

**WORSHIPFUL COMPANY OF WATER CONSERVATORS  
EVIDENCE SUPPORTING ITS RESPONSE  
TO THE CALL FOR EVIDENCE FROM  
THE DEFRA INDEPENDENT WATER COMMISSION**

**APRIL 2025**

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## PROLOGUE

1 The Worshipful Company of Water Conservators ('WCWC') is a City of London Livery Company focussed on the long-term health of our water resources and the broader environment. Our members include senior professionals from water, environmental and related industries and regulators, along with others who share our concern for water and the environment. Our experience and knowledge ranges from the complexities of environmental sciences, through the application of engineering to deliver the goals identified by those sciences, and the subsequent management of the assets created. The WCWC's purpose is *promoting a diverse and sustainable environment*.

2 As part of that purpose, the WCWC has been responding to relevant consultations particularly on matters relating to water conservation. These are archived on its website over the last three years.

<https://waterconservators.org/policies-and-practices/>

3 The WCWCs is responding to the Call on the basis that, as it has opined many times there needs to be clarity and agreement on the future of water management in the UK and these have been lacking. Even without the controversies it makes sense to take stock of the current situation after 35 years of experience and evolution of policy and practice.

4 The Creation of the Commission was announced in October 2024, and this is the consequent Call.

[Independent Water Commission – Call for Evidence - Defra - Citizen Space](#)

[Call for Evidence: Independent Commission on the Water Sector Regulatory System](#)

It has six chapters each with relevant questions as set out in Part 2 of this submission:

- Chapter 1 outlines a brief history of the water industry since privatisation.
- Chapter 2 considers the strategic management of water in England and Wales. We have one water system that is facing many competing pressures and demands from a range of sectors. The Commission is looking for views and evidence on whether there is a need for coordinated planning between those sectors impacting water, and clear direction on priorities and trade-offs.
- Chapter 3 looks at the overarching water industry regulatory framework. This includes seeking views on whether changes are needed to the functions and responsibilities of Government and of the regulators – Ofwat, the Environment Agency (EA), Natural Resources Wales (NRW) and the Drinking Water Inspectorate (DWI).
- Chapter 4 covers economic regulation and the 5-yearly Price Review process where Ofwat assesses requirements and sets limits on customer bills. This chapter also covers customer protections, financial resilience, investment and competition.
- Chapter 5 looks at the regulation relating to public policy objectives that the water industry needs to deliver. That includes protecting the environment, delivering clean drinking water, protecting water resources and maintaining and upgrading infrastructure.
- Chapter 6 looks at water company ownership models. Some water companies are listed, some are owned by institutional investors, some by private equity, some by infrastructure

conglomerates. Dŵr Cymru Welsh Water has a 'not-for-profit' model. This chapter compares different models across the UK and internationally.

5 The Call demonstrates the complexity of breadth and depth of the topic and in order to do justice to the answers to the questions whilst respecting the simplicity and rigour required by the prescribed processes, the WCWC provides this more comprehensive body of evidence and incorporates copies of the answers to questions prescribed in the Citizen Space part of the Call, which it provides separately. A short form version of the key points is also submitted to the Commission and both this body of evidence and the key points are located on the WCWC website under Position Statements and the Commission is invited to study both

6 An Appendix provides an anthology of key WCWC submission papers over the last three years and a set of references to underpin the commentary set out in this body of evidence and in response via Citizen Space and available to the Commission to use as it finds useful. It includes a summary of all this work (appendix reference 4). The appendix also includes reference to the short form version referred to above (reference 22).

7 The WCWC recognises that the foci of its observations are in England, but many of the observations apply equally in Wales, although the experiences of different approaches in Wales are of value in determining a way forward in England.

#### **A SUMMARY OF THE WCWC RESPONSE**

8 **Is the current model broken? No, but it does need a good service and some extensive repair work. In particular, the 1989 regulatory settlement did not take into account the impacts of climate change and population growth. Investment is desperately needed and, just as in 1989, government borrowing cannot provide it.**

9 **Government Leadership.**

The WCWC supports:

- **A clearer and better coordinated sense of direction from the government in long term strategies. There needs to be coherent and consistent leadership on the needs of the water environment in terms of national priorities and affordability.**
- **The notion of clarity. Even whilst the Call is being answered there have been several Government initiatives, as reflected in the Government's Plan for Change. There are shortfalls with respect to water in the NPPF, Industrial and Circular Economy strategies. Defra states that "we've been clear that we must go further and faster to fix our water infrastructure to secure sustainable growth, unlock new homes and deliver the government's Plan for Change". The Infrastructure and Planning Bill has been launched by the Ministry of Housing and Local Government, and the Treasury has launched a Policy Paper 'New Approach to Ensure that Regulatory and Regulation Support Growth' which must sit alongside the Government's intention to cut the number of quangos and cut the burden of regulation. With this cascade of initiatives, the Government's tight spending review and their significant consequences for water, and, indeed, for answers to the Call for Evidence, the WCWC is not sure that, in spite of individual good intentions, whether these will add to the problem or provide a solution.**
- **The establishment of a 'coalition of the willing,' a delivery task force which goes beyond RAPID and any interdepartmental MoU, which brings all the relevant bodies ,**

as set above, into one forum and that should include the Department of Transport to cover the impact particularly of highway drainage. Apply systems engineering.

- Better cohesion of the work of numerous government departments and bodies is needed to create a single framework which then sits easily alongside other frameworks such as Planning and the Industrial Strategies. This should be alert to the Plan for Change, although timescales may not align.

10 Better regulation.

The WCWC supports:

- Maintaining separate environmental and economic regulators.
- Streamlining of water environmental legislation and attention paid to resolving the confusion often caused by disparity and diversity of policies and regulations. It needs to be tested more by Better Regulation criteria as set out by the Treasury. The WCWC supports the latest government statements about less regulation and more efficient manpower resources in the Civil Service, but these suggestions need to be implemented with the best outcomes in mind.
- Seeking to ease the impact of the five-year Asset Management Plans in terms of project development and delivery and the hiring and firing of staff due to the cyclical manner in which the AMPs deliver project funding.
- A new framework based on integrated planning of natural resources in England, which brings together land and water use. The WCWC has suggested that this be termed the 'Water Use Framework' to be located in the revised Water Framework Directive regulations which are due after 2027.
- A better, clearer approach to what constitutes compliance with discharge and environmental standards and for these to be properly reflected in Ofwat's incentive-led regulation.
- Any steps to aid the work of the Drinking Water Inspectorate, will be welcomed if this does not involve any radical change. The DWI has been a consistently effective regulator, enjoying operational independence and suitable funding.
- Adequate resources for efficient regulators are needed. The WCWC supports a proper review of the resources allocated to the Environment Agency and Natural England for effective regulation. The WCWC also supports the provision of adequate resources to Natural Resources Wales.

And:

- The WCWC notes that much of what it is advocating chimes with the aspirations of the Corry review, but it has suggested that there would be some merit in amalgamating environmental regulators in England, following the example of Natural Resources Wales. However, it recognises that the size of the merged entity might be an issue. If this was to be considered, then a different model could be a general framework body with strongly devolved regional entities based on river basins, a model somewhat similar to a group holding company with operating subsidiaries. The 'environmental engines' for this would be integrated catchments, as set out above.

- The WCWC recommends very strongly not to amalgamate the EA and Ofwat (which have quite separate and distinct functions) or to demerge land drainage and flood management from the EA, (which has been mooted, these being absolutely vital elements of integrated water framework management, or the creation of any new delivery bodies).

#### 11 Boundaries.

The WCWC supports:

- On the basis of the principles outlined above, keeping the River Basin boundaries of the Companies and of the regions of the environmental regulators which must be based on hydrology and not local government boundaries and that includes the continuation of the integration of sewerage and sewage treatment.
- A closer working between local government and the water sector.
- A new Framework based on River Basins, overarching and containing a more formalised set of Catchment Plans. This is in essence, a much-improved version of the status quo. These can include any valid notions of a catchment systems operator and delivery bodies proposed as part of planning and nature recovery.

#### 12 Finance.

The WCWC supports:

- Continuing with the basic principles of finance provided outside of public borrowing requirements, with companies not owned by government.
- Higher water prices, which due to urgent investment needs must rise no matter what adjustments are made to the system.
- A review and revision of the detail of the economic regulatory framework. It has travelled far from the original intent and has become too detailed and intrusive on the management role. Benchmarking by econometric modelling should be a guideline only. The appointment (Licence) was intended to ensure that companies are remunerated for investment necessary to introduce changes in legal "obligations" and to ensure that they could finance their functions while being efficient. It should now offer a zero-based approach from 2030 with a more flexible review process which will attract new investors seeking utility type returns for manageable risk.
- Reduction of financial engineering with separate OFWAT cost of capital assumptions separating returns to debt and equity. Also need clear boardroom guidelines on gearing and dividends and the ending of multi-tier company structures which carry additional debt outside the regulated activities. And understanding what the real, rather than perceived, extra costs of the current system have been.
- No separation between the responsibility for operational delivery and financial resilience. Boards are accountable for both.
- The development of novel delivery models, including NAVs, but has concerns about the extent of application particularly in schemes under Direct Procurement for Customers and those under the Specified Infrastructure Regulations for assets with active maintenance like water and sewage treatment works.

- Innovation must become an inherent element in every aspect of delivering water services and their regulation. There also needs to be a better understanding of risk. Innovation per se is not an answer to immediate practical problems. For example, the arguments about discharge monitoring will not be resolved by installing complex AI-managed systems on their own.
- A return to the simple metric of worth being 'Cost to Customer'.

### 13 Customers.

The WCWC supports:

- Universal smart metering with support to customers unable to cope with the higher bills needed to deliver improved environmental performance and secure resources.
- National leadership on water efficiency including the framework of support for the reduction of within curtilage leakage.
- Clarity in billing to aid customers' understanding of where their money is being spent and how bills can be eased through judicious water consumption.
- Instead of simply 'Satisfying' customers, 'Delighting' them ought to be the aim.

### 14 Communications.

The WCWC suggests that:

- The way forward must be based on hard evidence and not media-driven rhetoric. The WCWC understands the political optics of the current situation and suggests that some consideration needs to be given to altering the tone of statements. The paradox of the Defra programme 'Things Can Only Get Cleaner' with some hard criticism of the water sector, is that that it highlighted all the good things being done in water companies.
- There needs to be greater clarity over the bill rises in 2025 per se and those over the period of 2025-2030 to explain why the rises are needed and what they will achieve.
- Single sets of reference data, overseen possibly by the ONS.

### 15 People.

The WCWC suggests that:

- More attention is needed on the supply chain of potential recruits to help deliver the much-extended programmes of investment and regulation.

## THE WCWC RESPONSE

### Some opening thoughts

16 At the heart of its response the WCWC submits that the basic principles of the current system are right but are in urgent need of refreshment.

17 The optics of 1989 are very different to those of 2025 and there have been so many changes with massive impacts. Very substantial European legislation still driving our UK legislation. The shocks to the economy through the financial crash of 2008, Brexit, the pandemic and now the Ukraine conflict have put great pressure on living standards and sensitivity to water prices. There is a visible change in weather patterns due to climate change, a housing crisis is creating a demand for larger numbers of new homes to meet a growing population. The installation of widespread continuous discharge monitoring has revealed more about our water environment than almost any other country in the world. Expectations for uses of the water environment, for wild swimming for example, were boosted by the experiences of 'lockdown'. The rules are changing. New sources of money are needed. All these influences have led to water becoming one of the 'hot topics' of politics along with the financial problems facing Thames Water. Data about the performance of water services have become 'politicised.' To reduce the issues of the water utility sector to arguments about bonuses, dividends and so on, is to miss the point of the wider picture. The Call rightly points out the macro -economic pressures and budget squeezes in which the water companies have been regulated. This is the context which created the Commission.

18 There is much more to the management of water than building reservoirs nutrients, wild swimming and storm overflows. In terms of complexity, heterogeneity of assets and exposure to the risks generated by natural physics and biology there is no other utility to compare.

19 The WCWC It is very pleased that the Commission has taken the point that the water utility sector cannot be reformed without a similar initiative on the wider perspective of environmental legislation. That takes the inquiry into a much wider spectrum of work and the large volume of the Call for Evidence demonstrates that point. So, the way forward will be three-fold: improving the framework of environmental legislation, improving the framework of regulation of water companies and "better implementation and change in mind set (e.g. reverse recent increased risk aversion of the environmental regulators and return to experienced risk based environmental managers etc).. The time scales maybe difficult to link. For example, there are numerous current reviews. Defra has one running concurrently with this Call for Evidence, on a Land Use Framework with implications for water management to which the WCWC has responded already (Appendix reference 9) and is conducting a debate about a review of the Environment Improvement Plan as well as other reviews 'humming along in the background', like the review of Water Resources Plans and of River Basin Management Plans.

20 The WCWC has attempted to pull dates together in a time- line. The Government has already stated that the intention is to implement the outcomes of the Water Commission review by the end of this Parliament in mid-2029. This will be relevant to the next cycle of RBMPs under a refined WFD regulations and determination of PR29 in December 2029, but that process is likely to start in mid- 2027. AMP8 starts in April 2025 but there are already policy demands and proposed regulatory changes which will impact on that (e.g. the next round of River Basin Management Plans) The WCWC is uncertain as to what those impacts will be and suggests that clarity is needed as this must be sufficiently understood by mid-2027.

21 The wider perspective of the Call for Evidence will make the original timescales of implementing the conclusions of the Commission more difficult. There is the additional dimension of the impacts of the Infrastructure and Planning Bill and the new Policy Paper on Regulators and Regulations.

22 The answers to the questions are incorporated in the text which follows and replicate those given in the Citizen Space format, highlighted in red.

### **Response to Chapter 1: History**

23 The evolution of water management has been one of gradual integration over many decades with that of rivers and groundwaters becoming increasingly focused on river basins. When the decision was taken to rationalise services in 1974, it was based on evidence that hydrological boundaries made environmental sense and that political boundaries were too prone to change (even now the government is planning changes to local government) and would also mean that catchment wide measures could straddle various local authority areas requiring unnecessary co-ordination and confusion between them. Including sewerage and sewage treatment proved to be an essential part of that integration. Catchment planning has deep roots in this evolving system (this supports the answers to Q13 and Q16 (see appendix references 1 and 3). The Water Authorities were based on River Basins overarching local catchments as set out below.

24 When the integrated Regional Water Authority system was split into utilities in 1989 with a separate National Rivers Authority responsible for the regulation of all raw water resources, the same model was adopted irrespective of the ownership of the utilities.

25 As the notion of environmental integration took hold, the Environment Agency was created by merging the NRA with other regulatory functions, such as waste management. It made sense to retain catchments as the administrative units, for practical administrative reasons and because the hydrological cycle is dominant. Catchments were and are recognised as 'environmental engines.' This experience influenced the UK contribution to negotiations for the creation of the EU Water Framework Directive. This was also the ultimate victory of the UK approach based on environmental quality objectives in its debate vs the Uniform Emissions Standards approach favoured on the continent, of which UWWT was an example. This was why some on the continent called the EU WFD the "English Directive".

26 There are some 100 catchments recognised within the River Basins. A River Basin such as the Thames, has a number of tributaries which are deemed catchments, while there are some 'microbasins' such as the River Nar in Norfolk which do not qualify as Basins and are categorised as Catchments. These are all aggregated into the River Basin Plans under the Water Framework Directive,

27 Changing the hydrological basis of boundaries would gainsay all the experiences outlined in the Appendix papers 1 and 2 and would be very disruptive of many processes. This practical reality underpins the answers to several questions particularly Q13 and Q16. This view is shared widely (Appendix reference 3) and, for example, has already been expressed in response to the Call for Evidence by Water Resources East.

28 Those experiences include the value of vertical and horizontal integration of water services, from water resources, treatment, distribution, sewerage and sewage treatment. Fragmentation will be more complex, less efficient, more costly and will be contrary to aspirations of what the government is already trying to achieve and would fail 'better regulation.'

29 The WCWC would also like to add the experiences of some of its members from the 1980s. Privatisation was driven by much more than compliance with the European Community legislation. The Water Authorities were driven by the twin objectives of cutting public borrowing / expenditure (External Financing Limits) and keeping water charges down (Performance Aims) by the Treasury. The current debates have some echoes of this. Investment and maintenance was held back and sewage effluent quality and river quality declined. There was a public demand for this to be reversed and to also to meet the new EU Drinking Water Directive standards. The answer was more investment by privatisation (Appendix reference 1).

30 As the Water companies were to be monopolies it was necessary also to establish an economic regulator ,as the Call for Evidence describes .This involved enabling the industry to finance higher standards as legal “obligations” whilst ensuring that customers were charged fair prices .It is fair to ask what role the Treasury had in the background of the current situation in times of continuing austerity and whether from the viewpoint of investability, it might seek to intervene in the future. The potential consequences are exemplified by the current circumstances in Northern Ireland. The National Health Service cannot meet performance standards due to rising demands and expenditure controls and National Highways does not invest what it should in terms of abating highway pollution.

[Funds not available for Belfast water infrastructure plans – BBC News](#)

#### **Response to Chapter 2: The Overarching Framework**

31 In the last year or so, with very active media campaigns, it has been difficult for any organisation in the sector to create a national narrative within a time of austerity, which connects, for example, the demand for a better water environment so as to allow more extensive wild swimming, with the need for higher charges to pay for them. The latest Defra statement on bathing waters seem to have predicated the notion that the provision of wild swimming is a high priority, for example.

[Bathing water reforms keep pace with Britain's love of swimming – GOV.UK](#) .

32 It is possible that, even after all the investment on storm overflows is complete, that there may well still be bathing water failures. There is evidence that there is an expectation that compliance with bathing water standards will be expected outside of designated areas (as highlighted by the WCWC in its response to the consultation (Appendix reference 13). The announcements thereof do not seem to chime with the challenge of national priorities for national spending as recognised by this Call.

[‘There's something wrong with the water’: Bacteria in UK river 50 times higher than safe... – LBC](#)

**33 This also provides some evidence of the continuing disconnect of the development of Government policies. And it is also a demonstration of another pitfall that short term plans may give immediate relief but can have long term grief, as compared to some caution which may give short term grief but much better long-term relief to problems,**

34 The Commission itself asks the question; where do these issues sit in the national priorities and how should trade-offs be made? Probably in the notion of a better Strategic Position Statement process, as discussed in para 47 in the Call, and updated more regularly. This this has been drowned out in the media by the arguments about dividends and executive bonuses.

**35 The style of management of the process of setting the way forward needs urgent attention There are two extremes in any management process, adhering to strategy without attention to the ‘engines rooms of tactical delivery on one hand, while on the other hand ‘heads down’ with tactics and not understanding the overall strategic direction. Both strategy and tactics, properly connected, are needed. The WCWC suggests that at the moment the balance is towards ‘heads down’. Even whilst this Call for Evidence is out, there has been a cascade of announcements of relevance.**

36 For example, as noted above, Defra has announced the implementation of changes to Bathing Water Regulations, without seeming to take account of the consequences identified in the responses to the Consultation on the Regulations. It is possible that, even after all the investment on storm overflows is complete that there may well still be bathing water failures. The announcements thereof, do not seem to chime with the challenge of national priorities for national spending as recognised by this Call. There are already demands for the bathing water standards to be applied more widely. In March 2025, the latest Guidance on storm overflows duplicates existing Guidance with a potential to cause a muddle. All these issues are discussed subsequently.

37 The cascades of announcements were made in the context of the Defra programme for ‘Things Can Only Get Cleaner’, the Government’s ‘Plan for Change’.

<https://www.mirror.co.uk/news/politics/britains-water-system-declared-disgraceful-34823565>

This seems incorrectly to preconceive the answers of the Commission Inquiry and does not recognise the shortfalls in the NPPF and Industrial Strategy when it states that:

“We’ve been clear that we must go further and faster to fix our water infrastructure to secure sustainable growth, unlock new homes and deliver the government’s Plan for Change.

“Record investments in upgrading and building new water infrastructure will support the building of 1.5 million new homes and power new industries, such as data centres.”

At the same time the Government announced an intention to cut the number of quangos and public expenditure.

<https://www.theguardian.com/politics/2025/mar/11/crackdown-on-quangos-part-of-radical-government-proposal-to-reform-state>

Which sits alongside the Policy Paper on regulators and regulations published in March 2025.

<https://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html>

38 The Treasury announced these initiatives arising from the Corry review, which had been established in Oct 2024 to carry out an internal review into the regulation and regulators at Defra. It was to examine whether the inherited regulatory landscape is fit for purpose and develop recommendations to ensure that regulation across the Department is driving economic growth while protecting the environment. This was not examined in the Call. We have seen nothing on the Corry review’s findings.

<https://www.gov.uk/government/news/dan-corry-appointed-to-lead-defra-regulation-review>

39 The Treasury stated that ‘Dan Corry’s review – which we will publish soon – concluded that our current environmental regulatory system is not fit for purpose in driving nature recovery or economic growth, lacks a strong link to our Environment Act targets and imposes unnecessary, increasing costs on businesses.’

In relation to the Call for Evidence, the Treasury stated that this will:

- *Remove complexity and tidy red tape across environmental permitting, by:*
- *Streamlining Nationally Significant Infrastructure Projects (NSIPs): by easing environmental permit and licence requirements for low-risk activities within the planning process. This will ensure many developers do not need to seek consents orders so have the confidence to get building, while protections for the environment and local communities remain strong.*
- *Launching a suite of new initiatives to support priority sectors: including the Environment Agency’s priority tracked service to allow developers to work with a dedicated team on their permits and track progress. These service improvements will result in quicker timeframes and more flexible decision-making in moving developers through the system. To support this, the Government recognises that statutory consultees need to be resourced adequately, and on a sustainable basis, while ensuring we are incentivising efficient and constructive engagement in applications, and in the planning system more generally. We intend to develop a model to support this sustainable funding, and we will set out further details in the coming weeks.*
- *Consulting before Easter on reforms to permitting legislation that will enable regulators to be more agile in making sensible decisions on which low-risk activities should be exempt from environmental permits. Removing unnecessary requirements will encourage innovation and investment, and allow regulators to focus on high-impact, high-priority areas, including low-carbon infrastructure.*
- *Consulting in June on a package of reforms to modernise permitting for industry and energy sectors. This will include creating regulatory sandboxes for R&D trials to enable operators to innovate; streamlining outdated guidance to support investment; and enabling proportionate and risk-based regulation of new technologies in support of Net Zero and a circular economy.*
- *Supporting better cooperation between environmental regulators by:*
- **Appointing a single lead regulator for major projects. A lead environmental regulator will be appointed for all major projects in which multiple regulators have an interest, to make decisions on their behalf.**

*This will reduce layers of regulation and create a single front door for major projects. **As an initial step, the Secretary of State for the Environment is willing to use his powers of direction to make this work and intends to instruct Natural England, the Environment Agency, the Forestry Commission and the Marine Management Organisation to work alongside the designated Lead Regulator, in collaboration with MHCLG, in carrying out their functions for these major projects in a timely manner.***

<https://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html>

40 Just as this body of evidence was being signed off, the Corry Review was published

<https://www.gov.uk/government/publications/delivering-economic-growth-and-nature-recovery-an-independent-review-of-defras-regulatory-landscape>

on the whole its recommendations chime with the points made in this evidence .But the WCWC suggests that **there might be merit in investigating the benefits of merging the Environment Agency and Natural England, which is discussed later; but requires public discussion.**

41 In the Infrastructure and Planning Bill there appears to be the creation of more delivery bodies within catchments. One of those key measures is the establishment of the Nature Restoration Fund (NRF). This marks a wholly new way for developers to discharge environmental obligations by making a payment, with that funding then used by Natural England to take a strategic approach to nature restoration. The WCWC asks how this will align with the work of the Environment Agency in catchments which will be important for efficient delivery of responses to nutrient neutrality impact concerns.; this provides further evidence of the lack of coherence in strategy. The NRF has received the most publicity about the vexed issue of nutrient neutrality, one of the 'hot topics of recent years.

<https://www.fwi.co.uk/business/natural-england-accused-of-blocking-nutrient-solution>

42 The WCWC has suggested in its response to the Working Paper on Planning and Nature Recovery which led to the Bill, that the creation of new bodies, or even to extend the remit to achieve the laudable intention of better resolution of the impact on developers adds extra administrative burden and could be incorporated into a more formal catchment management system (Appendix reference 8).

**It would seem logical if the established function of catchment management was used more effectively, and perhaps as delivery vehicles in a merged environmental regulator.**

<https://www.gov.uk/government/publications/the-planning-and-infrastructure-bill/guide-to-the-planning-and-infrastructure-bill> Ministry

43 The Bill establishes the Nature Restoration Fund (NRF), an alternative approach for developers to meet certain environmental obligations relating to protected sites and species. It allows Natural England (or another designated delivery body) to bring forward Environmental Delivery Plans (EDPs), that will set out the strategic action to be taken to address the impact that development has on a protected site or species and, crucially, how these actions go further than the current approach and support nature recovery. Where an EDP is in place and a developer utilises it, the developer would no longer be required to undertake their own assessments, or deliver project-specific interventions, for issues addressed by the EDP. But the paradox is that this is 'on the table' at the same time that Natural England is likely to have its resources cut.

[Hundreds of jobs protecting rivers and green belt to be axed](#)

The WCWC suggests that what is needed ,as far as water is concerned, is a nutrient management fund rather than the prosed NRF

44 The government believes this approach will facilitate a more strategic approach to the discharge of environmental obligations and result in improved environmental outcomes being delivered more efficiently. By reducing delays to development, this new approach may also facilitate faster delivery of housing across England. But it has been controversial.

**45 The WCWC supports the aspirations of these initiatives but is concerned that the simplicity yearned for by so many people and implied in the Call for Evidence will not happen. It recommends that time should be taken to draw breath and understand all the interconnections of the initiatives otherwise the objective of Better Regulation of Water which the WCWC supports, will be lost.**

46 This commentary provides support to the WCWC answer for Q14 that there are too many silos in the creation and delivery of water management and also harks on to the answers in Q20-23.

**47 So the synthesis of these points is that before even addressing the issues of catchment management and so on, the most pressing need is to create a national narrative on how to move forward with water management and to reduce the silos.**

48 The narrative is not just about listing priorities., It is about grouping needs. So the WCWC has answered (Q10a, 10b, 10c) consistently that an improved water environment, coping with flooding and supporting growth must be regarded as a set which must all be serviced together. It is about a balanced approach with human health being at its heart, the triple bottom-line. So, the answers to Q11a, Q11b and Q11c are essentially the same that the current approach delivers to some extent an integrated approach. However, this needs to be set out in a better Water Use Framework, based on river basins which, overarch the catchments supporting local uses of water while embracing flood risk (supported by Appendix reference 3).

## **Response to Chapter 2: Overarching framework for the management of water**

### **Management of water**

49 The Commission states that it has heard while there have been efforts by the UK and Welsh governments to create plans and strategies with a long-term, holistic view of water planning and management, these appear to have limitations. These plans and strategies do not appear to communicate a holistic view of the outcomes society wants and expects from the water system. The Commission is interested to know what is and isn't working well in the strategic management of the water system, and how it could be improved.

50 The range of sectors that depend and impact on the water system, like local and regional governments, transport organisations, landowners, farmers, businesses, water companies, regulators, and others, do not seem to be consistently coming together in making their decisions. While water planning and decision-making occurs at local, regional, and national levels, the Commission has heard that there is a lack of coordination, funding, and accountability at local and regional levels which makes it difficult to realise objectives. The Commission is considering where responsibilities for managing the water system should sit, and which authorities should lead on this management.

Response to Box 1.

51 There is a lot of misinformation. The Commission rightly points out the impact of pollution from other sources in figure 10 which accords with the messages from the WCWC. What action is Government going to take on these other polluters. If there is no action, the WCWC has pointed out that even after massive investment in the water utility sector there may be a scenario in which bathing waters, for example, still fail.

52 Para 143 Highlights the following:

• *A lack of clear prioritisation has been raised across public policy objectives, as well as a lack of articulation of costs and benefits, resulting in challenges in effective management of trade-offs.*

• *Plans do not appear to represent a holistic view of all the pressures and demands facing the water system.*

• *There appears to be a lack of coordination between sectors in both the development and delivery of water sector plans.*

• *There appear to be challenges to integrating long-term plans with clear funding mechanisms, with a possible overreliance on the water industry to fund solutions.*

**The WCWC agrees with these statements especially about the lack of co-ordination, and integrated plans with funding mechanisms. Much better Catchment Plans are the way forward**

Response to Box 3.

53 The WCWC has submitted in considerable detail its views on the importance of water for economic development to the Department of Business and Trade and to the Ministry of Housing, Communities and Local Government. (Appendix Reference 5) **The WCWC submits again that Water Companies have no statutory duty to supply water to non-household premises and, therefore, investment to do so can be excluded from Price Determinations. This needs resolution** and the WCWC understands that Water Companies would welcome this. The NPPF and Defra's draft land use consultation are still very weak on water issues and the Industrial Strategy does not recognise water as a sector. This must be rectified urgently. Plans for growth are not included in the Price Determinations and ignore the consequences for the water sector. This is a key area of disconnection. Infrastructure charges are not enough to cover impact and Section 106 of the Water Industry act with respect to sewer connections needs urgent attention. As discussed earlier **the concept of water being a cornerstone of the Plan for Change is not reflected in the diversity and disparity of initiatives.** A 'consortium' of government departments led by Defra needs to set the Vision, Strategy and Objectives of the future of water (supports answer to Q12 & Q14). Indeed, as the submission was being prepared Defra launched the circular economy strategy. In spite of everything which has been stated, water is not one of the first five priority sectors.

<https://www.gov.uk/government/news/reed-pledges-to-end-throwaway-society-working-with-business-to-slash-waste-boost-growth-and-clean-up-britain>

54 **The Call mixes a number of issues. The problems on investment now are more related to a lack of development of catchment management, a loss of a "line of sight" between the complexities of the investment world and the operational world of water services delivery, and a lack of clarity about improvement measures and compliance in terms of river water quality and sewage effluent quality.** This supports answers to Q15 and uses. In terms of the catchment management the role of the Environment Agency needs to be reviewed and strengthened (Appendix References 3 and 5).

Using these insights the WCWC answers the following questions

**Q10a. 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? (Please select your first priority here)**

We have not included the core objectives of the water industry to provide a reliable supply of clean drinking water, and provide management and removal of sewage and wastewater, as we have assumed these are important. We would like your views on what further outcomes are most important to you.

Please choose your **highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.

- Improved water environment (e.g. healthy habitats for aquatic plants and animals)
- Resilient and reliable supply of water for businesses
- Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)
- Wider public health outcomes (e.g. limiting anti-microbial resistance)
- A water system which contributes to net zero
- Resilience to climate change
- Reduced flood risk
- Limiting increases to water bills
- Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)
- Recreational access to 'blue' (water body) spaces
- None
- Don't know
- Other (please specify)

If you selected other, please specify below

Water fit for all agreed uses in each designated locality.

It must not be a choice between nature and economy. A balanced approach, understanding the relevance of the 'triple bottom line.'

**Q11a. To what extent do you believe the overall water framework already delivers the outcome you chose as your highest priority?**

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q10b. 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? (Please select your second priority here)**

Please choose your **second highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.

- Improved water environment (e.g. healthy habitats for aquatic plants and animals)
- Resilient and reliable supply of water for businesses
- Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)

- Wider public health outcomes (e.g. limiting anti-microbial resistance)
- A water system which contributes to net zero
- Resilience to climate change
- Reduced flood risk
- Limiting increases to water bills
- Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)
- Recreational access to 'blue' (water body) spaces
- None
- Don't know
- Other (please specify)

**Q11b. To what extent do you believe the overall water framework already delivers the outcome you chose as your second highest priority?**

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q10c. 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? (Please select your third priority here)**

*Please choose your **third highest priority** (in addition to reliable supply of clean drinking water and management and removal of sewerage and wastewater) from the list below.*

- Improved water environment (e.g. healthy habitats for aquatic plants and animals)
- Resilient and reliable supply of water for businesses
- Water bodies being safe for swimming and other recreational uses (e.g. kayaking, paddleboarding)
- Wider public health outcomes (e.g. limiting anti-microbial resistance)
- A water system which contributes to net zero
- Resilience to climate change
- Reduced flood risk
- Limiting increases to water bills
- Aesthetic qualities of water bodies (e.g. no litter or visible sewage residues)
- Recreational access to 'blue' (water body) spaces
- None
- Don't know
- Other (please specify)

**Q11b. To what extent do you believe the overall water framework already delivers the outcome you chose as your third highest priority?**

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

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

*When thinking about who should be responsible, you may want to consider the UK Government (in England) and Welsh Government (in Wales), local authorities, mayors, independent regulators (including the existing regulators, and/or new ones), water companies, and others.*

*This is not intended to be an exhaustive list. Apart from the above, please think about other bodies you consider to be relevant.*

Government must define a framework and the national priorities. Vital that all departmental initiatives, strategies, frameworks link together. The government must define what it thinks is affordable in terms of a set of overall economic objectives in priorities. Integrated environmental regulators can convert the framework into delivery targets and holds all users/dischargers accountable. For water sector, Water Companies deliver according to the targets. The economic regulator ensures best delivery in the terms of costs.

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

*When thinking about roles and responsibilities for water management, you may want to consider setting targets, engagement with customers and the public, planning, decisions on funding, delivery, monitoring, enforcement and managing trade-offs with other sectors.*

- No changes are needed
- Changes are needed
- Don't know

**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? (Please select up to 5 options)**

- No changes are needed
- Government providing clearer national strategic direction and targets on water
- A national scale systems planning authority\*
- A regional or catchment scale systems planning authority\*
- Streamlining or aligning existing water plans and planning processes across the water system
- Increasing the status of water plans to influence other sectors (e.g. farmers, businesses, planning and development)
- Streamlining or aligning water management planning and other plans such as flood risk plans, local nature recovery strategies, and local plans for development
- Aligning water management with democratic structures\*\*
- Pooling together existing funding streams at a spatial level\*\*\*
- Changes to how regulators regulate sectors involved in the water system (e.g. through monitoring, advice, enforcement, etc.)
- Don't know
- Other (please specify)

\* Where options refer to a '**systems planning authority**', this refers to an authority which could act as a central planning authority, deciding on the best actions for the water system.

\*\***'Aligning water management with democratic structures'** would involve providing local or regional governments with responsibility for managing the water system in their area of responsibility.

\*\*\***'Pooling funding at a spatial level'** would involve bringing together sources of funding from different sectors at that spatial level. This could include funding from the water industry, agricultural and transport sectors, local or regional governments and others. This could allow funding to be targeted towards areas in which it would have the greatest overall impact on the water system, irrespective of which sector it came from.

*If you selected other, please specify below*

Silo based regulation is a serious impediment to effective planning and policy. A separate systems planning authority would not be in the sector's interests.

Systems operator models for energy are not helpful. Keep it simple.

Likewise, no new Bodies are needed, as per the Planning Bill. Incorporate into more formal systems of integrated catchment management. Study current novel mechanisms.

Aligning boundaries with local administration with risks of boundary change, would disrupt the EA and water companies and defy the dynamics of the natural hydrological cycle. Economic and fiscal theories have dominated over the practical delivery of water services.

Responsibility for highway drainage must be included.

**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? (Please select up to 3 options)**

*When responding, please think about how money is spent in the water system now (e.g. money spent separately by different sectors, possible reliance on water industry investment etc.), and if and how it could be spent more efficiently in future.*

- There are no key barriers
- Limitations of evidence on costs and benefits (including co-benefits, such as wider environmental or ecological outcomes)
- Unclear targets and objectives
- Limitations of understanding of the full set of pressures (e.g. which sector is responsible for a pollution source)
- Limitations of alignment of existing funding pots (e.g. water company investment, agri-environment schemes, government funding for Catchment Partnerships)
- The scale at which actions are developed (e.g. actions are developed at too large or too small a scale, lack of spatially targeted actions)
- Planning timelines (e.g. timelines misaligned, too long, or too short)
- The monitoring and classification system (e.g. how the quality of water bodies is assessed)

- Barriers to partnership schemes (e.g. joint maintenance agreements, collaboration across sectors)
- Don't know
- Other

*If you selected other, please specify below*

Focus on best practice for catchment management.

The main barriers to investment by water companies are not related to the questions. These concern the complexity and inflexibility of the current economic regulatory framework. There is an issue not referred to; what constitutes compliance of discharges and controlled waters with standards. This is a complex area involving statistical nuances with large financial consequence.

The relation between Investment and Outputs should be understood by all parties. For example, will all the investment in storm overflows provide the assumed compliance with bathing water regulations?

While totex is a useful headline indicator, it is necessary to split out opex from capex, as it is necessary that extant assets are appropriately maintained.

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

*The Water Environment (Water Framework Directive, England & Wales) Regulations 2017 (referred to as the WFD Regulations) provide a framework for managing the water environment in England and Wales.*

*Planning under the WFD Regulations currently aligns with hydrological boundaries, such as river basins or catchments. This reflects the natural flow of water bodies and their environment but means that there is no existing democratic structure aligned to these plans to support and enforce their implementation.*

*Local government structures (such as district councils, unitary or combined authorities, and mayoral authorities) have democratic accountability and are linked into broader planning structures (such as town and country planning).*

*The final option, 'Welsh government boundaries', is available to those who live in Wales or have a business of organisation that operate in Wales.*

- Hydrological boundaries (e.g. water catchments, river basin districts)
- Local government boundaries (e.g. strategic authority, district councils, combined authorities, and mayoral authorities)
- Don't know
- [For Wales Only]: Welsh government boundaries

**Management of the Water Environment**

55 The Call for Evidence states that *in England and in Wales, the Water Framework Directive Regulations (WFD) currently provide the overarching statutory framework for the water environment. Other regulatory frameworks, such as the Urban Wastewater Treatment Regulations 1994 and the Bathing Waters Regulations 2013, also drive action in the water*

environment. However, the WFD provides the overarching target condition for the water environment and the framework for achieving it. Under the WFD Regulations, a River Basin Management Plan must be prepared for each river basin district. The plan includes environmental objectives and a summary of the programmes of measures required to achieve those objectives. The current River Basin Management Plans were published in December 2022. The WFD requires governments to 'aim to achieve' Good Ecological Status (GES) for all surface water bodies by 2027. There is no published plan in place for these objectives beyond 2027. While the regulations implementing the WFD will not stop applying after 2027, they do not provide for a scenario beyond 2027. The UK and Welsh governments will need to decide what, if anything, should follow this objective after 2027.

56 The WCWC submits that the evidence it has provided earlier underpins the answers to the questions in this section.

57 In para 161 the Commission states that it has heard 3 broad issues concerning the current approach to management of the water environment:

- *Governance challenges, with decisions affecting the water environment often appearing to be made in silos. **The WCWC agrees about the problems with silo decision making.***
- *An apparent lack of progress being made in achieving apex environmental objectives, including GES. **The WCWC asks, is the current prioritisation right? Is the essence of rewinding of rivers a top national priority against the cost of living and other national budgetary challenges. The WFD criteria need rethinking***
- *Potential issues in relation to the approach to monitoring and classification of water bodies in England and Wales. **The WCWC has set out ideas in the context of a new Water Use Framework based on the principles of integrated natural resources management bringing together land and water use.***

Response to Box 2

58 **The WCWC advocates a new Water Use Framework in England and in Wales.** At present the Water Framework Directive Regulations (WFD) currently provide the overarching statutory framework for the water environment. Other regulatory frameworks, such as the Urban Wastewater Treatment Regulations 1994 and the Bathing Waters Regulations 2013, also drive action in the water environment. However, the WCWC agrees with the OEP that the WFD provides the overarching target condition for the water environment and the framework for achieving it; and that it is in urgent need of refinement and proper implementation. This will provide a better platform for a Water Industry Planning Framework, the WCWC submits very strongly that it must be clear and comprehensible (Appendix reference paper 3 and 9).

59 The WCWC has been a very strong advocate of a more formal approach to catchment management within River Basin Plans and submitted to a Defra Minister and the Environment Agency (Appendix reference 3). This should embrace delivery mechanisms envisaged for nature recovery and any notion of a system operator. This should be located in river basin plans as part of a new Water Use Framework to replace the Water Framework Directive regulations. This would involve more explicit agreed uses of water in local stretches of rivers and involve local communities. It would also need agreement on which set of national standards applies to each use.

60 Para 195 seeks views on the following:

• **Whether there should be an integrated water management framework to improve the management of the water system across sectors and outcomes. The WCWC answers yes.**

• **Whether the geographical scales for planning and delivery in the water system are appropriate** and provide sufficient accountability, including through democratic structures. **The WCWC answers yes but on the basis of hydrological areas rather than local authority areas, which can change as indeed they are now.**

• **The need for further strategic direction to help overcome silos in water planning and funding to improve implementation. The WCWC answers yes.**

• **Whether the current environmental objectives and planning frameworks reflect the right outcomes and incentives to trigger the action needed to deliver them. The WCWC answers; too many and too complex.**

• **Whether the current water industry planning frameworks are effectively producing the desired outcomes, or whether changes could enable better planning in aid of delivery, at both a water industry, regulator and government level. The WCWC answers No.**

61 All the evidence which the WCWC has set out for the evolution of management of basins and catchments underpin the answers to Q17 and Q18.

**Q17. Do you believe changes are needed to the WFD Regulations, including for 2027 onwards? If so, which areas would benefit the most from change? (Please select all that apply). This could include, for example, strengthening, streamlining or clarifying the Regulations.**

No changes are needed

The targets and objectives (e.g. 'Good Ecological Status' water body objectives, the designation of Artificial and Heavily Modified Water Bodies, the deadlines for achieving environmental objectives, the scale at which objectives are set and applied)

River Basin Management Plans (e.g. spatial coverage, scope, the length of the planning cycle, the programmes of measures)

The classification system (e.g. chemicals, ecological, groundwaters)

The way economic evidence is considered (e.g. cost benefit appraisals of actions, use of economic analysis to justify exemptions)

The monitoring system (e.g. the evidence base, the use of technology, data sharing for monitoring, reporting)

Governance and accountability (e.g. the duties of governments and organisations)

Public participation and engagement (e.g. through consultations, delivery and investment planning)

Don't know

Other

**Q18. If you feel the WFD Regulations would benefit from change, please expand on where you feel changes are necessary and the reasons why.**

Start from basic principles .The WCWC has set out its views on the disparity and diversity of initiatives which all ought to be under one banner .The WCWC suggests that one new set of regulations called the Water Use Framework Regulations would embrace River Basins over-arching a more formal system of Catchment Management including flooding, water resources, water uses, quality and so on. The Catchment Management must embrace local community involvement in agreeing local uses of water and from national sets of criteria for uses derive local river standards. This would revive the Statutory River Quality Objectives of the NRA. It would contain sections relevant to other strategies such as those for Land Use, Industrial, Economic Growth, etc.

The dynamics of future river basin management need agreeing first and then the regulations replaced. The WCWC notes that in parallel to this Call for Evidence, amongst many other reviews and consultations, two are relevant. Those of River Basin Plans and the Water Resources Framework and Plans.

### Measuring and assessing the water environment

62 The Call states that *The WFD Regulations currently drive water body monitoring in England and Wales. A range of chemical, biological and physical elements of water bodies are measured, and these measures are combined to classify water bodies. Their ecological status is classified as high, good, moderate, poor or bad. This classification is an indication of water body health, which is often used to report on the state of the water environment. Classification is produced at a water body scale.*

*We are interested in your views on whether this measurement framework provides the right data for informed decision-making on the water environment and how this data can be collected and collated in a more cost-effective way.*

63 The WCWC repeats a point which it has often made that the dynamics of the methodology of monitoring must be the same as that for setting the standards against which the monitoring outputs are judged .It also notes, at the same time that it is the huge surge in monitoring, almost unapparelled throughout the world, which has revealed situations which are now deemed unacceptable.

64 The WCWC has advocated a system of water quality objectives to replace the current set and poses the question as to whether or not rewilding of rivers can be attained practically and, if so, over what period of time? It is certainly correct that the system of classifying rivers by chemical status and linking to water company performance is incorrect as evinced by the 2023 Defra Water Plan. This whole are needs revision and underpins the answer in Q19 (Appendix reference 3).

65 The WCWC answers the following questions based on the evidence above:

**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? (Please select all that apply)**

- No changes are needed
- Using statistical modelling for state of environment reports (reducing monitoring inputs)
- Reporting on wider outcomes than ecological status (e.g. public health)
- Use of citizen science
- Data sharing platforms for government and third-party evidence/data

- Expanding out from the water body level to report on a whole catchment
- Full or partial integration with wider environmental/water monitoring
- Don't know
- Other (please specify)

If you selected other, please specify below

We must understand better how compliance is measured for controlled waters and discharges. Compliance must be based on the same principles as permits and modelling.

This meant we ought to evaluate the overarching criterion of Ecological Status. Is the underlying concept of 'rewilding' water bodies realistic?

Whilst not strictly GES, reporting on chemical status needs a complete revamp and the twin tracks of with and without uPBT (ubiquitous, persistent, bioaccumulative, toxic) needs a much greater profile. What happened to the commitment in the 2023 Defra Water Plan? This has been the source of much misreporting on the quality of rivers.

Better data sharing is essential.

#### Strategic direction for the water industry

66 The call opens with the following statement *In England, there are various long-term objectives and targets that direct the actions of water and sewerage companies. These include the WFD objectives, as described later in this chapter and two statutory Environment Act 2021 targets to reduce water demand and to reduce phosphorus pollution from wastewater.*<sup>206</sup> Other targets have been articulated in various, non-statutory ways. These include the targets in the Storm Overflows Discharge Reduction Plan, the EA's National Framework for Water Resources, and those in additional strategic documents such as the previous government's EIP and Plan for Water.<sup>207</sup> While not always expressed or monitored as explicit targets for the sector, water companies' contributions are key to meeting wider government objectives such as the Environment Act 2021 biodiversity targets, Net Zero objectives, and economic growth.<sup>208</sup> The environmental requirements on the water industry are set out in more detail in Chapter 5.

Response to Box 4.

67 The Commission rightly identifies the lack of an effective clear long-term vision as an area of concern. In many ways this is part of a theme running through all the chapters. The WCWC suggests that this is a responsibility of the Government itself and that it has not provided the consistent 'drum-beat' to enable a proper long-term vision to be established, as discussed above. **The Government's Strategic Policy Statement process has not provided that Vision so that in practice there is a plethora of disparate and diverse initiatives and silo targets and sometimes it appears that the 'wood cannot be seen because of the focus on trees.'** The WCWC submits that the creation of a Vision could be linked to the creation of a Water Use Framework which is discussed below.

867 The WCWC had hoped that the 2023 Defra Plan For Water would become that vision, but it has not. **Once that Vision is in place then national metrics can be set and individual water companies create their own Vision Plans for their regions.** The Water Companies are obliged to produce 25-year Strategic Direction Statements; the last being in 2017 for 2020-2045, yet much has happened since then. The WCWC submits that these

should then be reset and linked into a regenerative cycle with the Government's Strategic Position Statements to meet this approach. The WCWC is still trying to understand how all of the latest set of initiatives fit in with these suggestions. Will investors feel that there is sufficient certainty to make long term commitments either as holders of equity or bondholders?

69 In the view of WCWC, investors and customers will support a water system which in 25years' time has as its **first priority adequate water resources** to meet the peak seasonal demands in urban and rural areas for a one in 200-year event allowing for climate change with minimal supply interruptions and a demand of around 130l/p/d per head. There should be a resilient and safe supply of water for business.

70 The WCWC gives **high priority to an improved water environment** and believes that Water Companies should be expected to conform to improved output standards defined by regulators on a catchment basis which are measurable and reflect parameters which are within their control.

71 **Priority should also be given to Government programmes similar to WRAP (Waste and Resources Action programme) or Waterwise to change and influence public behaviour in the use of water supply and toilet waste disposal** facilities where there is no national co-ordination at present. The WCWC notes the proposals by Ofwat to establish a national body under its wing but funded by Water Companies on water efficiency messaging but nothing for any other behavioural change (Appendix reference 14).

72 Response to Box 6 and subsequent paragraphs.

The WCWC has been aware of the economic theory of systems operators for water, and it points out that the energy sector is fundamentally different to the water sector wherein the Environment Regulators are major influencers. In such a model there will still be a need for Ofwat and the EA. The WCWC points out that it is Ofgem which is leading the debate on dropping standing charges for energy not NESO. Defra is already proposing different Delivery Bodies in the Working Paper on Development and Nature Recovery and in the Infrastructure and Planning Bill. There are innovative mechanisms for most efficient cost sharing between different entities in catchment management already as the WCWC pointed out in its response to the Working Paper (Appendix reference 8). As Box 7 points out regulators can have a variety of roles and functions. The WCWC contends that the principles of a System Operator could be incorporated into Catchment Plans 'under the wing' of the EA. In response to para 199 draws attention to what it has already submitted to Defra (Appendix reference 3).

73 These points underpin the answers given to Q 20-23.

**Q20. What role do you believe the government can play in providing strategic direction for the water industry?**

*By 'strategic direction' we mean, for example: the Strategic Policy Statement / the Strategic Priorities and Objectives Statement; Government targets (e.g. in the Environment Act 2021 and the Plan for Water in England only); the Price Review Forum (Wales only). This is not an exhaustive list.*

All the Government Departments must work together. The Commission rightly identifies the lack of vision as an area of concern. The WCWC suggests that government itself has not provided the consistent drumbeat to enable proper a proper Long-Term Vision. There is a lack of coordination.

As examples even within Defra at the same time as this Call for Evidence was launched with resource implications for respondents, it is also consulting on the Land Use Framework and conducting the Collective Intelligence debate on the Environment Improvement Plan and inviting comments on the Working Paper on development and nature recovery (with a prima facie example of nutrient neutrality and later reflected in the Infrastructure and Planning Bill) with significant implications for water use, as well as other ongoing work on River Basin Plans and the Water Resources Framework, for example.

In the campaigns over the last year, it has been difficult for any organization to create a national narrative within a time of austerity, which connects the demands for an improved water environment with costs to customers. For example, the demand for more extensive wild swimming with the rising cost of water. Where do these sorts of issues sit in the national priorities?

The Vision should allow for that. This has been drowned out by the arguments about dividends and executive bonuses. This connects into basic economic concepts such as Cost to Customer (see later) and Willingness to Pay which applies to government itself as well as customers. Government has not been willing to pay for abatement of pollution from highway drainage, for example. The recent reports about Northern Ireland give an insight into what happens when government itself is faced with hard choices.

The WCWC had hoped that the 2023 Defra Plan For Water would become that vision, but it has not. Once that Vision is in place then national metrics can be set, and individual water companies create Vision Plans for their regions. The WCWC submits that the current 25-year Strategic Plans should be reset to meet this approach. What will the press releases refer to a Defra Plan for Change embrace?

The WCWC advocates the application of the principles of systems engineering.

**Q21. What changes, if any, should be made to how the government provides strategic direction for the water industry?**

- No changes are needed
- Changes are needed
- Don't know

*If you selected that changes are needed, please describe what changes you feel are needed and why.*

Consider the effective coordination of initiatives. Create an overarching strategy / vision as set out in earlier answers.

This means moving away from recent proliferation of binding targets (in short and long run) for specific environmental problems in response to NGO and public concern about them. Instead stress these as important criteria and treat any targets as “aim to achieve” targets on which that the EA / NRW in close collaboration with Ofwat, NE and the water companies concerned make the appropriate trade-offs and determine the most efficient measures to tackle all the specific environmental problems in each specific catchment case (see answer to Qs 14 & 15) above.

**Q22. 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 water industry planning? (Please select all that apply)**

*We are interested in understanding the factors that limit effective planning within the water industry to meet its duties and deliver its functions both now and in the future. When thinking about planning, please consider price review business planning, drainage and wastewater management plans, water resources management plans and planning as part of the water industry national environment programme (in England) or National Environment Programme (in Wales).*

- There are no barriers to effective long-term planning
- Limited clear guidance from UK and Welsh Governments on priorities and how to manage trade-offs.
- Limited timebound, specific and measurable targets (e.g. for water outcomes such as water quality and water supply, or wider outcomes such as net zero, nature-based solutions, circular economy).
- Regulators are not adequately supporting effective planning (e.g. through guidance, scrutiny)
- Unclear what duties and functions other stakeholders (e.g. local authorities) are expected to deliver to contribute to plans.
- Issues with data and assumptions (e.g. inconsistent or inadequate scenarios and assumptions across plans, data on asset performance not adequately collected).
- Engagement with customers and environmental or local groups (e.g. too much engagement, too little, engagement is not meaningful, engagement is not local)
- Regulatory requirements don't support sufficient long-term certainty or respond well to emerging issues/policy changes
- Plans don't interact well together (e.g. duplication, decisions/timelines/asks conflict, and/or decisions aren't sequenced in the right order across plans).
- Don't know
- Other – please specify below

*If you selected other, please specify below*

Too many organizations and too many plans are often not linking together. A silo mentality prevails. The revised NPPF lacking a credible context for water is a good example of the failure to co-ordinate, along with the proposed Land Use Framework or the Industrial Strategy or Circular Economy Strategy.

There are problems with recent proliferation of absolutist targets for a number of specific environmental problems to achieve by certain deadlines. This raises significant issues about conflicting trade-offs between them and specific absolute targets ruling out or crowding out more efficient improvement measures. No or inadequate guidance is in place.

**Q23. What changes, if any, would help water companies to use planning frameworks more effectively to fulfil their duties and deliver their functions?**

The NPPF needs another revision to reflect the many issues identified by the WCWC. The Land Use Framework Consultation is very weak on the connection to water use and there are no water sector needs identified in the evolution of the Industrial Strategy.

We need clear links with MHCLG and LPAs to ensure that business as usual future scenarios for RBMPs and Periodic reviews to include likely projections for growth.

Ensure that there are water companies can assess resulting their impacts on their infrastructure and the additional costs of supplying the water and sewage treatment for the new houses. Then ensure that LPAs implement fully para 35 of NPPF to require developers pay for these additional costs in CIL payments so that they are covered by these polluters and not cross subsidised by increased bills for all customers.

Some future uncertainties are inevitable; we cannot provide certainty. We need to reduce uncertainty and understand the four categories. Reduce uncertainties about the known knowns and unknowns through better assessments with scenarios allowing for possible levels of various drivers and their implications and responses to them. Handle better unknown unknowns by enhancing financial, technical and environmental resilience.

**Response to Chapter 3: The Regulators**

74 Para 224 sets a useful context. *Stakeholders have voiced concerns about regulators having conflicting requirements, with, in certain cases, the same or similar matters being regulated twice, and differing standards being used to regulate activity. For example, Ofwat uses performance incentives to hold water companies to account for delivery outcomes. In recent years, these have been expanded to cover environmental and drinking water targets in addition to operational targets. For Price Review 2024, incentives cover issues including water supply interruptions, biodiversity, pollution incidents, bathing water quality and river water quality, among others. There appears to be some overlap with the system of permit compliance that the EA and NRW implement which also require these outcomes to be secured.*

The WCWC is not responding to all the text, while having some specific points to make, which address a number of issues which are relevant to a number of sub-headings of the text.

75 The WCWC submits that there cannot be a sensible conversation about regulators until such time as there is clarity about what they regulate, as has been set out in response to Chapter 2.

76 As noted earlier, a general point in organisational management there are two extreme ways forward. The first is to have a totally strategic approach, or a totally tactical approach. A better blend of both is needed for water management. The cascade of initiatives culminating with the intervention on the Treasury will not necessarily help. The announcement on Better Regulation on March 17 states that:

- *Regulation can be too complex and duplicative, stifling progress and innovation. Over the past few decades, an excess of poorly designed regulations has resulted in unnecessarily complex and burdensome requirements for businesses and investors. Even if all these regulations had been optimally designed, their sheer cumulative impact – and the associated increase in regulatory activity – has produced an additional layer of burden which adds to this complexity. Whilst each regulatory intervention has been rationalised in its own terms, the unintended consequences of the cumulative effects have not been properly analysed. In addition to the rise in regulations, there has been an increase in the complexity of the landscape of regulators which implement and enforce regulation across various sectors of our economy. There are now over 100 bodies involved in regulation, before accounting for related non-regulatory bodies, professional associations, public functions, voluntary bodies, or wider regulator professions. According to latest data in regulators' annual reports, in 2023/24 the 17 regulators to whom the Prime Minister wrote in December 2024 about their contribution to supporting growth collectively employed 36,000 full-time equivalent employees and had a gross annual expenditure of £5.4bn.*
- *Businesses suffer from a lack of certainty and predictability from regulators and regulation. Stability and predictability were once recognised as cornerstones of our approach on regulation in the UK. Yet regulators' objectives, duties and powers have increased substantially over time. They now have different legal forms, duties, powers, appeal routes, and accountability mechanisms, resulting in inconsistency across the regulatory system. These have proved difficult to simplify and align, given the legislative frameworks for regulators have been developed independently without consideration of the wider regulatory picture. As a result, there is increasing uncertainty as to regulators' roles and remits. On top of this uncertainty has been layered inexact strategic steers from government which rather than providing clarity on which objectives and duties to prioritise have often increased uncertainty for regulators further, impacting their agility.*
- *Our regulatory approach has become too risk averse. Incentives on politicians and regulators to avoid criticism when regulation fails to fully mitigate risks has encouraged excessive risk aversion in the system. Rules-based frameworks can limit regulator discretion making it difficult to strike the right balance between risk and growth and managing the risk of legal challenge. Regulators must be attuned to the challenges facing businesses and be able to adapt to new industries, the challenges posed by new technologies and avoid disproportionate risk-averse behaviour.*

77 The WCWC repeats the question, has this become part of the problem rather than providing a solution. We share concerns about recent trends of increased risk aversion by the environmental regulators. Returning them to being experienced risk based environmental managers requires addressing the major reasons for the recent risk aversion. This includes the following measures.

78 In para 223 the Call identified four broad issues:

- *Multiple regulators with possible differing and/or overlapping areas of focus*

**The WCWC agrees that there is too much overlap** RAPID has been helpful but there is still not enough coordination, as the different views on nutrients attest. **A delivery alliance of departments is needed.**

- *Capacity, capability, culture*

**Regulators must be resourced properly to provide efficient delivery of the tasks assigned to them and professional skills recognised more proactively.**

- *Gaps in oversight*

**Numerous because there is no overarching cohesion, for instance the NPPF and Industrial Strategy are weak on water issues. There are gaps in regulatory oversight, e.g. Mandatory SuDS, revision of Water Fittings Regulations and many, many more.**

- *Excessively prescriptive silo based national targets*

**Instead need catchment management processes to determine the most efficient and appropriate measures in each catchment.**

- *Effectiveness of government oversight of the regulatory system*

**The WCWC has set out at length the lack of proper oversight and recommends delivery alliance of relevant departments.**

79 The WCWC has consistently argued for an overarching National Water Strategy to embrace the plethora of strategic plans and tactics of water management, including River Basin Plans. Within those Plans would be more formalised Catchment Plans. In these the uses of stretches of rivers and water bodies would be agreed with local communities and converted into quality specifications as part of river modelling and the setting of permits. This would revive the River Quality Objectives of the National Rivers Authority. This would draw on the substantial practices present (Appendix reference 3) The WCWC recognises that small water bodies may be excluded from the WFD, while the statements in para 169 are somewhat misleading. To include them in monitoring programmes would require substantial increases in resources and this would have to be questioned in terms of 'environmental returns.'

80 The WCWC has suggested that a novel way forward might be to create a companion Water Use Framework as a more compatible branding of a National Strategy, working in companionship for Integrated Natural Resources Management.

### **Complexity of Regulation**

81 **The WCWC agrees with the Commission on the unnecessary complexity of regulation.** It is worse than just recognising the complexity there are '**too many silo-based national targets and too many cooks spoiling the broth**'. This is the responsibility of central government. There are now several government departments with an impact on water management besides Defra;( and even within Defra itself ); and the Ministry of Housing , Communities and Local Government which revised the National Planning Policy

Framework NPPF without resolving several outstanding issues and driving the growth of housing (Appendix references 7 and 8), the Department for Business and Trade is developing an Industrial strategy without recognising water as a sector Appendix references 4 and 5, the Treasury on regulators (it seems to be driven by the Banking Regulation team) and even within Defra, the separate roles of the Environment Agency and Natural England and the changes to land use management (Appendix reference 9).

82 There needs to be a 'coalition of the willing', a delivery task force which goes beyond RAPID and any interdepartmental MoU, which brings all the relevant bodies into one forum and that should include the Department of Transport to cover the impact particularly of highway drainage. The WCWC draws the attention of the Commission to the Calls for evidence on regulators by the DBT in late 2023 (Appendix reference 4) and the House of Lords Industry and Regulators Committee in late 2023 to provide more detailed evidence (Appendix reference 6), and again repeats the concerns about the impacts of the latest interventions of the Treasury on better regulation, whilst complimenting the aspiration to streamline legislation. This follows on from the points submitted for chapter 2. And the WCWC suggests that this should include the Infrastructure and Projects Authority

83 Elsewhere in this response the WCWC has argued for an overarching coherent approach rather than a series of individual initiatives.

84 In many instances, consultations have not recognised the cross connections between different initiatives and silo-based targets. For example, even within Defra itself in the consultation on Guidance for Storm Overflows (Appendix reference 12). The plethora and diversity of changes to policy and regulations makes it difficult to keep track, even for professionals, and even harder for those who are not. There are too many metrics. For example, as a separate exercise, Defra is starting a process of dialogue on a review of the Environment Improvement Plan with some metrics, but not all relevant ones to the delivery by water companies, which sometimes explains the inaccuracy of media stories.

85 Paradoxically there has not been enough recognition by government of where the tactical levers need to be addressed. For example, there is no recognition that in order to make the aspirations for water efficiency work, the 1999 Water Fitting Regulations need urgent review by Defra (Appendix reference 14).

86 Often initiatives and targets do not seem to have been tested by the Better Regulation regime or given proper cost benefit analysis.

<https://www.gov.uk/government/publications/better-regulation-framework>

87 The Call for Evidence rightly draws a distinction between England and Wales, in the creation of Natural Resources Wales with its functional responsibilities for integrated natural resources management. The WCWC is surprised that Natural England was not given more prominence as regulator by the Commission, given its prominence in the debates about habitat conservation, nutrients and so on. There have been suggestions from time to time that similar benefits could accrue from the merging of Natural England and the Environment Agency, but the impediment seems to have been that this would create a body too large. The WCWC has suggested that if this was to be considered then a different model could be a general framework body with strongly devolved regional entities based on river basins. A model somewhat similar to a group holding company with operating subsidiaries. But the logic of doing so is driven even more at present by the cuts in resources (as reported for Natural England) and the need to integrate the execution of the Nature Restoration Fund into a more formal system of catchment management.

[Hundreds of jobs protecting rivers and green belt to be axed](#)

The WCWC is also aware that NRW is under pressure as well

<https://www.bbc.co.uk/news/articles/ckqvl48jvpqo>

Field Code Changed

88 WCWC recommends very strongly not to amalgamate the Environment Agency EA and Ofwat, ( which have separate and distinct functions ), or to demerge land drainage and flood management from the EA ( which has been mooted) , these being absolutely vital elements of integrated water framework management, or the creation of any new delivery bodies of whatever kind.

89 The WCWC suggests that the Drinking Water Inspectorate should be left as a standalone entity but working in close liaison with the environmental regulators and should therefore have 'a seat at the table in the coalition of the willing'. It would probably be better as an Arms-Length Body rather than an Executive Agency. This is discussed later. Any changes must be to make a very good organisation even better but not to effect any major changes

90 The WCWC suggests that this narrative is best concluded by studying its response to the environmental aspects of chapter 5. Thus picking up all the earlier points about the number of initiatives and the diversity of policy makers and regulators the WCWC answers the questions as follows:

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

- Performing very well
- Performing well
- Performing averagely
- Performing poorly
- Performing very poorly
- Don't know

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

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**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.** Please answer and explain below, providing supporting examples or evidence, where possible.

There is no mention of the Marine Management Organisation as a regulator and the role. Natural England is downplayed bearing in mind the high-profile controversies over nutrient neutrality.

<https://www.fwi.co.uk/business/natural-england-accused-of-blocking-nutrient-solution-over-nutrient-neutrality>

However, the Ministry of Housing, Communities and Local Government see Natural England as being a newly designated delivery body under the Infrastructure and Planning Bill.

There is no mention of the overlapping roles with Local Authorities. The WCWC has recommended a working concordat between the Water UK and the Local Government Association; the principal has been accepted but not progressed.

The WCWC has responded to Calls for Evidence and consultation by the House of Lords Industry and Regulators Committee and by the Department of Business and Trade, has the Commission studied the returns and conclusions to these initiatives.

Water companies are themselves, necessary regulators of industrial discharges to sewers and water fittings, and this is essential and must not be changed.

**Q27. To what extent do you think the water industry regulators have the capacity, capabilities and skills required to effectively perform their roles?** Please provide information to support your views on the capacity and capability of regulators, including, where possible, supporting evidence and examples (max 500 words).

Technical skills in Ofwat and the EA need to be strengthened. There is a lack of real understanding of some of the complex issues. For example, in the quality assured system of monitoring of water company discharges and the suggestion by the WCWC and the BSI for a new system. Is there a full understanding of the benefits of distributing treated sewage sludge to agriculture (biosolids) and is it putting this beneficial recycling and contribution to the concept of net zero at risk? Engineering issues require significant technical knowledge when upgrading assets. EA and Ofwat Need greater technical expertise and experience to be able to scrutinise cost estimates in DBPs by water companies who have an incentive to overestimate and then pocket the cost savings they can later reap

EA up to 2015 used to have expert technical managers capable of scrutinising the costs and technical feasibility of water companies' proposed schemes, which in PR04 reduced water companies' cost estimates by 40%. The funding from around 2010 led to a mass exodus of experienced managers and replacement by juniors with limited experience and thus not as good at performing these roles and lacking seniors able to lead and mentor them.

Moreover, prevalence of targets that are treated as statutory means that EA no longer assesses costs and benefits of requirements in WINEP (see Q13 and 21 (para 164 & 229)) and hence no longer scrutinises costs of water company proposed schemes. This also contributed to the prevalence of a tick box approach to water regulation and EA's increased risk aversion.

#### **Response to Chapter 4: Economic Regulation**

91 In this chapter The Commission states in para 262 that *it has heard of 8 broad issues concerning the current economic regulation model:*

- *Complexity of the Price Review process*
- *Prioritisation of bills at the expense of resilience*
- *An over-reliance on benchmarking*
- *Challenges in how Ofwat sets enhancement allowances*
- *Using historical data to set base allowances*
- *Whether the WACC is competitive with other sectors*
- *Challenges with attempts to simulate competition, including through ODIs*
- *Challenges in the assurance of investment deliver*

92 In para 275 the Commission is seeking views on stakeholder proposals where improvements could be made to economic regulation, across the following 7 areas:

- *Customer bills balance*
- *Changes to base*
- *Changes to enhancement*
- *Changes to the WACC*
- *Changes to ODIs*
- *Changes to PCDs*
- *A more supervisory approach*

93 This is a complex chapter to answer with a simple overview. As the Call explains, the concepts of Licences and economic regulation were established in 1989 to provide the structure within which equity-based monopoly companies could provide public goods. There is much published information about the evolution of the notion in the late 1980s. There must be an understanding that water companies cannot follow the normal rules of the marketplace and as Sir Ian Byatt (the first Director General of Ofwat) said at the outset “my objective will be to achieve through regulation the same balance as would be achieved by competitive markets”.

94 The view of market behaviour has broadened. As collection, treatment and delivery entities there are now expectations that companies influence customers to use less of its products and take the lead, even responsibility, for changing consumer habits?

95 Given the nature of the business as monopoly services, while providing choice for customers is still an elusive concept, it was necessary to ensure that the deliveries of water services to target are as efficient as they can be. **The system has since become too complicated and that simple vision has become obscured.** Constant tweaking of the process has made the overall objectives difficult to follow and, in simple terms, **economic and fiscal theory has been more dominant than the practical issues of finding the cheapest practical way of financing investment and operations.** The ‘line of sight’ has been lost between the practical world of operational delivery and that of financial engineering (Appendix reference 1).

96 Companies must be seen as commercial entities providing a public service rather than the objective of making money for investors which confronts the issue of the purpose of companies in their Articles of Association which is addressed (Appendix reference 18). In spite of the parallel arguments about the affordability of water bills, the original notion of cost to customer has been lost.

97 In 1990, Sir Ian Byatt said “Detailed investment plans are for the companies, but I will ensure that the objectives of the plans are met, that progress is monitored and where appropriate plans brought up to date. The appointed companies must be left with incentives to work efficiently...they must be able to make management decisions without interference.” By comparison today we have the dominant concept that Ofwat regulates on the basis of “allowed” expenditure and voluminous data collection for comparison purposes. The role of

the Economic Regulator has become much too complicating. The danger for the companies is that they just do what the economic regulator “allows” while their broad customer base has greater expectations.

98 For example, given that water companies are expected to take the lead in driving water efficiency, Ofwat has proposed setting up a central organisation under its wing, funded by water companies to create national drives on messaging and innovation (Appendix references 14 and 15). Why is Ofwat doing this? Perhaps another way would be to use a direction that another central organisation such as Waterwise should, take on this role. Ofwat has become involved in bringing national coordination to the Environmental Incentives to developers (Appendix reference 15).

99 Paradoxically, there is no national coordination of messaging to change habits with the disposal of used sanitary, hygiene, birth control and care products which are such high-profile features of the problems with storm overflows. Government itself has been very slow in taking the lead on this (Appendix reference 19), and in no instance has there been any evident involvement of the Business Insights Team as advocated repeatedly by the WCWC.

100 Ofwat has given a wide range of other roles, for example in hearing Appeals, for example, by traders against conditions set by water companies for discharges to sewers and refusal by water companies to allow connections to sewer under S106 of the 1991 Water Industry Act. So, the WCWC suggests that all the roles of Ofwat should be reviewed and unbundled and restructured in the ways that Ofwat handles them. More important is that Ofwat seeks clearer ways of condensing and simplifying a very heavyweight price review process.

101 There is no doubt that, in spite of the plethora of changes, or perhaps because of them, the big picture of financing the water companies has slipped by in regulation. The WCWC agrees that the evolution of the diversity of ownership and leadership was never envisaged in 1989 because new companies were being floated with a prospectus designed for the mass investor market and a protective golden share. Since then, greater interest from fund managers, private equity conglomerates have driven the complexity of company structures and has led to an increasing schism between the world of operation and finance in the companies, which must be rejoined. The recent events in Thames Water highlight the two streams of attention in the media (Appendix reference 1).

102 The WCWC suggests that good operational practice rather than economic theory must drive the structure of the water companies and the economic regulation thereof. For example:

- Investment in, operation and maintenance of water infrastructure is expensive, draws down cash and needs a constant income stream to offset
- The provision of water management assets and their operation must not be separated whatever the governance
- The provision and maintenance of reticulation must not be separated from the provision and maintenance of treatment assets
- There needs to be flexibility in the balance of revenue and investment costs (opex and the revenue costs of capex, totex and so on)

103 The WCWC considers that concepts of alternative economic models, particularly those under the arrangement for Direct Procurement for Customers and Specified Infrastructure

Procurement Regulations will not solve the problems of assets such as treatment works in which there is a much greater need for active operational maintenance alongside more passive asset maintenance. (Appendix reference 5), although they work for assets like the Thames Tideway Tunnel and the new Fen Reservoir in East Anglia or the Havant Thicket Reservoir (see para 397). For such concepts applied to drainage systems and sewage treatment works there are the additional complications of responsibility for discharge consents and trade effluent control (Appendix reference 5).

<https://www.gov.uk/government/news/water-investment-to-unlock-growth-in-east-of-england>

<https://www.gov.uk/government/news/securing-a-sustainable-water-future-for-the-south-east>

[https://www.ofwat.gov.uk/wp-content/uploads/2023/12/Anlian-Water-response-RAPID-consultation-on-commercial-arrangements\\_redacted.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2023/12/Anlian-Water-response-RAPID-consultation-on-commercial-arrangements_redacted.pdf)

104 The WCWC supports the principles of New Appointment Variations but has concerns about their over-use in terms of the complexity of systems and their extension to sewerage services.

105 The WCWC is not sure that the current economic regulatory systems are addressing issues for growth fully. This is a major area of urgent attention.

106 Operating and capital expenditure have exceeded income from the outset with the balance taken up initially by use of reserves then by borrowing. The debt has to be serviced just like a household mortgage. If charges do not increase in line with the scale of capital expenditure needed to achieve service and environmental improvements, then borrowing will grow. The balance sheet has in fact been deployed to help to keep charges down but gearing levels are now close to maximum or requiring action. The communications systems by all parties have not been adept at explaining the legitimate role of debt. The financial structures of the water companies have become too complicated with arguments which sometimes defy comprehension while dividend growth is not always well justified by efficiency improvements. The issues of pay and reward do not fall into regulatory territory unless they threaten financeability but they are certainly issues to which Boards need to pay more attention if they value public and political perception of trust and integrity. There is no place in this monopoly industry for massive “disrupter” style salary and bonus arrangements. Dividends, debt, salaries and bonuses are the continuing target of media attention particularly in the press and make it hard for other important narratives to be heard.

5103 In all of this, the role and responsibility of the Treasury needs to be much clearer beyond pushing Better Regulation. It is already very evident in other matters in the economy, some of which are affecting water services directly. Where does the provision of financial resources to the Environment Agency sit? It cannot be blamed for a lack of regulation if it does not have the resources. The WCWC referred to earlier the aspirations of the Treasury to cut the cost of public administration and there are already worries about cuts to the resources of Natural England at a time when its responsibilities are being extended (the WCWC has other views on this ‘Gordian Knot’). Has the Treasury has been reasserting its influence to keep water prices down in the Price Reviews?

107 The WCWC did offer the suggestion in its major think piece in 2022 (Appendix reference 1) that *‘the Price Review process has 30 years of accretion and the time has come to determine if it can be simplified. One way of doing this would be to reset the relationship of the Letter of Appointment and the Price Review process. Changes to the Appointment / Licence would allow some principles to be set more permanently whilst other could be varied as factors impacting the price review process vary.*

Ofwat is already stating that it wishes to amend the company Licences to tighten requirements concerning minimum credit ratings for listed companies and the calculation of bonuses and dividends (David Black, Utility Week Forum, November 2022). At the same event there was also a suggestion that the period of notification of withdrawal of Appointment could be reduced to 5 years. The WCWC observe that such a reduction would cause a great deal of investment and operational instability and that alternative means of bringing the desired changes in discipline should be sought. So, **rather than the piece-meal changes the WCWC recommend that there must be a major single review of the balance of the Appointment and PR processes, including the suggestions it has made, as soon as possible**.

108 The Price Review process in the original licence was based on water price changes to reflect modifications to the original expenditure base, occasioned by new obligations and an assumed efficiency improvement. **A negotiable alternative with zero based budgeting processes may be possible with rewards for outperforming efficiency targets, an acceptable rate of return based on an RCV adjusted for asset condition and delivery.**

109 The roles of Defra and the regulators are to identify standards and deficiencies in current outcomes then define and justify the outputs which they need from the Water Companies. Ofwat must ensure that companies deliver, are rewarded for efficiency and can finance their functions. Much improvement has been achieved already but many more billions are needed over the next 25 years to upgrade infrastructure and make water resources sustainable and growing population in a changing climate is straining the system at a time of rising public expectations and austerity. Additionally, several water companies need to reduce indebtedness according to Ofwat. So, the future of gearing of water companies will be an issue in any Plan for Change. There will need to be a distinction of ring-fenced historic debt and future debt as was considered at the time of privatization, although not incurring write-offs.

110 Most companies are under capitalised for the scale of the task ahead. Equity capital and water bills will need to take the strain but with this comes the need for a huge amount of marketing work by companies on communication to achieve visibility and both public and investor appreciation of what will be achieved. Ofwat must engage fully in explaining its priorities and trade-offs and help to recognise more companies as being investable and trustworthy champions.

111 In response to Box 9 **Can companies turn around poor performance? Yes, but the framework in which they do so has to be a lot clearer and incentives are always better than punishments.** This will need better distinction between what must be done and what would be better done driven by incentives.

112 In response to Box 10 **How money from customers is used? The simple answer is that the bills must provide enough money to satisfy the owners of the business and enough to meet the aspirations of customers.** The bigger the demand of investment in assets, and the maintenance thereof, such as in storm overflows, the bigger will the amount spent on servicing borrowing as compared to servicing the current operations. It would make sense to enhance asset life through innovation, while the changing demands are driving the water industry to more flexible modular technologies with shorter asset lives. Perhaps the future is more in chemical rather than civil engineering technology a classic example of a better line of sight between operations and finance. Elsewhere the WCWC advocates a return to the simple metric for any activity, cost to customer being a classic example of a better line of sight between operations and finance.

113 In para 288 the Commission states that it has heard about 3 broad areas where issues have been raised in relation to customer bills:

- *Significant increases in bills*
- *Variability in bills across regions*
- *Lack of water metering*

114 So in para 292, the Commission is seeking views on stakeholder proposals to ensure bill acceptability, across the following 3 areas:

- *Improved transparency for customers by better explaining how money from bills are used by water companies and how bills are set*

The WCWC response to this is to start by stepping aside from the complexities of economic theory for the moment, **what really matters is the concept of Cost to Customers**. In this, options for different finance models can be compared and explained to lay people. How much are customers actually paying per person for debt or dividends or bonuses or for specific projects such as extended wild swimming or the Storm Overflows Reduction Action Plan. The WCWC recommends strongly that this metric is introduced into the price review process and the communication plans. It was used at the time of privatisation.

- *Increased use of smart meters to help customers better understand their water usage and improve water efficiency.*
- **The WCWC responds, Yes to all meters. There has to be much stronger leadership from the government on this.** The WCWC has provided some extensive ideas on this (Appendix reference 16).
- *Exploring innovative water charging to support affordability and/or efficient use of water.*

**The WCWC responds, Yes but there are some inherent problems**, for example, with rising block tariffs per property irrespective of the occupation of the property. Consideration could be given to the future of standing charges, as Ofgem is doing for energy supplies (Appendix reference 16).

115 In para 307 the Commission states that it has heard 2 broad issues in relation to customer protections:

- *Concerns around service quality*
- *Challenges for disadvantaged and vulnerable customers*

116 **The WCWC suggests that concerns of this nature start at the top of any organization, and it should not require incentives to have high standards. A modern organization should aspire to the principle of customer delight** in which customer service standards are exceeded. Indeed, the enthusiasm of people working in the water sector in 1989 was to achieve this.

117 Meanwhile the pressures of economic regulation have reduced this to an algorithm. Meeting standards and exceedance is not covered by price determination. **Everything should be done to create cultures focused on customer delight and the WCWC has advocated the amendment of the Licences to require the Articles of Association of the Licenced entity within a Group to have a social purpose** as also required by the SoS in July 2024 and recognized by the Commission. Thereafter the Companies ought to employ, wherever appropriate suitably qualified individuals belonging to Institutions with relevant Codes of Conduct and Ethics (Appendix paper18).

118 In para 317, the Commission is seeking views on stakeholder proposals in relation to service provision and vulnerable customers, across the following 4 areas:

- *The introduction of a single social tariff.*

**The WCWC response is no. The tariff should reflect local circumstances.**

- *A more proactive approach by water companies in identifying eligible customers.*

**The WCWC agrees that there must always be a proactive programme.**

- *CCW's powers.*

**The WCWC suggests no expansion of CCW powers;** there are already a complexity of regulations and regulators, its objectives must be reflected more clearly in the Licences of water companies and then regulated by Ofwat possibly fulfilling a role of Water Ombudsman.

- *Greater accountability for water companies over customer complaints.*

**The WCWC agrees that any organisation must be accountable to respond properly to complaints.**

119 Response to Box 12, **Ofwat's financial toolkit over time.** The WCWC only wishes to make **the fundamental point is that the current system is too complicated and has been overwhelmed by economic and fiscal theory.**

120 In para 331, the Commission reported that it had heard 7 broad areas where issues appear in relation to financial resilience:

- *Ofwat's changing approach*
- *The impact of Price Review decisions on company finances*
- *Potential perverse incentives around debt*
- *Gaps in financial monitoring*
- *Recent cost pressures*
- *The difficulty of turning around poor financial performance*
- *Limitations of the Special Administration Regime*

121 In para 349, the Commission is seeking views on changes that have been suggested to assure financial resilience, across the following 5 areas:

- *Changes to the Price Review process to support financial resilience*
- *Changes to oversight of debt*
- *Changes to financial oversight, including a more 'supervisory' approach*
- *Ways the regulatory regime could support company turnaround*
- *Changes to the SAR*

122 In para 370, the Commission has heard 3 broad issues in relation to investment and growth:

- *The level of returns in the water sector relative to other sectors*
- *The level of risk from investing in the water sector* • *Challenges in attracting long-term stable investors*
- *Public perceptions about investor returns*

123 In para 377, the Commission is seeking views on possible changes to ensure returns balance risk and reward reasonably, across the following 2 areas:

- *Changes to the Price Review Process to support investment*
- *New mechanisms to support and/or constrain returns*

124 In para 388, the Commission has heard 4 broad issues in relation to competition:

- *Issues in relation to the NAV market, including a cumbersome licensing process*
- *Issues in relation to the Business Retail Market*
- *Issues in relation to the oversight and scope of DPC and SIPR*
- *Risks from the expansion of competition, including off-balance sheet risks and market fragmentation*

125 In para 397, the Commission is seeking views on the extent that the competition mechanisms set out above should play a role in the water sector going forward. Given different approaches historically, the Commission is also interested in where different approaches might be taken in England and Wales, as well as where there may be opportunities for convergence. In Para 398, the Commission is seeking views on stakeholder proposals to make the existing competition initiatives work better, across the following 3 areas:

- *Changes to the NAV market to reduce administration burdens*
- *Changes to the business retail market, to focus on where it is most beneficial and/or to ensure efficient use of water*
- *Changes to DPC and/or SIPR, to ease and expand their use*

126 Drawing on the commentaries in the preceding paragraphs, **in support of further commentary for the answers, the WCWC offers the overall opinion in response to Q28 that the current economic regulatory framework is not delivering positive outcomes? The framework is probably too tough. Too complicated, too inaccessible to customers, operators and investors and Boards. The WCWC suggests that that Ofwat are going to have to change their approach so that a larger proportion of companies feel that they have a reasonable chance of hitting their return. That means a more accessible approach, a reduction of regulatory risk. It may mean a more frequent opportunity to review prices for specific changes in circumstances with a full scale review every 10 years.**

127 Based on the evidence, the WCWC offers the following answers to specific questions:

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

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q29. How do you think the Price Review process should balance the need to keep customer bills low with the need for infrastructure resilience? (Infrastructure resilience is the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with, and recover from disruption in its performance). Please answer and explain below, providing supporting examples or evidence, where possible.**

The key lies in the absence of a simple concept of Cost to Customers.

This simple metric would be not only be helpful to customers but would provide clarity even within professional environments. In this, at the very least on a regional company level, any cost could be set out on a current and future basis.

If the average cost per property is expressed as a sum of some hundreds of pounds, it could, for example, be split into cost for water treatment or sewage treatment, it could give the cost of dividends or borrowing or of bonuses, it could express the cost of a programme such a storm overflows or of proposals to extend wild swimming it could help housing options, it could be used by government in evaluating the cost of new regulations, and should therefore be used as a good fit in terms of testing such new regulations by the Better Regulation tests.

Asset replacement levels have fallen to very low levels by European standards. Charges are too low but so is capitalisation; charges and equity must take the strain and investors must be rewarded.

Avoid an excessive short-term focus on containing bills. Instead, focus more on ensuring long term resilience so as to avoid future problems (para 264).

Water companies need to monitor and report on the state of their assets. Ofwat, in their final determination, only say that they are "developing an integrated monitoring framework to form a holistic and complete view of asset health and operational resilience going forward". They must do this more urgently. Moreover, they should use independently audited reports on state of water company assets in determining PR settlement and bonuses.

**Q30. What, if any, changes could be made to the Price Review process to better enable the water industry to deliver positive outcomes? Please answer and explain below, providing supporting examples or evidence, where possible below, providing supporting examples or evidence, where possible supporting examples or evidence, where possible supporting examples or evidence, where possible**

The WCWC suggests that the starting point is a review of the Licences which should then be left alone for another long period. The PR is more malleable in the short term. But make the Price Review process simpler more accessible. It should be moved "into the Boardroom" so that the Board know in non-technical language what they are asking for, what it is likely to mean for their asset base, their customers and the risks that investors are bearing.

A Board must earn its pay and be held accountable. It has become a technical dialogue between regulatory experts. The language and approach need to change. There must be strong guidance from Ofwat on financial resilience and real dividends to investors in the Boardroom. Licences need to be reviewed and changed but without losing essential safeguards for investors.

Water Companies are in essence organisations which have a notional contract with the Government, which is revised every 5 years and can be appealed to an outside body, the Competition and Markets Authority. The general rules of contract must apply otherwise the investors will have no incentive to invest, and one of those principles is that there must be certainty about what is to be delivered, the legal term is that the parties must be "ad idem." There are provisions for variations to that contract, as expressed through the Final Price Determination, known as IDOKs. The WCWC is not certain that the current processes are working in a business environment which is constantly changing and becoming more demanding and expensive and could deter investors. IDOKs should be exceptional and not a routine part of well organised regulation.

It is important to differentiate between outputs and outcomes, while debate about outcomes is entirely proper, it should not find its way into large amounts of expenditure within the regulatory settlement. A five-year capital programme is extremely demanding, and investors will worry if there is a lack of clarity about regulatory outputs which are to be achieved. If those are satisfactorily delivered but the outcomes are not realised the fault lies with whoever initially specified the outputs.

**Q31. What, if any, changes could be made to the Price Review process on assessing and setting base expenditure to effectively support infrastructure maintenance? Please answer and explain below, providing supporting examples or evidence, where possible**

Companies should be offered a zero-based approach under operator type cost headings which identify the main parts of the organisation where costs are increasing. This should be subject to audit. Ofwat proposals for efficiency improvement can then be related to service and operational headings but limited to acceptable transitional and frontier rates of productivity improvement. Ofwat would retain benchmarking by econometric modelling for guidelines. If companies wish to opt to continue with the present modelling approach that should be an option. Interim reviews to reflect specific changes of circumstances should be permitted without triggering a full review

Need to Address current excessive short- term focus on containing bills and not enough on ensuring long term resilience so as to avoid future problems (para 264). Fig 5 (para 70) shows the spikes in bills that periodically arise when companies catch up on backlog of a decade or two of poor monitoring of asset state and inadequate maintenance that eventually came to light and to the fore in 2004 and 2024

Water companies do not report on the state of their assets. Ofwat, in their final determination, only say that they are “developing an integrated monitoring framework to form a holistic and complete view of asset health and operational resilience going forward”. Must do this more urgently. Moreover, they should link the PR process settlement and bonuses to independently audited reports on state of water company assets in determining PR settlement and bonuses.

**Q32. What, if any, changes could be made to the Price Review process on assessing and setting enhancement expenditure to effectively support infrastructure improvements?** *Please answer and explain below, providing supporting examples or evidence, where possible*

There is often a lack of clarity in the overlap of operational, and asset condition, maintenance. There is also a need to be clearer about enhancement. For example, distinguishing between improving infrastructure to perform better against existing standards, and those to provide extended standards. For instance, what would be needed if it was deemed appropriate to install disinfection in sewage treatment works. In the former case it might be needed to cope better with different technology (not just capacity) to accommodate growth. The WCWC contends that the system is not dealing with the rapid increases in demands arising from growth, and developer contributions are not enough.

**Q33. What, if any, changes could be made to the Price Review Process on assessing and setting the Weighted Average Cost of Capital (WACC) to effectively attract investment in the water industry?** *Please answer and explain below, providing supporting examples or evidence, where possible*

Although most regulatory bodies use Weighted average cost of capital the WCWC suggests that separate costs should be used for equity and debt. This may raise the issue of whether the costs should vary according to company and there may be a case for differentiation in exceptional circumstances.

**Q34. What, if any, changes could be made to the Price Review process on assessing and setting performance incentives to effectively secure infrastructure delivery?** *This could be across Outcome Delivery Incentives (ODIs) to effectively deliver for customers, the environment and public health; and/or across Price Control Deliverables (PCDs), for example. Please answer and explain below, providing supporting examples or evidence, where possible.*

If by the time of the next periodic review only a few companies are awarded an ODI reward, then the system needs to be scrapped. The median company should be able to earn the expected return. PCD monitoring is essential, companies should not be rewarded for failure to deliver.

## Customer bills

128 The Call states that *Customers need to know that their bills are acceptable, particularly for the most vulnerable in society. It is the responsibility of Ofwat to ensure the interests of customers are appropriately balanced with the needs of the water companies to be able to properly finance their functions. They do this through the Price Review process, where water and sewerage charges are set for 5-year periods.*

*Bills have reduced by 15% in real terms since 2014-15<sup>1</sup>, however, the need for increased investment in infrastructure will result in larger bills over the period of Price Review 2024. These increases come at a time of declining public trust and satisfaction in water companies. There is also a regional variation in bills, with customers paying differing amounts for their water, depending on where they live. Whilst most households have a water meter and therefore pay for the water they use, a significant minority do not.*

*The Commission is seeking views on potential changes in relation to the fairness of water bills. This includes, but is not limited to:*

- *Improving transparency for customers to help improve trust, for example, by explaining how the money from bills is used by water companies and how bills are set.*
- *Increasing the use of smart water meters to help customers better understand their water usage and improve water efficiency.*
- *Exploring innovative water charging to support affordability and/or efficient use of water.*

129 The WCWC has provided detailed insights into this area (appendix paper reference papers 14-16) and based on these and the evidence submitted earlier the WCWC answers the following questions:

**Q35. To what extent does the economic regulatory framework deliver acceptable water bills for customers? (Please select one)**

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q36. What, if any, changes would help ensure customers are paying fairly for the water they use? (Please select all that apply)**

- No changes are needed
- Improve transparency for customers on how money from bills is used

- Increase the use of smart water meters
- Explore innovative water charging (such as rising block tariffs or other innovative tariffs) to support affordability and/or efficient use of water.
- Don't know
- Other (please specify)

This is a complex area. There are challenges in block tariffs. The WCWC notes that in the energy sector there is a move to lower or remove standing charges. The low-income support process is in place and the WCWC is not aware that it is not working well. Yet there is an issue about the burden which customers carry in terms of what they are paying for in general. For example, there is the potential cost element for the provision of wild swimming. The concept of cost to customer will help provide that clarity.

### Customer protections

130 The Call continues with the statements that *Customers also need to know that they will receive a good level of service in return for their money. Whilst the provision of an uninterrupted supply is a key expectation of customers, they also expect clear communication, the quick resolution of problems, and accurate billing.*

*In addition, there are a wide range of customers who may require financial or practical support from their water companies. This could include households with people of pensionable age, someone who is pregnant or has young children, people with a mental health condition or a disabled person, have difficulty in communicating, and those on low-income. Despite some recent improvements, the awareness and take-up of the various initiatives to support these customers remains low.*

*The commission is seeking views on potential changes in relation to customer protections on service provision and support for vulnerable customers. This includes but is not limited to:*

- *Ensuring that customer matters are investigated and, where necessary, enforcement action taken, to incentivise water companies to improve their service provision.*
- *Increasing the accountability of water companies' handling of complaints to drive an improved experience for customers.*
- *Introducing a single social tariff for England and Wales with the aim of providing a fair, consistent and sustainable support for customers who struggle to afford their water bill.*
- *Ensuring that water companies proactively offer support to customers who may be eligible*

131 Based on the commentaries earlier the WCWC offers the following answers to the following questions:

**Q37. To what extent does the regulatory framework protect customers from poor service? (Please select one)**

- To a great extent
- To some extent
- Very little

- Not at all
- Don't know

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

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q39. What, if any, changes to the regulatory framework would better incentivise water companies to deliver and maintain high customer standards? (Please select all that apply)**

- No changes are needed
- Ensure customer matters are investigated and, where necessary, enforcement action taken.
- Greater accountability for water companies' handling of complaints.
- Don't know
- Other (please specify)

This starts at the top of any organization, and it should not require incentives to have high standards. A modern organisation should aspire to the principle of customer delight in which customer service standards are exceeded. Indeed, the enthusiasm of people working in the water sector in 1989 was to achieve this.

The pressures of economic regulation have reduced this to an algorithm; meeting standards and exceedance is not covered by price determination. Everything should be done to create cultures focused on customer delight and the WCWC has advocated the amendment of the Licences to require the Articles of Association of the Licenced entity within a Group to have a social purpose as also required by the SoS in July 2024 and recognized by the Commission. Thereafter the Companies ought to employ, wherever appropriate suitably qualified individuals belonging to Institutions with relevant Codes of Conduct and Ethics.

**Q40. What, if any, changes to the regulatory framework would improve support for customers in vulnerable circumstances? (Please select all that apply)**

- No changes are needed
- Introduce a single social tariff for England and Wales.
- Ensure a proactive approach by water companies in identifying customers eligible for additional support
- Don't know
- Other (please specify)

**Financial resilience**

132 The Call rightly points out that financial resilience is the ability of companies to weather shocks to capital structure, spending, revenue and liquidity. Some companies are experiencing challenges today with financial resilience.

133 A range of factors influence water company financial resilience. Companies appear to have been hit by recent cost pressures from inflation and regulatory fines. Historical decisions taken by water companies about debt levels also appear to have played a role in current challenges. The evidence on the relationship between debt raised and investment delivered is complex and contested.

134 The Commission is seeking views on *potential changes to support water company financial resilience. This includes, but is not limited to:*

- *Changes to the Price Review process to support financial resilience*
- *Changes to the regulatory approach to companies' debt levels*
- *Changes to financial oversight, including a more supervisory approach*
- *Changes to the way in-distress companies are managed (for example, providing the water regulators additional discretion over how penalties are issued)*
- *Changes to the Special Administration Regime (for example, Ofwat providing guidance on SAR thresholds)*

135 The WCWC offers the following answers drawing on the experiences of its members:

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

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q42. Which of the following changes to the economic regulatory framework, if any, would improve outcomes for the water industry? (Please select all that apply)**

- No changes are needed
- Changes to the Price Review process to support financial resilience
- Changes to the oversight of water company debt (for example, 'capping' company debt levels)
- Changes to financial oversight of companies (for example, moving to a more supervisory model as defined in the Call for Evidence)
- Changes to the way in-distress companies are managed (for example, providing the water regulators additional discretion in their enforcement regime)
- Changes to the Special Administration Regime (for example, providing guidance on the thresholds for the SAR)
- Don't know
- Other (please specify)

The WCWC suggests that before a review of the PR process, that the first step is to review and revise Licences whence the changes envisaged above would be located.

**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? Please answer and explain below, providing supporting examples and evidence, where possible**

The WCWC has seen a multivariate analysis carried out by an independent member using data available from published sources such as Annual Reports and OFWAT data which compares asset investment, service performance, compliance etc., by type of ownership, executive reward and financial resilience. We would not publish such data since it is a draft exercise, but the Commission should be able to construct such an analysis for comparative purposes.

#### **Investment**

136 As the Call states in a given year, water company costs typically exceed revenues as investment is financed by debt and equity over time. The current and future investment need for the water sector is significant; Ofwat consider that £12.7 billion of equity will be required between 2025-2030, and companies forecast they will need to raise £45 billion in debt.

The attractiveness of the sector to investment is driven by the level and stability of returns investors can expect to get. These appear to have been declining since privatisation. At the same time, there are some public concerns that returns have been too high. Assessing returns in the sector is inherently challenging, and the Commission is seeking evidence on how returns compare between the water industry and other comparable sectors (for example, energy).

The Commission is seeking views on potential changes to support investment. This includes, for example:

- Changes to the Price Review process to support investment
- New mechanisms to underpin and/or constrain returns

The Commission is also interested in the impact public and political perceptions of the water industry have had on the attractiveness of the sector to investment.

137 The WCWC submits the following answers to relevant questions:

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

- Significantly supports investment
- Somewhat supports investment
- Neither supports nor hinders investment
- Somewhat hinders investment
- Significantly hinders investment
- Don't know

**Q45. How do financial returns in the water sector compare to other similar sectors (for example, energy)? Please answer below and provide evidence and examples, where possible.**

**Q46. What options, if any, would incentivise investment in the water sector? Please answer below and provide evidence and examples, where possible.**

Clarity, stability plus reduced regulatory risk. We believe this may require a review of the licence and the terms of the periodic review. The introduction of an interim review for changed conditions without triggering a full-scale review could be attractive to investors.

**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?**

- Positively affects the attractiveness of the water sector to investors
- Does not affect the attractiveness of the water sector to investors
- Negatively affects the attractiveness of the water sector to investors
- Don't know
- Other (please specify)

**Competition**

138 The Call states that:

*Competition has been introduced into the water industry by Ofwat, and encouraged by successive governments, to help ensure private companies deliver investment and services for a fair price.*

*As the water sector is a natural monopoly, competition will always be constrained. The commission has heard varied feedback about how effective existing schemes have been and could be in the future. Some schemes appear to have delivered benefits (for example, enabling housing development), whilst others appear to face obstacles (for example, legal constraints, limited awareness).*

*The Commission is seeking views on potential changes that could be made to the competition regime. These include, but are not limited to:*

- *Changes to the New Appointments and Variations market to reduce administrative burdens (for example, relaxing requirements on Ofwat to consult on all New Appointments and Variations licensing applications)*
- *Changes to the business retail market, to focus on where it is most beneficial (for example, limiting the business retail market to large customers)*
- *Changes to the business retail market, to ensure efficient use of water (for example, updating water tariffs)*
- *Changes to Direct Procurement for Customers and/or Specified Infrastructure Projects Regulations, to ease and expand their use (for example, relaxing the criteria for Specified Infrastructure Projects Regulations usage)*

*Given different approaches historically between England and Wales, the Commission is also interested in where different approaches might be taken in England and Wales, as well as where there may be opportunities for convergence.*

139 The WCWC supports notion of competition but warns that economic theory should not overcome practicality as discussed earlier (Appendix reference 5).

140 The WCWC submits the following answers to question one particular point in Q49 is the difficulty experienced in the bioresources market which is bedevilled by the regulations

concerning biosolids and there has to be more clarity about what is meant by the scope of this market.

**Q48. To what extent should further competition in the water industry be encouraged through regulation? Please answer below and provide evidence and examples, where possible.**

This is a huge area to answer in a few words. The viability of alternative models must be driven by the dynamics of good operations rather than the application of economic theory. On that basis no competition for treatment works as set out by the WCWC in its response to the DBT. Neither does the WCWC think that domestic customers would empathise with the opportunity of competitive suppliers. The issues of customer concerns about water supplies, flooding and sewerage problems are of a different nature to problems with electricity and gas supply for example. The WCWC emphasises that the way forward must be simplicity.

**Q49. Which of the following schemes, if any, have failed to provide effective levels of competition and efficiency? (Please select all that apply)**

- New Appointments and Variations (NAVs)
- Self-Lay Providers (SLP)
- Business Retail Market
- Water bidding market Is this complication really needed. Where is the evidence in Cost to *customer*
- Bioresources market
- Direct Procurement for Customers (DPC)
- Specified Infrastructure Projects Regulations (SIPR)
- Don't know

**Q50. Which of the following changes to competition schemes, if any, would improve outcomes for the sector? (Please select all that apply)**

- No changes are needed
- Changes to the New Appointments and Variations market to reduce administrative burdens (for example, relaxing requirements on Ofwat to consult on all New Appointments and Variations licensing applications)
- Changes to the business retail market, to focus on where it is most beneficial (for example, limiting the business retail market to large customers)
- Changes to the business retail market, to ensure efficient use of water (for example, updating water tariffs)
- Don't know
- Other (please specify)

**Q51: To what extent would greater market tendering of infrastructure delivery projects improve outcomes? Please answer below and provide evidence and examples, where possible.**

See the answers earlier, focus on practical issues rather than economic theory as the driver and always consider the cost to customer.

**Response to Chapter 5: Environmental and Drinking Water Regulation:**

### Opening remarks on this key area

141 Much of what the WCWC set out in its response to Chapters 2 and 3 also answers to questions herein. The regulatory framework and the performance of regulators is closely connected. Understanding the definition of noncompliance and the reaction to that non-compliance is at the heart of many of the current debates.

142 The WCWC recognises that the same principles for culpability and liability must apply to breaches of environmental law as much as any law. It must be recognised that water services operations are dynamic, affected by events outside the control of operators and hence there must be resilience. Protection against random events costs more money, so the financial modelling, the cost to customers, has to set out how much money is invested in what is essential insurance, just as individuals do in their daily lives.

143 Then there is the issue of corporate versus personal liability. Executives in water companies may be doing their best, yet they may fail due to resource restrictions. How much were water authority executives liable for sewage effluent failures in public ownership in the 1980s caused by the restrictions of the Treasury? Personal liability is unlikely to improve performance, and certainly criminal liability will make any failure to which it applies the scene of a crime. This is not conducive to good management or the acceptance of responsibility due to fear of failure arising by genuine external events, but which arouse strong public reaction. As is evidenced by the publicity over the latest data on storm overflows.

144 In the interests of operators, the public and investors the WCWC supports the need for a review and rationalisation of the environmental legislative framework for the water industry. Legislative reform to address emerging threats is also necessary, for example microplastics.

145 On the basis of the evidence present the WCWC answers the following questions:

**Q52. Do you believe that legal and/or regulatory requirements would benefit from review or consolidation? If so, please explain your answer and provide evidence and examples, where possible**

Yes. See earlier for a different strategic legal framework but recognize that there is a plethora of regulations and guidance which need review, for example, of the Water Fittings Regulations SuDS and Guidance on Storm Overflows (which was based on an update of the wrong Guidance).

### Protecting the Environment

146 The WCWC repeats its view of the disparity and diversity of statute, and often not well-connected guidance. A Water Use Framework founded on the principle of integrated natural resources management is the way forward.

147 The text of the Call perpetuates some of gaps in communication and understanding. For example:

- Para 421 does not seem to understand the requirements under S82 on the Environment Act 2021 for discharge monitoring and the 'big data' this will produce, or the difference between discharge period recording and quality monitoring (Appendix paper 11).

- In para 414 reference is made to the consultation on Storm Overflow guidance. The text does not recognise that the review of 1997 Guidance referred to for the 1994 Urban Waste Water Treatment Regulations was still in draft even after almost thirty years, was not in the public domain and is the wrong guidance to update, the right ones being issued in 2018/19 under Environmental Permitting Regulations (Appendix paper 12). As of late March 2025, it appears that Defra is still continuing with an update of the 1997 Guidance on the 1994. This perpetuates an unhelpful muddle so where does that leave the 2018/19 Guidance, which are not even mentioned in the latest Guidance: This is an example of the lack of cohesion.

<https://www.gov.uk/government/publications/storm-overflows-policy-and-guidance/storm-overflows-policy-and-guidance> (March 2025)

<https://www.gov.uk/government/publications/calculating-dry-weather-flow-dwf-at-waste-water-treatment-works/calculating-dry-weather-flow-dwf-at-waste-water-treatment-works> (May 2018)

[Water companies: environmental permits for storm overflows and emergency overflows - GOV.UK](https://www.gov.uk/government/publications/water-companies-environmental-permits-for-storm-overflows-and-emergency-overflows) (Sept 2018)

<https://www.gov.uk/government/publications/waste-water-treatment-works-treatment-monitoring-and-compliance-limits/waste-water-treatment-works-treatment-monitoring-and-compliance-limits> (January 2019)

- In para 422 et. seq. (and para 90) there is a lack of understanding about the statistical quality basis of the so-called Operator Self-Monitoring and the way in which it is applied in the law. This started in 1985 not 2009. One great failing of a regulatory system can be that compliance is based on different principles to the definition of permits. So there needs to be greater clarity around the legal value of the EA spot checks, which are perfectly valid but not reflected in permits as stated in para 425. There is ambiguity around the basis of the EA monitoring as set out in para 427. The WCWC draws attention to its suggestions with the BSI already submitted to the Commission, for a way forward based on the best principles of quality assurance. This is about rebuilding public trust (Appendix reference 10).
- The reference in para 446 is based on a misconception of the legal basis of the current systems and commits the same error as para 447, in that both argue for different systems of monitoring to the principles of the criteria defined in the permits for which monitoring is supposedly focussed on compliance, as stated above. There is a difference between statutory and non-statutory monitoring, and all of this is brought out in the submission already made to the Commission. There is a lot of misunderstanding and misinformation. If this is not determined properly, individuals will be held liable unnecessarily and investment will be distorted. There is much discussion about continuous monitoring supported by AI as the Call implies; this is a good idea for operations but not for compliance. Implementation for compliance for what is in essence a series of spot samples would be an example of regulatory mishap whereby the method of monitoring assessment is on a different basis to permit setting (Appendix reference 10).
- This error of not using the same principles of assessing compliance as those used for original design and permits has been highlighted over the publicity on the latest storm overflows data.

[Environment Agency storm overflow spill data for 2024 - GOV.UK](https://www.gov.uk/government/publications/environment-agency-storm-overflow-spill-data-for-2024)

The subsequent publicity makes no distinction between what is permitted, what fails the latest criteria, what fails for reasons outside the control of water companies, and what fails due to the water companies' negligence for whatever reason, including delayed investment.

[Why dry weather discharges of untreated sewage happen - CIWEM](#)

- In para 453 there is recognition that the disposal of used sanitary and cosmetic products cause major problems in sewer blockages. In contrast to the national messaging on water efficiency Ofwat, there is no national messaging or action on this problem and in spite of many organisations, including the WCWC, calling for a national approach by Government, the bans on products have been limited and the essential consistent clear messaging on products for disposal has been left as a voluntary system and not even following the lead of mandatory water efficiency labelling of so called white goods (Appendix references 19 and 21).
- Para 459 is about the use of biosolids (appropriately treated sewage used in agriculture according to regulations. This practice is used for almost all sewage sludge is a contribution to net zero. It has become embroiled in the arguments regarding the applications of fertilisers to land making farmers less likely to take the products. So, this is about land use not product quality and the tone of the Call is not very empathetic; it needs sensible resolution. As a back-up, focus on bioresources with wider uses and a wider definition which might need new regulations.
- Para 462 The EA is not adequately resourced for its role of ensuring that environmental standards monitoring is still viable. There should be expanded use of inspections and audits in order to regain public trust. The WCWC is concerned that with all the other initiatives the resources for environmental regulators could be cut as already been mooted for the Natural England as discussed earlier. Such monitoring work should come under our proposed extended remit for cost recovery charges.
- Para 455 fails to recognise that mandatory SuDS is already in place in Wales that Defra and its Ministers have been promising the implementation of statutory SuDS in England for some time but failed to do so. Swift action would reduce the burdens on sewerage systems wherever practicable (Appendix reference 7).

148 In para 431 the Commission reports that it has heard about 7 broad issues in relation to the water industry environmental regime:

- *Compliance and water company culture*
- *Complexity of environmental regulation*
- *Limitations in environmental regulation*
- *Monitoring delivery*
- *Enforcement*
- *Emerging issues in case law*
- *Wider non-water company actions impacting sewer capacity*

149 The WCWC draws attention to its earlier answers on the complexities and limitations of legislation as well as on monitoring. But it agrees that commitment to compliance starts at the top of an organisation. Getting this right will help to restore trust. Everything should be done to create cultures focused on customer delight and the WCWC has advocated the amendment of the Licences to require the Articles of Association of the Licenced entity within a Group to have a social purpose as also required by the SoS in July 2024 and recognized by the Commission. There- after the Companies ought to employ,, wherever appropriate

suitably qualified individuals belonging to Institutions with relevant Codes of Conduct and Ethics (Appendix reference 18)

150 Using this evidence the WCWC answers the following questions:

**Q53. Do you believe that the system of environmental regulation, monitoring and enforcement is ensuring water company compliance with environmental standards?** (Please select one)

- To a great extent
- To some extent
- Very little
- Not at all
- Don't know

**Q54. Which of the following changes to water industry environmental regulatory requirements, if any, would improve outcomes from the sector?** (Please select all that apply)

- No changes are needed
- A review and rationalisation of the water industry environmental legislative framework
- Legislative reforms to address current and emerging threats
- Don't know
- Other (please specify)

Move away from silo-based targets that are too costly, prescriptive and deter innovation and nature-based solutions.

Encourage sound economic appraisal by EA to determine requirements through catchment management for RBMPs.

Treat all environmental requirements as aim to achieve targets, requirements or concerns, not as prescriptive binding statutory targets.

Reverse trend of regulators becoming risk averse. Identify and remedy multiple causes such as binding silo targets (see remedy above). Reverse trend of recourse to excessive expensive legal actions.

Resource the EA (and NRW) so that it can effectively carry out proper catchment management and monitoring.

**Q55. Which of the following changes to the water industry environmental regulation, monitoring and enforcement framework, if any, would improve outcomes for the sector?** (Please select all that apply)

- No changes are needed
- Enhanced monitoring, including reform of operator self-monitoring
- Expanded use of inspections and audits
- Swifter enforcement
- Don't know

Other (please specify)

*If you selected other, please specify below.*

This a topic bedevilled with incorrect narratives and the WCWC has already submitted to the Commission its proposal with BSI for a transformed quality assurance system for discharges.

There needs to be a consensus first on what the definition of compliance actually means.

### Clean Water

151 The WCWC suggests that the current regime for drinking water which offers a world class service should not be altered. It can see the argument for converting the DWI from an Executive agency to an Arms-Length Body.

152 The Call ignores that the fact drinking water regulation provides an excellent example of how 'operator self-monitoring works successfully for drinking water.

153 In para 472. the Commission states that it has heard 5 broad issues in relation to drinking water standards:

- *Water company risk management*

**The WCWC agrees that improvements can be made.**

- *Outdated regulations*

**The WCWC suggests that the term 'outdated' gives the wrong impression. All changes to the framework of drinking water regulation must be dealt with cautiously without knee-jerking unless there is a crisis. So, the description of ongoing review is measured and should not be disrupted. However, the application Water Fittings Regulations has evolved to take account of water efficiency and need to be updated quickly to reflect this as the WCWC has opined on several occasions (and Building Regulations as well). DWI powers must include regulation of all entities involved in public water supplies as the WCWC opined to the DBT in early 2024 (Appendix reference 5).**

- *Legacy contaminants*

**The WCWC agrees that every effort must be made to remove domestic lead pipes as quickly as possible and to stop phosphate dosing.**

- *Extent of regulatory powers in relation to new water supply mechanisms.*

**The whole topic of the circular water economy is one in which there are several apocryphal stories which need to be understood better.** This was demonstrated in the WCWC response to the consultation on the NPPF (Appendix reference 7 and 17). The Defra has started a dialogue on dual supplies, but this has not been concluded. **The WCWC urges great caution in this matter and water resources have not become so tight that this step is justified in the UK right now. There is an enormous psychological barrier to doing this. However, recycling of water for non-household supplies as part of the Industrial Strategy offers rich opportunities as the Call attests.** (Appendix reference 17). This is not matter for

the Drinking Water Inspectorate. **However, the WCWC agrees that it would be prudent to extend DWI powers where appropriate to prepare for this eventuality.**

• *Product approvals*

**The WCWC is aware of the holdups, and this needs sorting by Defra very quickly.**

154 The WCWC answers the following questions based on these submissions:

**Q56. What changes, if any, could be made to the drinking water regulatory system to maintain world leading drinking water quality? (Please select all that apply)**

- No changes are needed
- Updates to drinking water quality standards Proceed with care and understand the /cost to customers and the real health implications
- Changes to DWI's regulatory powers to better regulate new water supply mechanisms and approaches
- Addressing regulation 31 supply chain challenges to support innovation
- No changes needed
- Don't know
- Other (please specify)

Modification of Water Fittings and Building Regulations' getting a clearer agreement on the issues of domestic lead piping and within curtilage leakage.

### **Water Resources and Resilient Water Supply**

155 The WCWC does not need to emphasise the challenge in developing new water resources assets. It can be argued that the current approach is a somewhat reactive response to infrastructure and maintenance needs but a proactive response to future demand reductions (cart before the horse) such that Water Resource Management Plans (WRMPs) could underestimate future risks.

156 Also WRMPs focus mainly on drought management but any future major supply interruption is just as likely to be due to a 35+ degree summer in a non-drought scenario when you cannot rely on drought permits, and there is not the time to introduce temporary use bans due to the sudden and unpredictable timing of the event. The WCWC suggests that is properly accounted for in current WRMPs. There has been a significant reduction in groundwater abstraction in SE England which can lead to reduced supply headroom at the local level rather than the catchment level considered in WRMPs (the devil is often in the detail). A reliance on fewer larger water treatment works can lead to reduced resilience, and it is important that WRMPs take account of this in determining future headroom levels. This does not underestimate the need for abstraction reductions to support improved river environments but the full costs including supply resilience and increased sewage flood risks (due to increased groundwater levels) needs to be properly accounted for to achieve a prioritised balanced approach for the most effective use of future investment to support river health.

157 The WCWC recognises the challenges of matching water resources with demand, and its contribution to the issues raised by the Call for Evidence are concerned with planning principally. The importance of "location, location, location" should not be understated. The

NPPF does not demonstrate enough connection with water resources Plans and there needs to be a much swifter approval process without gainsaying local democracy. Whilst this response is being prepared the government has announced the new Planning and Infrastructure Bill and the WCWC needs to understand if it will assist. Certainly, the extended notions around deeming new water assets being Nationally Significant Infrastructure Projects must assist this process.

158 The impact of the NPPF is relevant both in terms of the impact of housing and industrial development on water infrastructure and the slowness of development of that infrastructure. The concept of a water regulatory framework in the context of the question ought to embrace all influencers. How does the review of the Water Resources Framework fit in? The narrative around leakage and water efficiency in the Roadmap often gives a false impression that if these are fixed there will not be a need for more resources.

159 The WCWC has been concerned with the rhetoric which suggests that fixing leakage and water efficiency will fix the water resources problem, when it will not. It must be understood that even with the best will in the world the distribution of water is a real practical and costly problem and there will also be leakage; a working figure has always been 8% with best practice. However, the Call does not refer to the problems of leakage from customers pipes, particularly within the curtilage. Sorting this is a major element of reducing domestic demand. The Call glosses over this issue.

160 In several places, such as para 511 there is reference to the Environment Improvement Plan targets and the implications of Water Efficiency roadmap. This includes the introduction of mandatory water efficiency labelling for which the WCWC is not aware of the implementation date. It is aware of the plans to reduce average consumption. The Call could have been given more distinction between the reduction of consumption in existing properties and new build (which will be relevant to the Government's Housing Strategy). Ofwat has set out its requirements for a national scheme for developer environmental incentives to meet in practice tighter standards in new builds. The WCWC has suggested several times that the Water Fittings and Building regulations need reform to meet these targets as discussed earlier (Appendix reference 14-16).

161 The Call describes briefly the Ofwat is proposing setting up a national 'arms-length' body (in relation to Ofwat) to oversee national messaging and innovation but financed by water companies. The WCWC has advocated the inclusion of the national 'Nudge Unit'. This will be of value for existing customer with established consumption habits.

162 A rich source of opportunities will lie in the reduction of non-household water consumption, as the Call demonstrates and the WCWC has referred to this already. This will be a critical demonstration of the concept of the circular water economy which is struggling at the moment. This will require water being recognised as a key sector in the Industrial strategy which is a disappointing omission (Appendix 7 and 8).

163 There must be innovative thinking in developing new water intensive assets. The WCWC has suggested that 'water hungry' development such as those in the giga economy or green hydrogen should be located in lower estuarial or coastal areas which would help struggling local economies as part of another government strategy. This will also need the development of innovative technologies.

164 There needs to be a connection between the control of flood water as an asset which is often lost now. The Fens Reservoir in Eastern England is a good example, and it is also an example of how NAVs are a useful tool in asset financing.

165 The essential issue is that Water Resources Plans must embrace a whole set of needs, including any initiatives under the banner of the circular water economy and water efficacy as the Call evinces. These must be part of Regional Water Use Plans as set out in the response by the WCWC for chapter 2. This will require a conflation of the reviews of water resources and river basin plans which would be part of the streamlining advocated by the WCWC. Hence it supports the notion of an integrated water management framework, which the WCWC suggests should have been highlighted as a priority much earlier in the Call.

166 The WCWC answers the following questions.

**Q57. To what extent is the overall water regulatory framework securing resilient long-term supplies of water? (Please select one)**

- To a great extent
- To some extent
- Not at all
- Don't know

**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? (Please select all that apply)**

- No changes are needed
- Integrated water management framework to improve the management of the water system
- Changes to regulatory responsibilities or introduction of new requirements or standards to oversee delivery
- Abstraction reform
- New water demand and efficiency policies
- Don't know
- Other (please specify)

*If you selected other, or want to provide additional views, please specify below*

All with a new Water Use Framework. The WCWC recognises the challenges of matching water resources with demand, and its contribution to the issues raised by the Call for Evidence are concerned with planning principally. The importance of “location, location, location” should not be understated. The NPPF does not demonstrate enough connection with water resources Plans and there needs to be a much swifter approval process without gainsaying local democracy. Whilst this response is being prepared the government has announced the new Planning and Infrastructure Bill and the WCWC needs to understand if it will assist. Certainly, the extended notions around deeming new water assets being Nationally Significant Infrastructure Projects must assist this process.

The impact of the NPPF is relevant both in terms of the impact of housing and industrial development on water infrastructure and the slowness of development of that infrastructure. The concept of a water regulatory framework in the context of the question ought to embrace all influencers. How does the review of the Water Resources Framework fit in? The narrative around leakage and water efficiency in the Roadmap often gives a false impression that if these are fixed there will not be a need for more resources.

The WCWC has been concerned with the rhetoric which suggests that fixing leakage and water efficiency will fix the water resources problem, when it will not. It must be understood that even with the best will in the world the distribution of water is a real practical and costly problem and there will also be leakage; a working figure has always been 8% with best practice. However, the Call does not refer to the problems of leakage from customers pipes, particularly within the curtilage. Sorting this is a major element of reducing domestic demand. The Call glosses over this issue.

### Infrastructure and supply chain resilience

167 There is an urgent need to strengthen the requirements for Water Companies to map assets and to report on asset condition. A need to define conditions of disruption (as suggested by the Commission for response) for which Companies should be prepared is difficult and may have expensive consequences. Strategic storage of chemicals, local storage capacity of treated water and alternative sources and transmission routes are familiar territory for disaster planning, but recovery from cyberattack affecting wastewater infrastructure, flooding of treatment works is less easy to define. The events at Heathrow Airport, caused by a major substation failure highlight the importance of understanding and mitigating resilience risks and points of vulnerability. There may be an opportunity to extend the periodic review process after 2029 to meet some of supply chain issues.

168 The WCWC answers the following questions.

**Q59. 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.**

- Significantly supports infrastructure resilience
- Somewhat supports infrastructure resilience
- Neither supports nor hinders infrastructure resilience
- Somewhat hinders infrastructure resilience
- Significantly hinders infrastructure resilience
- Don't know

**Q60. 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.**

- Significantly supports infrastructure security
- Somewhat supports infrastructure security
- Neither supports nor hinders infrastructure security
- Somewhat hinders infrastructure security
- Significantly hinders infrastructure security
- Don't know

**Q61. 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.**

- Significantly supports effective management
- Somewhat supports effective management
- Neither supports nor hinders effective management or
- Somewhat hinders effective management
- Significantly hinders effective management
- Don't know

**Q62. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure resilience? (Please select all that apply)**

- No changes are needed
- Changes to the Price Review to support infrastructure resilience (for example, calculating base expenditure with reference to asset condition, or linking base expenditure to investment plans)
- Changes to the scope and enforcement of existing infrastructure requirements (for example, strengthening requirements on companies to map assets)
- Setting infrastructure resilience standards (for example, requiring companies to prepare for a defined level of disruption)
- Don't know
- Other (please specify)

*If you selected other, please specify below*

This needs changes in government strategies as set out earlier. Then review of Licences and then a price review process not embroiled with economic theory.

There is an urgent need to strengthen the requirements for Water Companies to map assets and to report on asset condition.

**Q63. What changes, if any, could be made to the overall water regulatory framework to better support infrastructure security? (Please select all that apply)**

- No changes are needed
- Changes to the Price Review to ensure adequate coordination on security expectations

- Changes to existing legislation, such as Security Emergency Measures Direction and cyber security regulations (for example, giving powers in relation to security of wastewater infrastructure)
- Changes to the enforcement of security regulations (for example, providing the DWI with powers to issue directions under Security Emergency Measures Direction)
- Don't know
- Other (please specify)

Add to the proposed Water Use Framework.

**Q64. What changes, if any, could be made to the overall water regulatory framework to better manage risks from supply chains? (Please select all that apply)**

- No changes are needed
- Changes to planning processes to ensure supply chain constraints are factored (for example, factoring supply chain into planning decisions)
- Changes to cross-government policy on supply chain constraints (for example, agreeing investment plans with other sectors)
- Changes to the Price Review process to address supply chain constraints (for example, moving from a 5-year Price Review process)
- Setting government guidance on managing supply chain disruption
- Requiring companies to take greater steps to reduce dependencies (for example, onshoring chemicals production)
- Don't know
- Other (please specify)

*If you selected other, please specify below*

Add to the proposed water use framework See earlier Q31 and 62, and consider the issue; does making the conduct of business better by having more regulations?

Consider how these ideas fit in the application of the principles of Better Regulation. The WCWC contends that the overall systems do not comply.

**Innovation**

169 This is a misunderstood area. Innovation is not just about technology it is about changes in management thinking and attitudes. The WCWC suggests a distinction of soft and hard innovation. The innovation since 1989 has been enormous and not given enough credit. For example, the use of new treatment techniques such as granular activated carbon in water treatment, development of biosolids processing, IT, polyethylene pipes, remote monitoring and many more all now taken for granted (Appendix reference 20).

170 When a customer renews a camera, a better product is expected. For water services, customers expect a constant, unchanging excellent product and excellent service. So, innovation is in place to produce a constant product but improving service, with greater efficiencies. Innovation is about reduction of cost or meeting new targets and there needs to be an understanding of the degree or constancy of risk occurred as rapid innovation by failure does not work for a water utility. Cost to customer again is a really helpful metric and there needs to be greater clarity on the division between innovation in the regulated envelop and innovation at the cost of investors.

171 Response to box 28:

Much is made of nature-based solutions. Indeed, they have their place. What is forgotten is that this was a predominant approach for treatment of sewage in the 19<sup>th</sup> century, hence the origin of the term 'sewage farm'. It can be argued that the notion of catchment management is a leading form of NBS. Reed beds and grass plots for tertiary treatment have been used for some time. The ability of this concept to deliver the ever-demanding requirements for compliance of sewage effluents will be questioned, as the WCWC set out earlier.

172 The WCWC supports the Commission's criticism that silo based regulations and targets prescribing specific technological solutions and EA risk aversion hinders innovation. Need to remedy both these problems.

173 Thence the WCWC answers the following questions:

**Q65. To what extent does the overall water regulatory framework currently support or hinder innovation?**

- Significantly supports innovation
- Somewhat supports innovation
- Neither supports nor hinders
- Somewhat hinders innovation
- Significantly hinders innovation
- Don't know

**Q66. Which of the following changes in the sector, if any, would enable innovation outcomes? (Please select all that apply)**

- No changes are needed
- Changes to the way companies and regulators approach risk (for example, introducing a regulatory 'sandboxing' tool)
- More outcome-based regulation to allow flexibility on delivery approaches
- Changes to the Price Review process to support innovation (for example, treating research and development spending separately in the Price Review)
- Don't know
- Other (please specify)

*If you selected other, please specify below*

This is a misunderstood area. Innovation is not just about technology it is about changes in management thinking and attitudes. The WCWC suggests a distinction of soft and hard innovation. Innovation since 1989 has been enormous and not given enough credit. For example, the use of new treatment techniques such as granular activated carbon in water treatment, development of biosolids processing, IT (including smart water) polyethylene pipes, remote monitoring and many more innovations all now taken for granted.

What is not often understood is that unlike, say the camera market, when a customer renews a camera, a better product is expected. Innovation in water services is in place to produce a constant product but improving service. Innovation is about reduction of cost or meeting new targets and there needs to be an understanding of the degree or constancy of risk occurred. Cost to customer again is a really helpful metric and there needs to be greater clarity on the division between innovation in the regulated envelop and innovation at the cost of investors.

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

Meeting new and existing demands more cost effectively providing resilience and back up.

**Response to Chapter 6: Ownership**

174 The WCWC agrees that there is no simple algorithm which links ownership with performance, all models are suffering with dealing with the issues of austerity, rising public aspirations for the environment, changing dynamics such as climate change and the pressures for economic growth and more housing, the demands for more accountability, and the impact of planning with the intervention of the media, particularly social media in what is a very complex area of science and engineering and infrastructure provision. All models are struggling as the reference to Northern Ireland earlier and recent problems in Wales attest (appendix reference 1).

[Former Minister rips into Dwr Cymru Welsh Water over regulatory failures](#)

175 So clarity is desperately needed and the overall models of ownership in the English water companies per se have become too complex. The very basic principles of the current approach are "fit for purpose" but need to be simplified. Investment is needed and the government's borrowing cannot finance the improvements, just as it was in 1989.

176 What is most important is the behaviour of owners and investors and the signals which they give to executives about the way in which the company should be run. The concept of shareholder value needs careful interpretation in the context of the critical public services provided by water companies. Understanding the need for balance and coping with ambiguity of direction from all quarters is an important attribute for Chief Executives and their teams but they cannot achieve balance unless their role is fully supported by owners and investors. Aggressive and short-term players have no place in the sector. Finance Directors of Water Companies must be allowed to work within a structure where they can exercise controlling influence over the balance sheet of the water company and the gearing which lies behind the financial resilience of the water company. This may require some revisiting of corporate structure. It is clear that the poor quality of undertakings and assurances offered by some parent boards have undermined public trust.

177 A interesting idea was included in the 2022 Think piece (Appendix reference 1). It might well be that the current model might be migrating towards the model of equity ownership of Statutory Water Companies pre-1989. It is interesting whether this highly conservative model is appropriate for the challenge of high investment in a constrained and inflationary economic environment. What is needed is are companies which are prepared to invest in scale, deliver performance while the contribution from charges is adequate to continue to provide incentivised returns to private equity. Issues of affordability will be critical to the evaluation of the scale of investment along with issues of public perception on the effectiveness of the sector. This will require inclusive consultation processes and an attitude which convinces government that the sector can continue in private ownership in the face of the investment challenges. Undoubtedly players who are prepared to take risks and inject equity are likely to command the attention of Government. This may require some modification to the regulators view on the desirability of maintaining a large number of providers for comparative purposes. And this could be an option for the Commission to explore

178 The WCWC answers the following questions based on this evidence:

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

Improved.

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

As the Call for Evidence sets out there is no unequivocal algorithm which links ownership and performance wherein at one end of a spectrum is nationalization and at the other end is private equity ownership. The WCWC is aware of a national campaign to nationalize water companies to increase accountability. The WCWC repeats the experience of its members in the 1980s, and the current experience in Northern Ireland that public ownership is not a viable solution to any real or perceived problems.

Public ownership or accountability has, for example, not guaranteed acceptable performance in the Health Service. Neither would it guarantee lower prices, and it would add to the public services borrowing requirement at a time when there are other demands such as increased defence spending. The Government already has liability for avoidance of pollution by investing more in highway drainage and it is not doing this.

What the WCWC does recognize is that the insensitive performance of some companies, in terms of pay and the obscurity and complexity financial engineering has created the media environment in which the narrative about the broken sector has flourished. Being publicly listed will give more public accountability for this sort of performance to shareholders. What should be encouraged is the revival of universal share ownership which has been lost in the corporate world.

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

Makes it too complicated and does not provide a line of communication between front line operations and investment. The Licences must be amended to change the way matters are dealt with now.

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

See answer to Q69.

**Some other matters not covered by the Commission**

**The role of communications**

179 There has got to be a better base for the evidence for any change. Data has been weaponised for media and political purposes and a challenge not really addressed by the call for evidence is how the Big Data arising from more intensive monitoring can be used but not abused. Two good examples are the way forward for monitoring of sewage discharges (Appendix reference 10) and the fact that the poor chemical status of rivers is not driven by anything to do with water companies (see the Defra 2023 Water Plan) but is linked to the impact of storm overflows.

180 There must always be clarity of messaging; not to have this can be counterproductive in many ways. A good example is the confusion over the high bill rises arising from PR24. These apply to 2025-2030 (national average 36% , but are front end loaded in 2025-2026 at 26%, ex-inflation, but this does vary nationally).

181 There is a subliminal text behind some of the ways in which changes to regulation are managed; for example, changes to the Bathing Regulations were handled by the Storm Overflows team, whereas by the practices of that task allocation it could have been handled by the teams dealing with agriculture or highway drainage (Appendix reference 13).

182 The WCWC complements the Call for Evidence for the depth and breadth of its research and recognises that in a topic where references can be measured in thousands, it was difficult to choose the right ones and no doubt there will be debates. There were opportunities which have been missed with wider implications.

183 The WCWC compliments the Defra 'Things Can Only Get Cleaner' Investment Tour because it demonstrated just what efforts the existing system is making and the planned £104 billion in planned spending from the private sector in 2025-30, but it does not help when this is couched in terms of "The situation we find ourselves in is disgraceful, and enough is enough. That's why this government is taking tough action," and Britain's water system declared "disgraceful" as reported in the Sunday Mirror on 5<sup>th</sup> March 2025.

184 The financial profile since 1989 is of the order of £236 B capital investment , £70-80 dividends ,and £60B debt which is described as being unreasonable  
[https://www.google.com/search?q=water+company+investments+since+1989&rlz=1C1FKPE\\_en-GBGB1092GB1092&oq=&qs\\_lcrp=EgZjaHJvbWUqCQqAECEMYJxjqAijJCAAQIxgnGOoCMqkIARAJGcCcy6qlyCQqCECEMYJxjqAijJCAMQIxgnGOoCMqkIBBAjGcCcy6qlyCQqFECEMYJxjqAijJCAyQIxgnGOoCMqkIBxAuGcCcy6qly6gLSAQk4NjAxOGowajeoAgjwAgHxBddzRyf9KBgV&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=water+company+investments+since+1989&rlz=1C1FKPE_en-GBGB1092GB1092&oq=&qs_lcrp=EgZjaHJvbWUqCQqAECEMYJxjqAijJCAAQIxgnGOoCMqkIARAJGcCcy6qlyCQqCECEMYJxjqAijJCAMQIxgnGOoCMqkIBBAjGcCcy6qlyCQqFECEMYJxjqAijJCAyQIxgnGOoCMqkIBxAuGcCcy6qly6gLSAQk4NjAxOGowajeoAgjwAgHxBddzRyf9KBgV&sourceid=chrome&ie=UTF-8)

<https://www.birmingham.ac.uk/news/2023/drowning-in-debt-the-over-privatisation-of-englands-water>

Given that anyone with a mortgage understands the principles of commercial payback , the WCWC asks what profile would be acceptable.

185 The WCWC understands the pressures of political and media messaging as evidenced in the publication of the latest EA results on storm overflows and looks forward to the time when the discussions are based on hard evidence, which is discussed earlier.

<https://www.watermagazine.co.uk/2025/03/28/environment-secretary-describes-the-number-of-spills-from-storm-overflows-as-disgraceful-after-new-figures-released/#:~:text=The%20Environment%20Secretary%20has%20described,of%20spills%20compared%20to%202023>

186 The WCWC notes that even between government departments, there can be differences in sets of data about a particular topic .In itself this is not satisfactory but this also feeds the media controversies .The WCWC advocates single sets of reference data so the arguments can be focussed on the consequences of that data rather than its content .Is there a role for the Office of National Statistics.

#### **Consultations.**

187 The Government's policy is to consult on policy development and proposals for legislative change.

<https://commonslibrary.parliament.uk/research-briefings/cbp-10190/#:~:text=A%20consultation%20is%20a%20process,rules%20apply%20to%20government%20consultations.>

Consultations should normally last for **at least 12 weeks** with consideration given to longer timescales where feasible and sensible.

188 In fact the flow of consultation on water has been overwhelming. There has been concern about consultation fatigue. It is rather disappointing that there are no references to the responses which in the case of the WCWC were researched deeply as reflected in the Anthology. So, the WCWC questions, what role will consultation really play in the way forward?

189 The WCWC also observes that in order to meet the deadlines it set for the contribution of the review, the time scale does not meet the terms of the Code of Practice and used by indeed simpler consultations, such as on land use, which were given were given longer periods to respond in.

#### **The supply chain of human resources**

190 The WCWC is a little disappointed that this was not given more prominence .The current bad publicity on water services or indeed on regulators does not help recruitment .The WCWC pointed out in response to Q39 the importance of company culture and employee competence .So an essential element forward must be for the corporate function of the water sector to work closely with the educational and institutional functions (like the Society for the Environment, Institution of Civil Engineers and the Chartered Institution Water and Environmental Management) to provide, support and develop employees who have vertical skills, but horizontal competence in their jobs. And this harks back to the answer to Q27 about regulator skills.

191 The supply chain of recruits is as important as any of the supply chain issues referred by the Commission .

#### **Ways forward**

192 The WCWC hopes that its insights and suggestions are of some value. It looks forward to the outcome of the review and would be pleased to assist in elaborating any views it has expressed in assistance to the Commission.

#### **APPENDIX**

**ANTHOLOGY OF WCWC SUBMISSIONS AND THINKPIECES RELEVANT TO THIS OVERVIEW. THESE ARE USEFUL REFERENCES TO GIVE MORE DEPTH TO THE POINTS MADE PARTICULARLY IN THE ANSWERS TO THE PRESCRIBED QUESTIONS.**

#### **THEY ARE LOCATED IN THE POLICY POSITIONS SECTION OF THE WCWC WEBSITE**

1. Think piece produced for Defra in January 2023 on Governance and Finance and provides detailed evidence in support of the points made on the issues. The fundamentals remain the same, but the context has changed in the last two years.
2. Think piece produced for Defra in March 2023 on the streamlining of legislation which accords with the thrust of the Call for Evidence and the aspirations of the Department of Business and Trade and the Treasury.
3. Think piece produced for Defra on catchment management in May 2023 but updated for the Environment Agency in July 2024 sets out the principles advocated in this response.
4. Think piece Overview of the work of the WCWC January 2022 – January 2025.
5. Submission to the DBT January 2024. Summary of three submissions on Growth and Regulators; sets out ideas relevant to many of the provisions in this Call for evidence.
6. Submission in December 2023 to the House of Lords Industry and Regulators Committee on regulators.
7. Submission to the Ministry of Communities and Local government in September 2024 on revision of the NPPF pointing out how poorly the issues of water are dealt with.
8. Submission to Defra and the MHCLG on Planning and Nature Recovery in January 2025 urging that the existing system on catchment management be used rather creating new systems.
9. Submission to Defra in February 2025 on the Land Use Framework pointing out again how poorly water aspects are addressed and suggesting that an overarching national water strategy should be rebranded Water Use Framework and the two Frameworks work in tandem for integrated natural resource management.
10. Submission to the Commission in February on a revisioning of the quality assurance systems for monitoring of sewage discharges.

11. Submission to Defra in May 2023 on the proposals for S82 Environment Act 2021.
12. Submission to Defra in January 2025 on proposals to update the guidance on storm overflows pointing out the fact that it was seeking to update the wrong guidance.
13. Submission to Defra in 2024 on bathing water regulations suggesting a more strategic approach and reminding Defra of the consequences of the widening migration of the application of the standards.
14. Submission to Ofwat in June 2024 on water efficiency particularly regarding the Water Efficiency Fund putting the whole issue into a broader context
15. Submission to Ofwat in August 2024 on Environmental Incentives for developers.
16. Think piece produced October 2024 for CIWEM on charging.
17. Think piece produced for the UK Water Partnership, February 2025 on the circular water economy highlighting the current reuses of sewage effluent, suggesting that a natural home for the concept is in water resources and highlighting the lack of a water sector in the Industrial Strategy.
18. Submission to Ofwat in December 2023 on customer orientation including the suggestion for amendment of Articles of Association.
19. Submission to Defra in February 2022 and November 2023 on wet wipes urging it to develop a more holistic policy and regulations on the marketing and disposal of used sanitary and care products.
20. Submission to Ofwat in April 2024 innovation.
21. Submission to Defra in November 2022 on white goods water efficiency labelling advocating a more flexible approach.
22. Sort form Submission of key points to the Commission in April 2025.