved without major cultural, and we suspect, machinery of government changes. It is hard to see how water regulation in the EA can achieve the necessary strategic and risk neutral approach, in an organisation which also covers, £1bn a year of flood spend, navigation, industrial pollution control, waste regulation and fishing licences.

Q15. Do you believe there are barriers to money being spent more effectively and efficiently across different sectors to deliver the best outcomes for the water system? If so, what do you believe are the key barriers?

Yes. A lack of coordination between regulators, short funding cycles, concentration on process over outcomes, and narrow investment criteria make it harder to spend money efficiently and deliver joined-up outcomes. These issues mean that opportunities for smarter, more integrated investment—particularly in nature-based solutions—are often missed.

Current frameworks prioritise capital-intensive 'grey' infrastructure, reflecting both its perceived reliability and the pressure to meet public health targets. They undervalue nature-based solutions (NBS) that can deliver multiple long-term benefits, such as flood mitigation, water quality, carbon sequestration, and biodiversity gains. Because existing economic models do not fully capture the wider environmental and social value of Nature Based Solutions, they are often overlooked despite being more regenerative and cost-effective in the long run.

Siloed investment pots have contributed to a study by Indepen in 2016 (Catchments is you can) identifying that there are 30 different agents investing through 50 different pots across 20 different guiding policies with little to no collaboration.

WINEP, the single largest investment pot is almost solely made up of "statutory" process (or asset) driven targets based for investment by the utilities largely to make up for the lack of evidence and data to support need driven investment.

We propose introducing a formal hierarchy for interventions: first, input controls (e.g., reducing pollutants at source); second, nature-based solutions; third, hybrid approaches; and only then traditional grey infrastructure. This hierarchy should account for multiple benefits and disbenefits and be embedded in both funding and planning decisions.

There is a lack of confidence in nature-based solutions (NBS), with proposals frequently reduced during regulatory approval. Building a stronger evidence base, including case studies, robust monitoring, and transparent evaluation, is essential to support wider adoption of NBS. Temporary or hybrid solutions, such as relocatable treatment units, may offer a practical route to gradually transition towards more nature- and catchment-based approaches.

Investment decisions have traditionally been driven by narrow cost-benefit analysis and consumer willingness-to-pay models. **A shift toward Social Return on Investment (SROI) or similar holistic valuation frameworks is needed to reflect the full societal value of different options.** Aligning funding streams across sectors—such as water, flood management, agriculture, and carbon reduction—would also support more integrated and efficient delivery.

A significant barrier to more effective spending is the fragmentation of funding across multiple organisations and programmes. This creates duplication, complexity, and missed opportunities to pool resources for maximum impact. Developing shared priorities at the catchment and regional level—underpinned by co-financing mechanisms and aligned outcome targets—could significantly improve both the efficiency and legitimacy of investment.

Catchment-level collaboration remains underdeveloped. Local communities and landowners are often excluded from decision-making, despite their vital role in shaping water use and land management practices. There is too much focus on people's willingness to pay, and not enough on their willingness to act. A more participatory, democratic model is needed to capture public priorities and improve outcomes at the catchment level.

The current appeals process is costly and inefficient, with companies spending tens of millions on adversarial reviews. A more constructive and negotiated approach—particularly for companies with a strong performance track record—could reduce costs and support better, more collaborative decision-making.

Q16. In your opinion, is it more important that regional water system governance aligns with hydrological or local government boundaries?

See above. We think the choice between hydrological and local boundaries is a false dichotomy: we need to find approaches which deliver both. We mustn't lose the wealth of experience and skills of the existing catchment partnerships. But we must align them with stronger regional or supra regional governance to enable systems thinking, ecological coherence, and more effective environmental management and this in turn must be balanced with democratic legitimacy through clear links to local government structures.

As we say there is probably some variable geometry between water resources, where a mayoral/unitary tier could be added to the listing supra regional groups, and wastewater/the water environment.

There are several models for how regional wastewater/ water environment governance could be structured, each with its own advantages and challenges:

1. **River/catchment-based governance**: This model would align regional governance with aggregated partnerships of larger river catchments, such as the Bristol Avon Catchment Partnership. It offers strong ecological alignment by following natural water systems but

may not align easily with existing administrative or democratic structures—for example, the Thames region could be divided into smaller river-based areas that cross local authority boundaries.

2. **Old River Basin Management Plan (RBMP) areas**: This option would use the existing hydrological boundaries from the previous RBMP system, which divided England into ten regions. This would maintain hydrological and ecological coherence but, as with the first model, may face challenges around local accountability and representation.

3. **Strategic authority groupings**: Another option is to align governance with existing strategic authorities—such as Greater Manchester or the Greater London Authority (GLA). This approach enhances democratic legitimacy, enabling water management plans to be co-designed with local communities and political leadership. Strategic authorities could also help bridge the gap between catchment needs and regional priorities, ensuring broader coherence. However, there are a lot of them

With over 100 catchments in England, federating them into appropriately sized regional bodies could support more joined-up planning. However, the current five water resource regions are likely too large and lack democratic accountability. The key challenge will be identifying the right groupings of catchments that balance local legitimacy with strategic effectiveness. Consolidating regional flood and coastal committees and the RBMP process into broader regional water governance structures could also improve coordination, efficiency, and integration with limited disruption.

An optimal model may be a tiered approach: local delivery through catchment plans; coordination and trade-off management at the strategic authority or sub-regional level; and national guidance on service standards and environmental outcomes. It is important to recognise that water resources and wastewater may align with different geographies—water resources often require supra-regional coordination due to the scale of water transfers, while wastewater management is more localised and catchment-focused, making it better suited to sub-regional governance. Aligning existing planning frameworks within this structure could help reduce duplication and ensure that water governance better reflects both ecological systems and democratic structures.

Management of the water environment

Q17–18. Do you believe changes are needed to the Water Framework Directive (WFD) Regulations, including for 2027 onwards? If so, which areas would benefit the most from change, and why?

We welcome the Water Framework Directive's strong focus on ecological health and its ambition to improve the state of our water environments by identifying and addressing the broad range of pressures affecting the health of our catchments, rivers, and seas. It has made a significant contribution to enhancing water quality across the UK and Europe, particularly through its outcome-based goals and its emphasis on integrated catchment management.

However, reform is needed to ensure the framework remains effective in a changing climate. The "one out, all out" classification approach—where failure in one metric leads to an overall failure status—is overly rigid and can obscure meaningful improvements. A more balanced and transparent reporting method is needed, which recognises progress while still highlighting areas of concern.

Climate change is altering hydrological conditions, pushing some water bodies into entirely new states. In some cases, this makes previous targets technically or ecologically unachievable. The WFD must evolve to reflect these shifting environmental baselines and account for socio-economic realities—ensuring that regulation supports ecological protection while remaining deliverable in practice.

Reform should also enable greater flexibility at a local level, allowing for adaptive, catchment-specific responses grounded in strong evidence and developed in consultation with stakeholders. This will help maintain the legitimacy of the WFD while improving its effectiveness in delivering resilient and sustainable outcomes.

As important however is the need to tackle the deadweight of process regulation and permitting which sits under the WFD, for example the Environment Act phosphorous process target, the urban wastewater treatment directive, and the storm overflows targets in the levelling up Act. Overconcentration on poorly designed process regulations is the main reason why the UK has made next to no progress on WFD targets.

We also believe that legislation and regulation that does not acknowledge the socioeconomic need for water leads to the two competing for action, with the socioeconomic need usually winning out. Both nature and socioeconomic need should be considered together, the trade-offs acknowledged and addressed in a way that optimises them both

Measuring and assessing the water environment

Q19. Do you believe changes are needed to improve how we monitor and report on the health of the water environment? If so, what changes do you believe could lead to improvements?

Yes. Monitoring must become more transparent, granular, and outcomes-focused to rebuild public trust and improve environmental decision-making. This means expanding the use of real-time data and publicly accessible dashboards (focused on metrics they can use i.e., is it safe to swim). Better integration of citizen science and local knowledge into formal monitoring frameworks is also essential to ensure national oversight reflects the lived realities and conditions within catchments.

We recommend separating regulatory enforcement from public-facing reporting. A new "national state of the water environment" report could provide an independently assured, headline-level overview of trends—focused on 8–12 key indicators—and supported by open, transparent datasets. This should draw on both official monitoring and community-collected evidence to ensure legitimacy and accessibility. Independent assurance is essential to build trust in environmental data. Clear methodologies and third-party verification can support confidence in reporting and decision-making.

There is also potential to use artificial intelligence (AI) and advanced data analytics to improve monitoring and reporting. AI can support early detection of pollution events, analyse large and complex data sets (e.g., satellite imagery, sensor data, and crowd-sourced observations), and help flag anomalies or emerging risks. AI and related technologies should be used to complement—rather than replace—expert judgment, local engagement, and democratic accountability in environmental monitoring.

As noted in Sustainability First's *Jobs and Skills in Green Tech* report, the successful deployment of these technologies depends on developing the right digital skills across the workforce. Strengthening capability in data science and AI will be essential if regulators and companies are to fully harness innovation, improve system intelligence, and enhance environmental monitoring and response.

We also note that the limited pass/fail approach adopted to water company performance (such as the environmental performance assessment, EPA) is distorting the true pressures on our water bodies, making them risk averse and creating a significant cost burden based on reactive approaches whereas wider strategic monitoring of harm, identifying the emerging hazards and their sources such as PFAS, pharmaceuticals and chemicals will encourage more action to prevent them being utilised without appropriate controls and encourage more innovation.

We support the development of a monitoring and evidence framework as being tested through the CASTCO innovation project to support catchment-based planning and interventions.

Strategic direction for the water industry

Q20–21. What role do you believe the government can play in providing strategic direction for the water industry? What changes, if any, should be made to how the government provides this strategic direction?

The government has a central role in setting the strategic direction for the water sector. This includes clearly defining long-term national goals—such as affordability, resilience, net zero, and ecological restoration—and helping the sector navigate the complex trade-offs involved. However, current government guidance is fragmented and lacks coherence across regulators and policy areas.

Strategic Policy Statements (SPSs) are important tools. However, reform is needed to ensure they address trade-offs explicitly – the current SPSs are silent on them. If trade-offs are set by government safeguards must be put in place to ensure they are not overly influenced by political short-termism and the media issues of the day.

We strongly support Dan Corry's recommendation that equivalent guidance/policy statements should exist for the Environment Agency on water – it is not merged into Ofwat.

Both the EA and Ofwat are unelected, and the only ministerial sanction has been the power of appointment to their boards.

Water cannot be managed in isolation. Stronger cross-sector coordination is needed to align water policy with housing, energy, land use, weir infrastructure and climate strategies. Given the sector's significant and growing carbon footprint, strategic guidance must also reflect national decarbonisation goals. It is no longer acceptable for the Environment Agency to disregard carbon performance simply because it falls outside its formal regulatory remit. Oversight should be aligned across agencies to support long-term sustainability and net zero objectives.

The current system often underrepresents the interests of future generations. A stronger long-term voice is needed in strategic planning and regulatory decision-making. This could include:

- A scenario-based national infrastructure needs assessment that accounts for long-term risks and uncertainty;
- A dedicated national strategic assessor (e.g., building on the NIC or creating a new body) to provide independent, future-focused advice;
- Reforming and strengthening the SPS process to guide all relevant regulators, not just Ofwat;

- Convening a national conversation on long-term challenges—such as water scarcity, service expectations, and acceptable levels of risk—to build public understanding and support informed decisions.

A clear national strategy should also enable more devolved decision-making where appropriate. National standards and environmental objectives must be paired with local and regional flexibility to determine how best to deliver outcomes, informed by place-based evidence and community priorities. By providing a coherent framework, the government can ensure that water sector planning and investment reflect public expectations, democratic legitimacy, and the long-term public interest.

Q22–23. Do you believe there are barriers to effective long-term water industry planning? If so, what factors do you believe are preventing effective long-term planning? What changes, if any, would help water companies to use planning frameworks more effectively to fulfil their duties and deliver their functions?

Yes. There are significant barriers to effective long-term planning in the water sector. These include the rigid five-year Price Review cycle, fragmented regulatory responsibilities, and a lack of flexibility to adapt plans as conditions change. Planning frameworks are often developed in silos— between Water Resources Management Plans (WRMPs), Drainage and Wastewater Management Plans (DWMPs), Price Reviews (PRs), and other regulatory processes—leading to misalignment, duplication, and inefficiencies.

The current system tends to prioritise short-term compliance and cost control over long-term resilience, environmental improvement, and innovation. Adaptive delivery plans—where strategies evolve over time based on changing conditions—are still underdeveloped, despite the increasing uncertainty posed by climate change, population growth, and shifting environmental baselines.

Ofwat are to be congratulated on having required the industry to produce long-term delivery strategies. However, these need to be updated on a regular cycle, and they need to feed back into 'core decisions such as monitoring (part of baseline totex) and capital maintenance.

To address these issues, we recommend:

- **Building on the LTDS approach to embed adaptive planning more fully into regulatory processes** so that companies can respond dynamically to new data, risks, and opportunities.
- **Better integration of planning cycles**, particularly aligning Water Resources Management Plans, Drainage and Wastewater Management Plans, and Price Review processes.
- **Scenario-based planning** that accounts for long-term risks and uncertainty, rather than relying solely on point forecasts.
- **A stronger national water systems planning function**—comparable to NESO in energy—to align regional plans with national objectives, optimise infrastructure investments, and ensure coherence across sectors.
- **Reducing regulatory friction** through clearer guidance and joint regulatory oversight, enabling companies to focus on delivery rather than process.
- **Creating space for innovation and learning**, especially in how companies incorporate nature-based solutions, local engagement, and emerging technologies into long-term plans.

Short-term planning cycles and a compliance-driven culture also contribute to instability in the supply chain, limiting the sector's ability to retain skills and plan ahead. Stronger, more stable investment signals—supported by flexible delivery mechanisms and space for experimentation—would allow companies to embed innovation and long-term thinking into the core of their planning and procurement processes.

Long-term planning must be reframed as an ongoing, adaptive process—not a once-every-five-years compliance exercise. This shift is essential for delivering resilient, fair, and sustainable water services in the face of escalating challenges.

Section 3: The Regulators

Q24. How would you rate the performance of the water regulatory framework?

The water regulatory framework has delivered some important outcomes—such as maintaining drinking water quality and keeping bills relatively stable over time—but it is not performing well on long-term resilience, environmental outcomes, customer service, overall affordability, or public trust. It remains overly focused on short-term cost control and process compliance, with fragmented responsibilities between regulators and limited space for innovation or systemic thinking.

The framework also fails to adequately reflect citizen voice or the interests of future generations. Public engagement is often shallow or tokenistic, and long-term outcomes are consistently deprioritised in favour of near-term targets. While reforms such as the introduction of long-term delivery strategies are welcome, they have yet to be embedded consistently across the system.

The current system does not fully support innovation. Regulatory processes often take time to adapt to new technologies and ways of working, which can create uncertainty for companies seeking to adopt novel or more sustainable approaches. A more enabling, outcomes-focused framework—combined with space to experiment safely—would help foster innovation while maintaining regulatory assurance.

Q25. To what extent do water regulators coordinate effectively in the regulation of the water industry?

Coordination across water regulators—primarily Ofwat, the Environment Agency, the Drinking Water Inspectorate, and Natural Resources Wales—is limited by differing remits, incentives, and regulatory cycles. This fragmentation leads to inefficiencies, overlapping requirements, and missed opportunities to deliver shared goals around resilience, consumer protection, and environmental performance. Focused efforts to improve coordination, such as RAPID, have led to improvements but cannot overcome the inconsistent foundations.

A shared outcomes-based framework would support more effective joint working and help align regulatory priorities across the system. Greater collaboration is needed on areas such as the cost of capital, long-term resilience planning, and customer protection. Regulators should also share best practice in stakeholder engagement and tools like the use of digital twins. Place-based planning will only succeed if it is underpinned by coherent national guidance and coordinated regulatory support.

Shared evidence bases and consistent valuation methodologies across regulators would also help reduce duplication, support more coherent investment decisions, and improve accountability to the public and stakeholders.

We would judge that:

- It is deeply concerning that the EA's current regulatory approach risks suboptimal outcomes, including potentially inefficient use of the significant (£20bn+) investment planned over the next 5 years Under-resourcing and a lack of focus has now been supplanted by highly excessive risk aversion. There is little recognition of outcomes and none of carbon, flood implications, supply chain pressures or basic cost effectiveness. There appears to be an excessive emphasis on procedural defensibility, which may be limiting innovation and proportionate risk-taking. They may argue that their leeway is circumscribed by process regulations and JR, but we judge that they could adopt a much more balanced approach within existing legislation, notwithstanding the convincing arguments for reform/repeal of process approaches.
- Ofwat has in the past been culpable in ignoring the demands of the future in favour of a stable financial position and low bills. Complacency on rising gearing in the aftermath of the large-scale move to private equity ownership means they did not fully anticipate the long-term risks. The consequences of this are now coming home to roost. But to the current regimes' credit they do now accept that a longer-term approach is required and that bills must rise. They also are more open than the EA to a more outcome-based approach to the water environment. Our criticisms of the current Ofwat regime are more focused on an excessive reliance on comparative competition, itself based on econometric models of limited power, and an approach to incentives which does not fully address unintended consequences. We also think their regime on capital maintenance leads to suboptimal levels of maintenance and hence a greater risk of asset failure.

Q26. What changes, if any, do you consider are needed to the framework of water regulators to improve the regulation of the water industry? Please consider both potential benefits and costs of any proposed changes.,

There is a clear need to move towards a more flexible, outcomes-based regulatory framework with better use of social return on investment models (which capture system-wide benefits) rather than simple customer cost benefit analysis. The current model is fragmented, overly process-focused, and often reactive rather than adaptive.

Key changes should include:

- **Embedding adaptive regulation and negotiated settlements**, allowing space for innovation, experimentation, and local tailoring—particularly for companies with strong performance records.
- Giving primacy in the water environment to a reformed water framework directive rather than process permitting. A balanced approach to risk, and an acceptance of implications of decisions for carbon, flood defence, housing and the terrestrial environment;
- **Strengthening coordination between regulators**, through a shared outcomes framework and more joined-up planning across affordability, resilience, and environmental performance. Or
- **Merging the water side of the EA into a reformed Ofwat**.
- **Improving transparency and accountability**, with clearer communication of how decisions are made, and trade-offs are managed.
- **Wider use of social return on investment** models in making decisions. The six capitals model may have value.
- **Valuing citizen input**, not just collecting it. Public engagement should inform regulatory priorities and decision-making, helping to rebuild trust in the system.

There is scope for meaningful reform without requiring new primary legislation. Ofwat already has flexibility to allow greater autonomy within its current statutory duties, particularly by shifting emphasis towards long-term public value and allowing companies greater freedom in how they deliver outcomes. The Environment Agency may face more legal constraints, but even within its current remit, a more proportionate and outcomes-focused approach to permitting and oversight is possible. More substantial changes could follow if supported by a strategic policy statement or, in time, through what we still regard as necessary legislative reform.

Q27. To what extent do you think the water industry regulators have the capacity, capabilities and skills required to effectively perform their roles?

Water regulators face growing complexity and expectations and will need to continue building their internal capacity to meet the challenges ahead. This includes strengthening their ability to deliver systems thinking, adaptive planning, environmental and social valuation, and collaborative, place-based governance.

Capacity in areas such as whole-systems thinking, carbon literacy, community engagement, public participation, and social impact assessment will be essential to support more integrated, long-term, and outcome-focused regulation.

As noted in Sustainability First's *Jobs and Skills in Green Tech* report, digital skills are increasingly vital. Making effective use of technologies like AI, data analytics, and digital twins will require targeted investment in data science and innovation skills across the sector.

Better coordination between regulators on skills and training would help build a more joined-up approach. This should include not just technical areas like data and digital, but also the ability to work in more flexible, open, and collaborative ways that reflect public priorities and long-term outcomes.

We find the EA in particular but also Ofwat to a lesser extent, to be very averse to new approaches. Our Fair for the Future project found that there is a 7-year lag between innovation/technology and its inclusion in regulation.

We doubt either regulator has the skills to design a model for regulation which properly uses emerging capabilities of telemetry and machine learning. We believe that these have the capacity over the next 5 years to fundamentally change regulatory approaches.

It's important that regulators continue to strengthen in-depth sector knowledge and institutional memory. A high turnover of staff exacerbates the information asymmetry between water companies and the regulator, weakening the regulators' ability to safeguard current and future consumers. This also slows down decision making.

Section 4: Economic Regulation

Q28. To what extent do you think the economic regulatory framework is delivering positive outcomes

The current economic regulatory framework has delivered some benefits, particularly in controlling costs and keeping bills stable. However, it remains overly focused on short-term efficiency and process compliance, with limited space for innovation, adaptive planning, or outcome-based delivery. This narrow focus has contributed to weaker performance on long-term resilience, environmental outcomes, and public trust.

There is also a clear mismatch between financial incentives and the outcomes that matter most to the public—such as environmental improvement and system resilience. The framework does not sufficiently reward delivery of public value or sustained performance over time.

A stronger emphasis on long-term investment, joined-up regulatory oversight, and clearer alignment with public goals is needed. Independent assurance, better communication of trade-offs, and more strategic coordination across regulators would help improve performance and restore public confidence.

We think that the current approach is highly opaque, and this lack of transparency is a significant factor behind the lack of trust in water

Q29. How do you think the Price Review process should balance the need to keep customer bills low with the need for infrastructure resilience?

Sustainability First's major research on customer attitudes towards paying for infrastructure improvements (rapid review, quantitative and deliberative research 2024) found that a majority of consumers are in favour of frontloading infrastructure costs on consumer bills (despite the cost-of-living crisis). The main reasons given are a belief that it would cost less overall and longer-term; a desire for intergenerational fairness (not kicking the financial can down the road); and a sense that if it needs doing, let's get on with it.

Those who are against frontloading costs and paying more, cite concerns that they can't afford it, or they worry other households or businesses can't afford it; or due to distrust - a belief that money won't get spent on investment i.e. it will go on shareholder profits/it's just an excuse to put prices up. This distrust has fueled activism, with groups like "Don't Pay for Dirty Water" encouraging customers to withhold payments in protest against poor service and

environmental violations. Some suggested keeping bills low until the cost-of-living crisis is over and then increasing them to give some breathing space in these difficult economic times.

The research found that a majority of people understand and are prepared to pay more for resilience (their top priority along with safety) but want those who can't afford increases in bills to be protected. Though there was some regional variation that may be linked to affluence. This research will be published shortly. We are happy to share it on a confidential basis ahead of then.

The Price Review process must strike a clearer and more transparent balance between short-term affordability and long-term infrastructure resilience. Too often, low bills have been prioritised at the expense of future investment (despite consumer insight to the contrary as highlighted in the CMA appeals for PR19), leading to growing infrastructure risks and environmental decline. Affordability remains important, especially during a cost-of-living crisis—but the costs of inaction are also high and often hidden and the public recognise this.

Bill profiles

How costs are passed on also matters. Smooth bill profiles appear to be important to customers and are often raised unprompted. This should be a guiding principle for decision making. When discussing future water bill profiles, a key concern for consumers and consumer groups in the water research reviewed is that bills should be stable over time, with gradual increases, avoiding big fluctuations in charges so there are 'no big surprises.' This is to help people predict their bills and plan ahead. Respondents also believe this is more important for low income and vulnerable customers.

Understanding the factors driving affordability, willingness to pay and acceptability of bills

Our research found that while a person's financial situation and experience influences their attitudes towards affordability and willingness to pay for infrastructure – it isn't the only factor. We identified a range of interrelated beliefs and attitudes that influence the extent to which consumers prioritise affordability and their tolerance of bill increases:



There's an important role for regulators and government in tackling a number of these factors i.e., in ensuring the poorest are protected through targeted price support; ensuring greater transparency on how funds are being spent; delivering fair returns; and to demonstrate value for money and build trust.

Customers should be engaged early and meaningfully in discussions about what level of service, resilience, and environmental quality they expect, and what they are willing to support. This means moving beyond narrow willingness-to-pay models to incorporate broader public values (as outlined above), long-term benefits, and intergenerational fairness.

Engagement must be done well to be effective. Poorly designed processes risk undermining trust, but high-quality deliberative approaches—such as citizens' assemblies or deliberative fora—can help people understand trade-offs and provide more considered input on what they value. We are happy to provide further insight into this.

We think that an outcomes-based approach centred on systems-wide cost beneficial assessment and cost-effective interventions taking into consideration benefits to citizens not just customers i.e., environmental, and societal benefits - could markedly reduce some of the upward pressure on not just water prices but the costs we pay as taxpayers.

Q30. What, if any, changes could be made to the Price Review process to better enable the water industry to deliver positive outcomes?

- Move away from 5-year big bang cycles which create an artificial cyclical dynamic in the sector, and national level specification of the process.
- More engineering and asset management insight.

- Move away from blind reliance on comparative competition exclusively through the medium of econometric modelling – consider the case for staggering the price review, even different lengths of period.
- Bottom up, integrated asset management plan development – integrate WINEP planning and delivery into statutory WRMP, DWMP development.
- Explore new approaches to competitive commissioning.
- Be mindful of the incentive and innovation implications of cost assessment methodologies.

In addition:

- **Shift focus to long-term outcomes –** the process should move beyond short-term compliance and cost efficiency, focusing instead on strategic, outcome-based delivery that supports resilience, environmental recovery, and climate adaptation.
- **Adopt adaptive planning –** replace the rigid "reset" model of five-year cycles with adaptive, scenario-based planning. Plans should evolve over time, responding to new risks and evidence while staying aligned with long-term goals.
- **Introduce greater flexibilit**y – use regulatory tools such as reopeners, call-off contracts, and uncertainty mechanisms to allow mid-cycle course corrections without derailing long-term progress. Flexibility must also be backed by a regulatory culture that supports innovation—where companies are not penalised for trying new approaches, and safe, conventional delivery is not the only low-risk option.
- **Improve transparency and accountability –** the current Price Review process is technocratic and opaque. Independent audit, clearer communication, and public-facing summaries of decisions would enhance legitimacy and public understanding.
- **Engage the public meaningfully –** citizens should be involved earlier and more deeply, using deliberative methods like citizen juries to ensure that outcomes reflect public values—not just narrow willingness-to-pay models.
- **Align national guidance –** a clearer national framework is needed to guide company plans, improve consistency across the sector, and reduce duplication between overlapping processes (e.g., Water Resource Management Plans and Drainage and Wastewater Management Plans).

Q31-34. What, if any, changes could be made to the Price Review process on assessing and setting:

- ***Base expenditure to effectively support infrastructure maintenance?***
- ***Enhancement expenditure to effectively support infrastructure improvements?***

- ***The Weighted Average Cost of Capital (WACC) to effectively attract investment in the water industry?***
- ***Performance incentives to effectively secure infrastructure delivery?***

- **Base expenditure –** should give greater weight to resilience, asset health, and long-term system efficiency. The current focus on short-term cost efficiency undervalues proactive maintenance, even though reactive fixes are typically more expensive and disruptive. Improved use of asset data and risk-based planning is needed to target interventions more effectively.
    - **Ongoing system of asset health trend monitoring with independent oversight**

- **Enhancement expenditure –** should reward integrated, multi-benefit schemes—including nature-based and community-led approaches—not just traditional capital-intensive solutions. These alternatives can often deliver greater long-term value for people and the environment at lower cost.

- **WACC (Weighted Average Cost of Capital) –** calculations should reflect sustainability and climate-related risk. The framework should encourage long-term, patient capital and include transparent benchmarking across sectors to ensure returns are aligned with public expectations and environmental goals.

- **Performance incentives –** need to move away from rigid pass/fail mechanisms toward more adaptive, learning-oriented frameworks. These should support innovation, resilience, and nature-based solutions, and give companies space to adjust as evidence and conditions change. Companies should not be penalised for testing new approaches that may not succeed, while receiving no downside for delivering conventional but low-impact solutions.

    - Move away from over-specification of outcome delivery incentives

Customer bills

Q35. To what extent does the economic regulatory framework deliver acceptable water bills for customers?

The current regulatory framework has kept water bills relatively stable over recent decades and as noted, smooth bill profiles matter to consumers. However, lower cost bills have often been at the cost of long-term resilience, environmental investment, and service quality – the impacts of which are now much more visible. As a result, future customers may face steep increases to

fund overdue infrastructure improvements and environmental commitments—raising questions of intergenerational fairness.

Many customers in England and Wales find current and projected water bills unacceptable, citing affordability issues, distrust in water companies' use of funds, and inadequate support for vulnerable populations.

Ofwat's 2024 cost of living research suggested more than half of bill payers (57%) reported they would be concerned about a £25 monthly increase in household costs - £300 a year (28% very concerned, 28% fairly concerned) with bill payers who have, or live with someone who has, a long-term illness, health problem or disability more likely to report concerns. This is sobering reality in the context of rising living costs this April, increases in water, energy bills, and council tax which will on average exceed this amount, alongside cuts to millions of disabled people's and carers' benefits from 2026.

However, as highlighted in Q29 there are a range of factors beyond price that influence whether the public consider water bills to be acceptable. Some of these factors such as value for money, beliefs about fairness, transparency around decision making, levels of knowledge and understanding, could be addressed through better regulation and increased democratisation of decision making (not sadly Consumer Panels).

Acceptability of bills should not be judged by price alone. The public increasingly expects water bills to reflect social and environmental value, as well as (for those who support privatisation) fair returns to investors. Our research found that lowest-cost business plans are unlikely to be acceptable unless they deliver against not just key consumer outcomes, but public values and societal needs. Ofwat would benefit from better understanding the latter two, and regional variations in consumer priorities.

As part of the price review process water companies undertake consumer willingness to pay research and acceptability testing. There is no agreed benchmark as to what acceptability is level is too low. There is currently insufficient clarity or public dialogue around what genuinely makes a bill "acceptable" in terms of fairness, transparency, and outcomes.

Customers understand compromise, and that no outcome is perfect. Studies remind decision makers that the public are not expecting the ideal per se. Evidence that efforts are being made to strive for the best outcome possible are likely to be as important in achieving acceptance of approaches and changes that are not in line with their views and values.

Beliefs about 'procedural justice' such as having a voice in the processes used to make decisions about the water system, and perceptions of being treated with respect, openness, and honesty from companies strongly influence levels of acceptability and willingness to pay.

A broader understanding of affordability is also now needed. This includes recognising differences in ability to pay, public expectations on fairness, and the long-term costs of inaction. Deliberative public engagement—through citizen juries or deliberative fora—should play a stronger role in exploring what fairness means to different groups and supporting more legitimate pricing decisions.

Q36. What, if any, changes would help ensure customers are paying fairly for the water they use?

Understand views on fairness - deliberative engagement

Fairness should reflect public views, including on cost reflectivity, the polluter pays principle, and intergenerational equity. Our collaborative Sustainability Principles project with industry, regulators and the civil society groups identified very different assumptions from these groups as to what is seen as 'fair' with regulators at risk of being out of step with public opinion.

For example, most people do not understand that the river begins in the home and the role they can play in reducing system wide costs. E.g., not flushing wet wipes down the toilet. They won't be aware of the role of land-use in polluting our waterways and that we, as water customers, sometimes pay farmers to stop polluting. There's been very little engagement on issues of intergenerational fairness. There are differences of opinion in whether we should be striving for equality (giving everyone the same) or for equity (ensuring equal outcomes i.e., enough water to participate in society with dignity and be healthy) with perceptions varying dependent on the context. These questions are so fundamental yet often bypassed by decision makers who assume they know what 'fair' means.

That said we think the following would help:

- Strong focus on identifying and reducing **"voids"** in the water sector—properties recorded as unoccupied and therefore not billed—this can significantly reduce **costs for all customers and ensure people pay for what they use.**
- **Reduce bad water debt,** which is paid for by all consumers, including those struggling to afford their bills. By more effective use of data to prevent people falling into financial difficulty and earlier intervention when people fall into debt. E.g., energy regulator publishes data on debt size which provides insights into how efficient companies are in supporting customers early. Also, introduce more flexible and frequent billing e.g., monthly or pay as you earn options so people on unstable contracts with variable incomes can pay when they can afford to do so. This is win-win. There's been little genuine service innovation here.
- **Introduce a single, nationwide social tariff as part of an industry-wide toolkit of support** for those struggling with their water bills. This is to address the inconsistencies and limitations of the current support systems for low-income households in England and Wales. This should be tapered to avoid cliff-edges and people just missing out on support. Importantly this is not instead of the wider range of support currently offered by water companies e.g., payment breaks, debt matching, WaterSure and bespoke tariffs, but alongside it. Ideally there would be automatic registration—enabled through

responsible data sharing between utilities, government, or public services. Care must be taken with the eligibility criteria to ensure that receipt of benefits is not the only mechanism to passport people onto support, especially given upcoming benefit changes and the need to support the working poor. There are issues of fairness linked to this, however – it will result in some people who are just about managing supporting other low-income households if funded by cross-subsidy.

- **Government and regulators should hold strategic national 'conversations'** on affordability about who should pay for affordability support and how it should be delivered as part of a wider debate on social welfare and health. An honest conversation is needed about a longer-term solution to tackle essential service affordability including the boundaries of utility company responsibility and the role of the state. As cross-subsidies are stretched to their limits, the issue of who pays; billpayers, business or taxpayers; and who delivers it cannot be ducked any longer.
- **Ensure value for money and transparent fair returns** – there is little transparency on precisely how much return shareholders really get.
- **Transparent billing** is essential. As noted, communicating where customer money goes is important to perceptions of trust and fairness. Customers should clearly see what they are paying for, with a breakdown of service costs and an explanation of how charges contribute to investment in resilience, service improvement, and environmental protection.

Approach with caution

- **Rising block tariffs** – which charge higher rates for increased water use. Learning from recent RBT trials suggests tariff design and communication is critical:
  - While some customers view the tiered pricing as fairer, there were concerns about the complexity of the tariff structure and its potential impact on larger households or those in vulnerable situations who require more water e.g., for medical conditions.
  - Risk they encourage customers in vulnerable situations to over-ration water use, resulting in harm.
  - The importance of clear communication and the need to consider household circumstances in tariff design.
  - It may also legitimise excessive use among wealthier customers who can afford higher bills so have unintended consequences.

Customer protections

Q37. To what extent does the regulatory framework protect customers from poor service?

What is considered 'poor service' is to some extent subjective and will vary dependent on changing public expectations. We make the following comments:

- CCW's Water Matters and the UK Customer Satisfaction Index (July 2024) indicate an erosion of customer satisfaction and trust across the water sector, with the implication that the regulatory framework which overseas it, is not meeting public expectations.
- We are mindful that there are significant gaps between high and lower performing water companies. That said, we are not aware of any water company that is exemplary, across all service areas.
- Because of the way the performance commitments work (often dealing with averages) even with a higher performing water company, there can be a minority of customers who are consistently and repeatedly experiencing poor service E.g., may be impacted by repeated supply interruptions but if the scale is small, these may not be picked up. There could be a stronger focus on the worst-served customers and communities. Failure to do so is not a small issue, not least of all as these incidents seemingly disproportionately negatively influence public perceptions of utilities.
- Concerns about sewage pollution, storm overflows and declines in environmental standards are well documented. There are clear regulatory failures here including: the regulator setting the bar for performance at a level that was lower than changing public views; and poor monitoring and enforcement.
- Looking at customer service, despite the regulators' stated desire for excellence, in practice it is unclear to what extent the framework is really driving enduring service improvements in underperforming companies. For example, those water companies at the bottom tier of the customer satisfaction (C-MEX) league tables including Thames Water and Southern appear to be persistently there. In addition, CCW reports ongoing problems over many years with billing, complaint handling and support for vulnerable customers. This suggests the balance of rewards and penalties is not incentivising the step change in improvements needed.

  We note there has been little (and where it exists very slow) retail side service innovation, relative to energy and telecoms. Ofwat does not appear to put sufficient value on customer service improvements that are very visible to consumers and impact their lives day to day e.g. time lost waiting on hold or seeking redress; frustrations caused by badly sited over-running street works; hard to navigate websites; tone, content and frequency of communications. Citizens Advice in 2016 estimated that poor customer service cost the UK a staggering £24bn.

> In PR24 the regulator discouraged companies developing bespoke performance commitments developed by water companies in collaboration with their stakeholders, despite the fact that much service and regulatory innovation was driven by those bespoke commitments developed in PR19. This was because it wanted greater regulatory simplicity. It did not sufficiently reward and encourage innovation.

Moreover, in general, too often, regulation is reactive—responding after failures occur—rather than preventing them through earlier intervention, better use of data, and stronger accountability. All parties would benefit from better horizon scanning, improved monitoring of complaints and performance to nip emerging issues in the bud.

Ofwat has improved how it engages with the public and wider stakeholders in recent years but there is still significant scope for improvement. EA and DWI have a longer way to go. Regulators should also place more emphasis on procedural fairness—ensuring that customers feel heard, respected, and treated equitably when things go wrong. This includes improving complaint handling and making it easier for customers to resolve disputes. More visible performance reporting, and incentives that drive long-term customer satisfaction, not just short-term compliance would be helpful.

Q38. To what extent does the regulatory framework ensure that vulnerable customers are effectively supported?

Ofwat has strengthened protections for customers in vulnerable situations in recent years which is very welcome. This has included setting minimum standards and expectations that customers in financial difficulties should be treated fairly and encouraging an increase in support for those struggling to afford their water bills.

The regulator appears to have a particularly strong focus in principle on protecting customers during supply interruptions and ensuring 'Service for All' - accessible services for everyone regardless of their additional needs. Indeed, it has recently mandated all water companies having a Priority Services Register (PSR) and set related minimum standards.

Ofwat has also welcomely required companies to develop vulnerability strategies to encourage them to think strategically about how they tailor their approaches to the current and future need in their specific areas. Ofwat has also carried out some excellent consumer research demonstrating an evidence-based approach.

However, in practice, these improvements are largely Ofwat playing catch-up, bringing it more in line with the protections that have existed for many years in the energy and financial services

sectors. How successful these initiatives are in supporting vulnerable customers remains to be seen. Certainly, there remain gaps in protections:

- Delivery by water companies is inconsistent. Ofwat has not yet outlined how it will monitor and report on standards and progress. There is a useful role that the Independent Challenge Groups could play in monitoring progress on company vulnerability strategies, if given a clear mandate.
- Performance commitment levels are set at a low level; largely reputational; mostly outputs not outcomes focused; and it is unclear what penalty performance failure or non-compliance will incur if any.
- The services included in the PSR standards are dated. There has been little service innovation in two decades to reflect technological advances or rising customer expectations. This is a missed opportunity. Energy network companies have dedicated vulnerability innovation funds. These have been hugely popular and successful in driving service improvements. We'd welcome an equivalent in the water sector. We'd like to see services to support the growing number of unpaid carers who are often vulnerable themselves and play an undervalued role in resilience and for water companies to have a clear service offering for customers at risk of heat during heat waves, as well as disability friendly street works.
- Critically, there's a potential lack of ring-fenced funding to pay for additional services to support customers in vulnerable situations. When budgets are tight, this is sadly one of the service areas most at risk of being cut given the lack of accountability. Ofwat must be sure funding reflects current and future need:
  - ❑ Ofwat estimates that on average across England and Wales up to 52% of households may benefit from at least one PSR service. These customers are higher cost to serve.
  - ❑ Our research for South Staffs Water has projected a significant increase in non-financial vulnerabilities over the next 15 years. This is primarily due to a growing population, and an increasingly aging and disabled population alongside wider environmental and social change which is weakening household and community resilience. For example, consistent with longer-term trends, during this AMP (2025-2030) alone, the biggest percentage increases in SSC's area are expected in those who are disabled and may struggle to answer the door (28% growth from current level), over 85s (25%) and over 75s (23%), disabled over 65s (21%); blind and partially sighted people (15-19%), those with diabetes (18%), dementia (16%), and chronic or serious illness (15%).

- Regulations with unintended consequences - water companies are at risk of being discouraged from signing people to their PSRs. Changes to guaranteed standards may

mean they are required to automatically pay households compensation if they don't deliver the expected service.

- Many eligible households remain unaware of the help available or face barriers to accessing it. The framework places too much onus on individuals to self-identify, rather than requiring proactive outreach by companies. Eligibility criteria vary across providers, and the lack of consistent data sharing between utilities and public services further limits effective support. The glacial pace of progress on energy-water data matching and moves to a one-stop shop for signing up to the PSR have delayed delivery of support. This requires regulatory leadership.
- Despite 'Service for All' protections, Ofwat has put insufficient focus on inclusively designing mainstream services. It interprets inclusive design as having a range of communication channels that people can use e.g., website, email, telephone and bespoke services such as large print or braille. What is really needed is for water companies to ensure that each communication channel is as accessible as possible to the greatest number of people. That would reduce the need for bespoke PSR services, increase customer satisfaction, and reduce costs. There should be mystery shopping by customers with additional needs of the accessibility of mainstream services.
- Much more could be done by companies to prevent customers falling into financial difficulty and earlier intervention when they fall into debt. In many cases, receipt of benefits is used as the primary passport for support. While administratively simple, this approach can overlook many households in need—particularly those with fluctuating incomes, insecure employment. Broader, more inclusive eligibility criteria are needed to ensure that support reaches everyone who requires it.

Q39. What, if any, changes to the regulatory framework would better incentivise water companies to deliver and maintain high customer standards?

- **Tie incentives and penalties more closely to customer experience including worst served customers**– the regulatory framework should include more robust and consistent incentives and penalties based on clear customer experience metrics. This could help ensure poor service is appropriately challenged and high-quality service is actively rewarded. In particular, ensuring performance metrics and monitoring reflects the experiences of companies' worst served customers – getting beyond averages that can mask a minority of households receiving consistently poor service.

- **As noted, encourage innovation in service delivery** – regulation should support and reward innovation, including digital engagement tools and inclusive design approaches that meet the needs of a diverse customer base. There should also be more space for companies to trial new approaches to customer support and engagement. This includes

co-designing services with customers, particularly those with lived experience of vulnerability.

- **Recognise and share best practice** – high-performing companies should be acknowledged and used as models for others. Regulators can play a stronger role in highlighting good practice, including through shared learning across sectors. There may also be merit in developing common service standards that reflect best practice, which companies can benchmark themselves against.

- **Improving transparency and accountability** – greater visibility around complaint resolution, service failures, and customer satisfaction would help drive improved performance. More accessible reporting—such as dashboards showing key service indicators—would also help customers hold companies to account. Clear communication when things go wrong, including how companies are addressing issues, is essential to rebuild public trust.

Q40. What, if any, changes to the regulatory framework would improve support for customers in vulnerable circumstances?

Please see question 38.

Financial resilience

Q41. To what extent is change required to the economic regulatory framework to support water companies' financial resilience?

Significant change is needed. The current economic regulatory framework has not done enough to support long-term financial resilience across the sector. While some companies have maintained strong balance sheets, others have taken on high levels of debt to fund dividends—often at the expense of infrastructure maintenance and investment (ironically gearing has fallen over the past decade but the legacy from excessively high gearing remains). This has weakened trust and exposed the sector to greater financial and operational risk. It has also contributed to growing public concern about whether the water sector is delivering fair value for money.

The framework too often fosters a compliance-based, short-term mindset rather than encouraging innovation or long-term stewardship. A "parent–child" dynamic persists between regulators and companies, which inhibits more mature, outcome-focused conversations about risk, resilience, and delivery – and systematises risk aversion. There is currently no clear mechanism for assessing whether financial strategies support wider environmental or social outcomes.

Finally, we are concerned that the penalty regime could undermine financial resilience and in particular will impact on any companies which are genuinely trying to 'pull themselves up by their bootstraps' but which start from a historic legacy of underperformance.

To build financial resilience, the regulatory model must:

- Incentivise prudent financial management and reinvestment in core services and infrastructure.
- Increase transparency around capital structures, dividend policies, and how profits support long-term outcomes. We see no reason why these issues should not be explicable to well-informed customer groups, at a minimum.
- Align financial oversight with the delivery of climate resilience, environmental performance, and intergenerational fairness.
- Move from reactive, process-driven oversight to a more strategic and outcomes-based model.
- Build on existing models such as direct procurement to build an investible propsoition for major projects which is outside the current companies. This could be done by bundling smaller projects for example.

Strengthening financial oversight is also key to rebuilding public trust. Stronger financial oversight—supported by independent assurance and public transparency—is essential to ensure companies are financially fit to deliver the long-term services society expects.

Q42. Which of the following changes to the economic regulatory framework, if any, would improve outcomes for the water industry?

We support targeted changes to the regulatory framework that would strengthen long-term resilience, financial stability, and public confidence in the sector:

- **Changes to the Price Review process to support financial resilience** – the Price Review process should better reflect long-term risk, encourage sustainable investment, and avoid short-termism. Adaptive planning and outcome-based delivery should be central to future regulatory cycles. There should also be a stronger link between financial performance and public value, ensuring that investment decisions align with resilience, environmental, and affordability goals.

- **Changes to the oversight of water company debt (e.g., capping company debt levels)** – stronger scrutiny is needed to ensure that financial structures support long-term service delivery. Excessive gearing has, in some cases, diverted funds away from essential infrastructure maintenance and environmental outcomes. Greater transparency about

capital structures and financial strategies—explained in a way that customers can understand—would also help rebuild public trust.

- **Changes to financial oversight of companies (e.g., moving to a more supervisory model)** – a more strategic, forward-looking approach to regulation would enable earlier intervention, reduce risk, and support better corporate behaviour. This should include clearer expectations on dividend policies and capital reinvestment.

- **Separation of water resources and water licences**. Although the theoretical synergies between wastewater and water resources are reasonable, in practice they have not been achieved, and to be frank issues with wastewater performance are dragging the whole sector down with unnecessary degrees of contagion. As we argue above, there is a strong case for variable geometry of governance between water resources and wastewater, and this could be facilitated by splitting the licenses.

- **Improvements in public communication and understanding of water company finances** – many people do not understand how their bills relate to company profits, investment, or executive pay. Better communication and clearer explanation of how financial decisions affect service quality and long-term resilience could help close this trust gap.

Broader reform should also promote outcome-based regulation, reduce overreliance on process compliance, and align financial resilience with environmental and social value.

Q43. Do you think there is evidence on the historical relationship between debt, dividends, and expenditure at water companies that the commission should be looking at?

Yes. There is a growing body of evidence suggesting that high levels of debt and dividend payouts have, in some cases, come at the expense of infrastructure investment, asset maintenance, and environmental performance. This has raised significant public concern and undermined trust in the sector. The commission should examine:

- The extent to which financial engineering has diverted returns away from long-term resilience and sustainability. And (a separate issue) how far this continues today.
- Whether capital structures have incentivised short-term returns over public value.
- How dividend policies have aligned (or failed to align) with performance outcomes, particularly in poorly performing companies.
- Whether there is an optimal level of gearing across the industry: it may for example be the case that water resources would merit greater gearing than wastewater.

Greater transparency is needed—both for regulators and the public—around the relationship between shareholder returns, reinvestment, and long-term service delivery. The lack of clear communication about these relationships has fueled public mistrust.

Historic patterns in financial decision-making can provide important lessons for future regulatory reform—particularly around governance, incentives, transparency, and the use of public money in a privatised sector. Understanding this history is also essential to ensuring that future reforms are seen as legitimate and in the public interest.

Investment

Q44. To what extent does the economic regulatory framework support or hinder investment into the sector?

The economic regulatory framework has supported some investment by providing (until the last few years) predictability for investors, but it also creates significant barriers. Short-term regulatory cycles and complex approval processes make it difficult to plan and deliver long-term, strategic investments—particularly in nature-based solutions and infrastructure resilience. The boom-and-bust pattern of investment between price review periods also creates uncertainty for the supply chain, limiting long-term planning and innovation.

Financial returns are not always aligned with the public interest or environmental outcomes, and the current framework does not adequately reward multi-benefit or preventative approaches. Nature-based and catchment-scale investments are often undervalued or downgraded in regulatory decision-making, despite their potential to deliver better value for money over the long term.

To unlock more effective investment, the framework should enable greater flexibility, support innovation, and use outcome-based metrics that capture social and environmental value—such as biodiversity, carbon reduction, and community benefit. Investment incentives must reflect long-term system needs, not just short-term deliverability, and should reward approaches that reduce future risk and cost.

We also support returning water companies to their core BAU functionality and putting off major project delivery into separately financed projects – e.g., DPC or SIPR.

Q45. How do financial returns in the water sector compare to other similar sectors (for example, energy)?

Financial returns in the water sector have historically been strong—particularly during periods of light-touch regulation. This has prompted public concern about value for money, especially when returns are not matched by service improvements or environmental performance – although some of the hyperbola about excessive returns does not seem to have been matched by reality.

By contrast, sectors like energy have undergone more extensive reform, with stronger emphasis on innovation, decarbonisation, and accountability. Future regulatory decisions must better align returns with both risk and delivery performance—ensuring companies that deliver public and environmental value are fairly rewarded, while avoiding excessive returns where standards fall short.

Q46. What options, if any, would incentivise investment in the water sector?

Options to incentivise investment include aligning regulatory metrics with long-term sustainability goals and creating new funding models for nature-based and adaptive infrastructure. Investors need greater clarity and predictability on how performance will be assessed and rewarded—particularly in areas like carbon reduction, biodiversity, and community benefit. Risk-sharing mechanisms, such as green bonds, blended finance, and regulatory sandboxes, can support early-stage innovation and reduce barriers to entry. These should be backed by outcome-based incentives and clearer long-term planning assumptions. Simplifying regulatory processes would also help reduce transaction costs and build confidence in the sector.

We also argue above that more projects could be financed and delivered outside the currently defined sector.

Q47. How does the public and political portrayal of water companies in the media and elsewhere affect the attractiveness of the water sector to investors?

The water sector's public reputation has declined significantly due to high-profile environmental failures, poor customer service, and perceived financial mismanagement. But media coverage has amplified these issues, contributing to a narrative of mistrust and underperformance. Political scrutiny and growing public pressure for reform—particularly around pollution, dividends, and executive pay—have increased reputational risks for investors. While scrutiny can drive positive change, it also creates uncertainty if not accompanied by clear reform signals and regulatory stability. Strengthening transparency, improving communication

of the sector's value, and demonstrating visible service improvements are all critical to restoring public legitimacy—and investor confidence.

Competition

Q48. To what extent should further competition in the water industry be encouraged through regulation?

Competition should only be encouraged where it adds clear public, environmental, or efficiency value. Experience to date has shown limited benefits from extending competition in core water services. In many cases, the complexity of market arrangements has increased costs and diverted attention from essential outcomes. Regulatory effort would be better spent improving performance and collaboration within existing structures. There is more value in promoting targeted competition in infrastructure delivery, innovation, and procurement—particularly where it can unlock more sustainable, cost-effective, or locally tailored solutions.

Q49. Which of the following schemes, if any, have failed to provide effective levels of competition and efficiency?

Some retail competition schemes—particularly in non-household water markets—have not delivered the claimed efficiency gains (and indeed Martin Cave's report on competition a decade and a half ago argued for much more limited extension on non-household competition that was eventually adopted. Administrative complexity, high switching costs, and limited customer engagement have undermined their effectiveness. These schemes have also failed to drive innovation or consistently improve service outcomes.

Q50. Which of the following changes to competition schemes, if any, would improve outcomes for the sector?

Competition in the water sector should only be encouraged where it can clearly deliver public, environmental, or efficiency benefits. Experience so far shows that extending competition in core water services has offered limited value, with market complexity often increasing costs and distracting us from essential outcomes. Rather than focusing on broad competition, regulatory efforts would be better spent improving performance and collaboration within existing structures.

Targeted competition could be more effective in specific areas like infrastructure delivery, innovation, and procurement, where it may lead to more sustainable, cost-effective, or locally tailored solutions. This approach could help unlock greater value, particularly in areas where new ideas or technologies can be more readily adopted, without adding unnecessary complexity to core water services.

Q51. To what extent would greater market tendering of infrastructure delivery projects improve outcomes?

Market tendering of infrastructure delivery can drive efficiency, cost savings, and innovation by encouraging competition and attracting specialised contractors. It fosters transparency and accountability, with contracts awarded based on merit, and can transfer financial risks to contractors.

So, there are clear merits to this, and we would argue for a national or regional water tender for goods such as smart meters (or indeed for data as a service). However, tendering needs also to support long-term quality and maintenance and secure better balance between larger firm/ repeat contractors and SMEs or community-led initiatives. If poorly managed, tendering can lead to higher long-term costs or stifle innovation. Ensuring that tenders are evaluated on long-term value—not just upfront price—is critical to achieving sustainable outcomes.

We also support the excellent analysis by First Economics (Harry Bush and Jim Earwacker) some years ago which argued that the benefits to DPC type approaches could be maximised through a DBFO type model.

Section 5: Public Policy Outcomes

Q52. Do you believe that legal and/or regulatory requirements would benefit from review or consolidation?

Yes. The current legal and regulatory framework could benefit from significant review and consolidation. The existing system is complex, with numerous overlapping regulations and frameworks that sometimes create confusion and inefficiencies. This includes a layering of new process-based requirements—such as those around phosphorus and storm overflows—which further distract from improving the water environment and public health.

Streamlining these requirements would help provide clearer guidance, reduce duplication, and improve the efficiency of regulatory oversight. A more integrated framework would also support better coordination across catchments and between sectors, helping to surface and manage trade-offs more transparently. However, any consolidation must ensure that the environmental ambition of current regulations is maintained and that high standards for water quality, resilience, and sustainability are upheld, with a strong focus on outcomes to drive long-term improvements.

Protecting the environment

Q53. Do you believe that the system of environmental regulation, monitoring and enforcement is ensuring water company compliance with environmental standards?

- **Legacy of prescriptive regulation** – the current regulatory system is overly focused on prescriptive, process-based compliance rather than achieving meaningful environmental outcomes. Regulatory fragmentation and limited capacity have undermined enforcement, and statutory targets are often poorly aligned with on-the-ground ecological needs. This approach overlooks the interconnectedness of land management, water use, and environmental health. It also directs investment primarily towards sewage treatment infrastructure, sometimes at the expense of broader environmental health goals. For example, nutrient removal from sewage treatment can have unintended consequences, such as the reuse of waste nutrients in agriculture (e.g., fertiliser and chicken feed), which may eventually wash back into rivers, undermining efforts to achieve healthier waterways.

- **Shift toward outcome-based regulation** – we welcome the shift towards an outcomes-based regulatory approach that focuses on achieving clear environmental goals, such as improving river ecosystem health. This approach is already considered best practice across regulatory bodies in other sectors. Water companies should have the flexibility to determine the most effective ways to achieve these goals, in collaboration with local stakeholders and communities, rather than adhering to rigid process-based requirements. Flexibility should be accompanied by stronger evidence requirements, independent assurance, and a clear line of accountability for delivering outcomes.

- **Environmental performance assessment (EPA)** – the current framework primarily measures asset-based regulatory compliance, which fails to adequately capture broader environmental outcomes, such as river health, biodiversity, and carbon emissions. To provide a more accurate reflection of water companies' true environmental impact, the EPA should evolve to include these broader metrics. The inclusion of risk-based monitoring, integration of carbon performance into environmental metrics, and adoption of a systems-based approach would offer a more comprehensive picture of environmental performance. Monitoring should also account for the role of other contributors to water quality issues, including diffuse pollution and agricultural runoff.

- **Risk-based regulation and risk management** – the Drinking Water Inspectorate (DWI) effectively applies a risk-based regulation approach, encouraging water companies to focus on identifying and managing their most significant risks. Instead of complying with rigid, process-based requirements, this model pushes companies to assess specific vulnerabilities and take proactive measures to prevent issues. It also requires companies to demonstrate they have managed all potential risks, even lower-level ones, as failure to do so could still

lead to significant consequences. Companies that have thoroughly assessed and mitigated their risks are less likely to be deemed negligent if something goes wrong. A similar approach could be adopted more widely across the water environment, with a clearer focus on systemic and emerging risks.

- **Cross-sector collaboration** – environmental regulation in the water sector remains too siloed, with a narrow focus on individual sectors rather than recognising the interconnectedness of land management, water usage, and environmental health. A more holistic approach to environmental regulation, with greater cross-sector collaboration, is needed to address the complex challenges of climate change and water resource management. This includes aligning regulatory frameworks, funding streams, and planning cycles across agencies and sectors to support integrated catchment-scale solutions.

Q54-55. Which of the following changes to water industry environmental regulatory requirements, if any, would improve outcomes from the sector? Which of the following changes to the water industry environmental regulation, monitoring, and enforcement framework, if any, would improve outcomes for the sector?

The regulatory framework should be simplified to reduce complexity and better address emerging environmental challenges, such as achieving net zero targets and reducing carbon footprints. Legislative reforms should focus on tackling new pollutants, enhancing climate resilience, and strengthening the connections between water management, land use, and biodiversity.

Monitoring and enforcement processes must be improved through real-time, risk-based monitoring to provide more accurate data on environmental impacts and identify issues at an earlier stage. Increasing the frequency of inspections and audits would enable quicker identification of non-compliance and inefficiencies, reducing the need for reactive measures. Timely and robust enforcement is crucial to ensure companies meet their environmental obligations and restore public trust in both water companies and regulators.

Delivering clean drinking water

Q56. What changes, if any, could be made to the drinking water regulatory system to maintain world leading drinking water quality?

There are several areas where improvements can be made to ensure the continued delivery of high-quality drinking water. Addressing the resilience of water systems to climate change is crucial, as extreme weather events can impact both water supply and quality. Emerging contaminants like microplastics and pharmaceutical residues also require enhanced monitoring and updated treatment methods. Promoting water conservation through public education and efficient metering will help manage demand. Upgrading outdated infrastructure, including ageing treatment plants and distribution systems, is essential to maintaining high standards. Greater transparency around water quality data will further help to build public trust in the system. Engaging the public in discussions around acceptable levels of risk, quality expectations, and long-term investment needs could also help align policy with public values.

Securing resilient water supply

Q57. To what extent is the overall water regulatory framework securing resilient long-term supplies of water?

The current regulatory framework for securing long-term water supplies has come quite a long way but does not yet sufficiently address the evolving challenges posed by climate change and population growth. The sector needs to focus on improving resilience, not just in the immediate term, but in the face of future pressures such as increased droughts, floods, and changing weather patterns together with changing population (which is taken on board) but also changing patterns of use (for example due to increased home working). Climate resilience measures, such as water reuse, better demand-side management, and more sustainable water storage solutions, must be prioritised. Additionally, long-term planning should consider broader strategies for managing resources, including integrated catchment management and cross-sector coordination with other essential services like energy and agriculture. Enhanced flexibility in regulation, with mechanisms for adaptive responses to emerging risks, would better support sustainable long-term water supply.

We are also concerned that the existing 'standards of service' regime gives rise to inconsistent and opaque resilience across the country. There is also much to learn from how other industries, including energy, set resilience standards - until there is a robust approach it is very hard to judge how resilient we actually are to climate change.

Q58. What changes, if any, could be made to the overall water regulatory framework to ensure it can secure a resilient long-term supply of water?

Balancing different objectives – a more integrated approach would better balance competing environmental and socio-economic objectives. Decisions should be made at the appropriate level—nationally for broad policies and regionally for place-specific issues like land use and planning. This aligns with the devolution agenda, giving regional bodies greater strategic responsibility and enabling more effective, locally tailored solutions. Water governance should also reflect the different spatial needs of water resources (typically supra-regional) and wastewater (typically sub-regional or catchment-based).

Embedding climate, carbon, and nature into economic regulation – the current economic regulatory framework fails to integrate key sustainability factors such as carbon emissions, biodiversity, and climate resilience, contradicting national objectives for net zero and environmental recovery. While Green Book guidance now supports broader, outcome-based assessments, the regulatory framework remains too focused on process compliance and does not adequately account for environmental impacts.

Integrated catchment planning – water management remains fragmented, with policies and investments divided across various agencies, often with conflicting objectives. Every catchment

should have a well-evidenced, place-based plan that balances nature and societal water needs, backed by governance structures like catchment advisory boards. With over 100 catchments, federating them into larger regions may prove more effective, though determining the right scale for governance will be challenging. Aligning funding streams across national, local, and private-sector resources would improve efficiency and coordination.

Infrastructure standards – the lack of clear technical standards for water infrastructure—such as required storage per customer or headroom for resilience—makes it difficult to plan effectively for long-term needs. Establishing consistent national benchmarks would support smarter investment decisions and system optimisation.

Polluter pays – industries should be held more accountable for the full lifecycle impact of their products on water quality (accepting that the political impact of fully imposing the polluter pays principle on agriculture is probably unacceptable). The pharmaceutical sector, for instance, releases numerous chemicals into water streams with unclear effects on human health. A stronger "polluter pays" framework is needed to drive responsibility and ensure effective investments to reduce pollution. This should be extended to other diffuse sources of pollution, including agriculture and road runoff, with appropriate regulatory or market-based mechanisms.

Supporting innovation – the current regulatory framework places strict performance commitments on water companies, which can stifle innovation, especially in addressing chronic pressures. While nature-based solutions offer long-term benefits, the regulatory system lacks the flexibility to scale pilot projects or share risks between regulators, companies, and customers. A more flexible, outcome-based regulatory model would enable greater experimentation, foster learning, and support the mainstream adoption of innovative solutions.

EPA and holistic performance assessment – a future Environmental Performance Assessment (EPA) should focus on environmental risks within catchments, encouraging companies to go beyond compliance and include community engagement and nature-based solutions, and should take into account all environmental impacts including Carbon. The EPA should connect with Drainage and Wastewater Management Plans (DWMPs), Water Resource Management Plans (WRMPs), and the Water Industry National Environment Programme (WINEP) to assess the sector's performance holistically.

Abstraction reform – current licensing systems, based on fixed volumes, fail to consider the environmental impact on local ecosystems, particularly during dry periods. Some water companies have explored impact-based tariffs that increase the cost of abstraction during periods of scarcity, encouraging reduced demand. There is also a need for more transparent, science-based permitting decisions that are better aligned with ecological recovery objectives

and reflect real-time pressures. Clearer guidelines for licensing thresholds and better monitoring of unlicensed abstraction are needed.

Water efficiency and demand reduction – reducing water demand remains essential, but the current approach is inconsistent. Improving public awareness of water usage is crucial, particularly in understanding the hidden costs of water-intensive appliances. Messaging should focus on making responsible choices easy, rather than framing water conservation as a burden. Targeting high-use outliers, such as large agricultural operations, should be a priority. Demand reduction strategies must be equitable, as evidence shows low-income households often reduce their consumption the most, which can have negative social consequences.

Tariff options – rising block tariffs, where higher consumption is charged at a higher rate, can be effective in discouraging overuse but may risk legitimising high consumption among wealthier households. A more effective approach could involve community-led incentives, such as promoting the use of recycled or greywater for non-potable purposes like toilet flushing to reduce demand.

Rainwater and greywater harvesting – encouraging rainwater and greywater harvesting can significantly reduce potable water demand and flood risk. However, the supply chain is not yet in place to support widespread adoption. Incentives akin to a "boiler scrappage" scheme could be considered to promote these technologies, and water efficiency and reuse measures could be integrated into new builds.

Addressing leaks – leakage represents a significant portion of water loss. Leaks can present visible failures in local communities, where they see water and money being lost. Newer technologies, including AI, could help with more effective leak detection and management.

The story of water – despite the UK's frequent rainfall, water scarcity and pollution are growing concerns. The Ofwat fund should promote national and local storytelling to raise awareness about the value of water and the importance of conserving and protecting water environments. Rivers start in the home—by showing how everyday activities, such as water use and waste disposal, directly impact rivers, Ofwat's fund could drive greater public engagement and encourage more sustainable practices.

Q59 & 62. To what extent does the overall water regulatory framework support or hinder infrastructure resilience? When considering your answer, please think about future pressures including factors such as climate change and population growth. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure resilience?

The current regulatory framework supports water supply resilience by addressing immediate scarcity through traditional measures like large-scale storage and treatment infrastructure. However, it hinders long-term resilience by favouring reactive solutions over more sustainable, adaptive strategies. The focus on infrastructure projects often overlooks the potential of nature-based solutions and demand-side management, which are better suited to tackle long-term challenges such as climate change and population growth.

The current framework prioritises large-scale infrastructure to address acute issues like flooding and overspill pollution, which can be costly and slow. While these measures provide immediate resilience, they often ignore more sustainable solutions. A shift away from infrastructure resilience towards service or nature resilience would be helpful. infrastructure resilience focuses on the risk to infrastructure, whereas the resilience of catchments and services and understanding the risk to both will broaden the approach so that there is not an excessive cost to building redundancy. Regulation should shift focus to managing chronic pressures such as rainwater capture, catchment health, and diffuse pollution through nature-based solutions. Decentralised measures like water butts, green roofs, and permeable surfaces are cheaper, faster to implement, and more effective in the long te**rm.** These interventions also offer co-benefits for biodiversity, air quality, and public space.

Fragmented oversight and the lack of coordination between water management, land use, and climate policy reduce the effectiveness of a holistic, forward-thinking approach to resilience. Infrastructure resilience requires integrated planning across sectors and clear national guidance that enables adaptive, locally grounded delivery.

Q60 & 63. To what extent does the overall water regulatory framework support or hinder infrastructure security? When considering your answers, please think about evolving security threats such as cyber security. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure security?

The current regulatory framework for water infrastructure security has made progress in addressing cyber security, but it has yet to fully integrate these considerations across the sector. While there have been efforts, such as guidelines from the National Cyber Security Centre (NCSC), their application remains inconsistent across water companies. Some companies have strong cyber security practices, whilst others face challenges in meeting minimum standards. Ofwat, the Environment Agency, and the Drinking Water Inspectorate (DWI) have incorporated cyber security into their regulatory oversight, requiring reporting and audits, but the focus is still relatively high-level, without detailed, mandatory cyber security regulations specific to the water sector.

Sector-wide coordination is improving, with initiatives like the Water UK Cyber Security Group helping to share best practices and strengthen collective cyber resilience. However, gaps remain in intelligence sharing and the adoption of uniform standards across all companies. As the cyber threat landscape evolves, the regulatory framework must continue to adapt, with stronger, more enforceable requirements to address new and emerging risks. This should include clearer minimum standards, more regular stress testing, and continued support for knowledge sharing between companies, regulators, and national security agencies.

Q61 & Q64. To what extent does the overall water regulatory framework support or hinder effective management of supply chain risks? When considering your answers, please think about disruption in and constraints from supply chains. What changes, if any, could be made to the overall water regulatory framework to better manage risks from supply chains?

The current water regulatory framework is too focused on rigid, short-term review cycles like the five-year Price Review process, which has come to limit the sector's ability to respond to emerging risks and supply chain disruptions. Supply chain risks—including material shortages, logistical issues, workforce shortages, and supplier failures—may not be adequately addressed.

We very much doubt that the current supply chain can deliver the £100bn of spend in PR24 – or at least do this without significant and in some cases unnecessary supply chain inflation, and there seems not strategy for building the supply chain for the scale of need anticipated over the next 25 years. Also, Delivering the AMP 8 programme requires not just the supply chain, but also water and wastewater companies (provide visibility of work pipeline), regulatory authorities (for planning/scheme approvals etc.) and professional bodies (to support/develop sector workforce). Successful delivery requires the whole water sector to collaborate and innovate. So, this is the sector's responsibility to deliver, rather than just the supply chain in isolation, as this question may be interpreted to suggest.

The framework tends to focus on individual water companies, rather than the broader supply chain, leading to fragmentation. This limits the visibility of systemic risks and weakens resilience across the sector as a whole. A lack of coordination across regulatory bodies means limited coordinated, long-term planning or sharing of best practices across the sector.

To effectively manage these challenges, the framework needs to become more flexible and adaptive. It should encourage long-term planning, foster cross-sector collaboration, and support innovative solutions. This would enable proactive adjustments to supply chain constraints and other uncertainties. It doesn't necessarily require changing the length of price controls but needs to put them in a longer-term context. The PR24 experiment with Long Term Delivery Strategies demonstrated that this will not work as an add-on without fundamentally changing the core approach and putting adaptive plans developed in a collaborative process at the heart of the methodology. This includes creating space for iterative learning and collaborative delivery across regions and supply chains.

Additionally, it should support the development of new supply chains, such as those for greywater recycling and nature-based solutions. This will require more consistent policy signals, clearer incentives, and early-stage funding to support market development and innovation.

Finally, much better co-ordination is needed with supply chains to other sectors: housing, transport, and energy to name but three. The economic and environmental regulation of water needs to be coordinated with NISTA here but also enable companies to engage with unitary councils/mayors.

Innovation and technology

Q67. What opportunities, if any, do new technologies present for companies and the regulators?

New technologies present several opportunities for both water companies and regulators, particularly in improving efficiency, transparency, and environmental performance. For companies, adopting digital technologies like artificial intelligence (AI), machine learning, and advanced data analytics coupled with improved monitoring and /or telemetry can significantly enhance operational efficiency, improve water quality monitoring, and streamline maintenance. AI, for instance, can help detect leaks, predict equipment failures, and optimise resource distribution, while machine learning algorithms can analyse vast amounts of data to identify patterns and predict future trends. Digital twinning is another key innovation, which involves creating digital replicas of physical assets and systems. This technology allows companies to simulate and test various scenarios, improving decision-making, optimising asset management, and reducing costs.

Previous Sustainability First work has identified that regulation often lags behind technological developments by five to seven years, making it inflexible and a barrier to innovation. However, emerging technologies—such as telemetry, machine learning, and real-time monitoring—have the potential also to significantly improve regulatory efficiency and accuracy. For example, smart meters, remote sensors, and satellite systems can provide regulators with detailed, up-to-date data on water quality, consumption, and system performance. This enables more effective enforcement and helps track progress against environmental targets. We think in time that machine learning could supplant a significant part of the current over reliance on comparative competitive through econometric models with limited data points.

These technologies can support more intelligent risk assessment and allow earlier interventions, particularly in catchment-based approaches. They can also support a shift towards more adaptive, outcomes-based regulation, by offering real-time insights that allow for dynamic decision-making in response to challenges like climate change and supply chain disruption.

However, as highlighted in Sustainability First's *Jobs and Skills in Green Tech*, successful integration of these technologies depends on the development of digital and data science skills within the workforce. Both water companies and regulatory bodies will need to invest in building capabilities in these areas, upskilling employees and fostering a culture of innovation to ensure that they can fully harness the potential of new technologies.

In addition, technology, big data and AI offer significant opportunities to improve customer service, in particular for customers in vulnerable situations. Sadly, most companies are still focused on getting the basics right rather than pushing boundaries. Sustainability First developed a Consumer Vulnerability Innovation Flight Path which was used by Ofgem in its vulnerability strategy. It is equally relevant to the water sector.

Section 6: Ownership

Q68. What impact, if any, has consolidation of water companies had on their performance?

We don't have much evidence of this, but we certainly reject the argument, used on occasion by Ofwat, that mergers should be resisted because of the loss of econometric data points.

We can also see credible arguments which point to economies of scale in, say, smart meter procurement. Indeed, for many years Ofwat accepted the economy of scale argument in part through its agreement to a small company premium on the WACC

Q69. What impact, if any, does whether or not a water company is listed on the stock exchange have on their performance?

See below

Q70. What impact, if any, do complex company structures like Whole Business Securitisation have on water company performance?

The attraction of WBS etc. has been that it has reduced risk and therefore reduced the cost of capital. It is far from clear that this remains the case. The Thames experience with WBS did not appear to be a happy one!

Q71. What impact, if any, does the type of investor (for example, private equity firms, pension funds) have on water company performance?

As the Cunliffe material points out this is not straightforward. Dyr Cymry as a mutual has not outperformed other models in terms of, for example, drinking water quality. And the term private equity covers a wide variety of owners from stable long-term ownership to what has in the past been an approach not far short of asset stripping.

So, we caution against a simple 'one model good other models bad' approach. That said there does seem to be some evidence that traded companies have performed relatively well. The most important thing for us is that investors have an eye on the long term.

Ownership (for Wales only)

Q72. How effective has Dŵr Cymru Welsh Water's not-for-profit model been in driving improved outcomes?

The answer to this goes beyond the financial model. Greater accountability to customers rather than shareholders helps to build a wider “team Wales” approach in Wales and signals more collective action.

Similar to Scotland, there is a closer relationship between the guiding mind (Welsh Government, the Regulators, the Company, and the community. The full benefits of this model are not being exploited because the relationship of the company is too centered on Ofwat as a national planner rather than the region of Wales.

Sensible approaches such as focusing effort on impacts rather than outputs have largely been overridden by regulators applying the same principles across England and Wales.

The model, and the pressures, in Wales has more in common with Scotland than England and as such consideration should be given to a “Celtic Model” for the devolved nations to leverage more from their community identity.

Benefits from doing so outweigh the risks be enabling more rapid evolution than can be achieved in the English model

Q73. What are the risks associated with Dŵr Cymru Welsh Water’s not-for-profit model?

Potential downsides largely arise from financing the functions

1) Limited Access to Capital: Since not-for-profit companies don't issue stock, they may have fewer options for raising capital quickly compared to shareholder-owned companies. This could limit their ability to fund large growth initiatives or respond to unexpected financial challenges.
2) Less Incentive for Innovation: Without the pressure to generate returns for shareholders, some not-for-profit companies might lack the drive to innovate as aggressively as other companies.
3) Conservative Risk-Taking: May prioritise stability to protect their “members' interests, which may result in a more conservative approach to business decisions. While this is beneficial in some ways, it could also limit opportunities for expansion or higher returns.
4) Complicated Governance: “Members “collectively own the company, but not all members may actively participate in governance. This can create challenges in decision-making or a lack of alignment among members' interests – particularly when those choices are largely made by a Regulator with limited interaction with members
5) Limited Profit Distribution: Any profits are typically reinvested into the company or used to benefit the members, rather than being distributed as dividends. This might make it less appealing to lenders looking for direct financial returns.

6) Equity in not-for-profit companies primarily consists of retained earnings and reserves, which are funds set aside from profits or contributions to ensure financial stability and meet future obligations. On the other hand, there is little opportunity or incentive for members to put more equity in if the company needs to increase reserves.

Appendix A

Discussion paper
Sub-Regional Governance for Water

This paper, and the attached slide pack, 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 are 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 to account for 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. A more coordinated 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 to be 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 regulatory 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 joining up with natural flood management he 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	Works well for water quality objectives. Catchment	The RFCC governance structure is closest to	Probably too remote from	SAs don't match with

considerations	partnerships (CPs) increasingly mature would require federation up to RBMPs	the model for regional governance	catchments to make appropriate choices	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
Wastewater	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 wastewater operations.

Lessons from regional case studies

Several regional initiatives already offer promising models of integrated governance:

- **Southwest** The Upstream Thinking Programme established a partnership approach to diffuse and point out 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.

Southwest Water

Southwest 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 Southwest 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 Southwest 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** involves 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 Southwest.

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.

Southwest 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.