

Written evidence submitted by Water UK (WSMB18)

Water (Special Measures) Bill

Water UK is the trade association for the UK's water industry. Our members include all water and wastewater companies across England, Northern Ireland, Scotland and Wales. We welcome the opportunity to provide written evidence to the public bill committee. Though many of the issues that we discuss below apply to the whole United Kingdom, our evidence below is limited to the territorial scope of the Bill, England and Wales.

- **The industry acknowledges its shortcomings in performance and has a plan to put things right. This includes record investment between 2025 and 2030 to support economic growth, build more homes, secure our water supplies and end sewage entering our rivers.**
- **While Ofwat's final determination has agreed much-needed investment in our aging infrastructure, it is clear the overall system is not working. The Cunliffe Commission offers a unique opportunity to get the regulatory framework right to improve our rivers, lakes and seas and secure our water supplies for the future.**
- **The industry welcomes the opportunity that this renewed focus on reforming the regulation of the sector presents and is committed to playing its part in restoring public trust.**

The water industry is committed to change

Water companies recognise that public satisfaction with the industry is low and there is much more that it needs to deliver. In 2023, companies in England apologised for not acting quickly enough on sewage discharges. On behalf of the water industry, Water UK stated:

"The message from the water and sewage industry today is clear: we are sorry. More should have been done to address the issue of spillages sooner, and the public is right to be upset about the current quality of our rivers and beaches. We have listened and have an unprecedented plan to start to put it right."¹

Crucial to this apology was our commitment to put forward a plan to begin to put things right. Water companies in England and Wales subsequently **proposed to invest a record £112 billion between 2025/26 and 2029/30.**² This amount was nearly double the level in the current five-year period of 2020/21 to 2024/25, by far the largest investment in water in Europe, and is the second biggest investment in any UK economic sector over this Parliament.³ Ofwat, in its final determinations published in December authorised **£104 billion of investment**⁴ the detail of which companies are continuing to study.

¹ ['Water and sewage companies in England apologise and launch transformation programme'](#), Water UK, May 2023.

² [Water Company Business Plans](#), Published on Ofwat Website, 2024.

³ [EFRA Committee Hearing: Q62](#), Secretary of State for Environment, Food and Rural Affairs, November 2024.

⁴ [Ofwat press release](#), Published on Ofwat Website, 2024

The Water (Special Measures) Bill and the case for water sector reform

However, despite this much needed investment, we agree with the Government and campaigners that the system is not working as it should and strongly support reform.

Early reforms

We have already seen early reform in the sector since the new Government took office. In July 2024, the industry signed up to an initial package of measures announced by the Secretary of State which would⁵:

1. Ensure that vital infrastructure **investment is ringfenced** and that any unspent money is returned to customers via their bills.
2. Place customers and the environment at the heart of companies' objectives by **changing their Articles of Association**.
3. Create **consumer panels**, so that customers have more opportunity to hold the industry to account on their performance.
4. **Strengthen protection and financial compensation for households and businesses** when their supplies are interrupted so that more circumstances are covered, and compensation is greater.

The Water (Special Measures) Bill

The Water (Special Measures) Bill is the Government's next step in a wider plan to reform the regulation of the water industry, and it follows commitments made by the Labour Party in the manifesto on which it was elected. We support the Secretary of State's desire for a "proper reset with a reformed water sector in a new partnership with government"⁶

At the same time, given the complicated set of interdependent regulatory and legal duties, great care will need to be taken to ensure that the provisions in the Bill do not have unintended consequences. It's for that reason, that we urge the Government and regulators to consult closely with industry on the subsequent regulations that will flow from the Bill. Creating regulatory clarity and avoiding uncertainty is essential to attracting the investment required to improve performance.

This is particularly the case in two areas:

1. **Pollution incident reduction plans**. These plans exist to describe how improvements will be delivered and do not set the targets themselves, which are largely defined in law. It is, therefore, important that regulations are designed in such a way that they do not duplicate or contradict (or potentially even weaken) existing statutory targets or plans.

⁵ ['Government announces first steps to reform water sector'](#). Defra, July 2024.

⁶ ['Speech on the Water Special Measures Bill'](#), Secretary of State for Environment, Food and Rural Affairs, September 2024.

2. **Automatic penalties.** As this measure will introduce a new legal system for ensuring compliance with environmental law, it will be important to ensure careful consideration is given to any associated secondary legislation.

The industry is calling on the Government, Ofwat and the Environment Agency to commit to a faster and more efficient system and to ensure that regulators will be sufficiently resourced to deliver it.

The Independent Water Commission

The broader question of whether the current regulatory framework is delivering the right outcomes for customers and the environment, and whether it can attract the necessary investment to achieve those outcomes, is one that is right to be considered by an independent review. We agree with the Secretary of State that there are “deep-rooted and complex problems” that need to be resolved.⁷

We therefore welcome that the Government has set up an **Independent Water Commission**, chaired by Sir Jon Cunliffe. The regulatory system is outdated, overly complex and unresponsive to society’s expectations. It is too slow to approve vital new infrastructure. New homes have been blocked and even a new cancer hospital was held up due to a lack of water. We hope this Commission can take a fundamental look at the root causes and provide clear recommendations on the changes needed.

The Commission must consider how the following can be delivered:

1. **A faster, cheaper and simpler system.** Ofwat’s price review, which sets how much companies can invest every five years and how much they can charge through water bills, is inefficient. Ofwat has taken 14 months to assess company investment plans and requires such complexity that the plans total more than 53,000 pages. Due to this complexity, companies have spent over £250 million putting them together and responding to queries. This money could have been spent on improving the environment. As a consequence of the time Ofwat has chosen to take to approve investment that we consider is obviously needed, during that period other regulators have in fact set additional legal requirements for further investment. A faster system would negate the need to regularly revise investment plans which creates unnecessary inefficiency.
2. **Clearer direction from Government on priorities.** The Water Industry Act 1991 places five “general duties” on Ofwat, six secondary duties, three further environmental duties and three further recreational duties. In 2024 the Government used a power in the Deregulation Act 2015 to impose a further duty on Ofwat to promote economic growth. In addition, Defra’s 2022 Strategic Policy Statement places no fewer than 59 formal expectations on Ofwat. How all these competing obligations are prioritised is left entirely up to Ofwat. It has traditionally focussed on the easiest thing to measure: keeping bills down. In its 2019 Final Determination it talked of average bills falling 12% before inflation across the subsequent price review period.⁸

⁷ [‘Speech on the Water Special Measures Bill’](#), Secretary of State for Environment, Food and Rural Affairs, September 2024

⁸ [2019 Price Review Final Determination](#), Published on Ofwat Website, December 2019

3. **More co-ordination between regulators.** Regulatory bodies and policymakers do not co-ordinate with each other sufficiently. As a result, their requirements are not properly aligned and tend to be reasonably specific to their area of responsibilities. For example, Defra, the Environment Agency and the Drinking Water Inspectorate impose new requirements which create additional costs between price reviews. Ofwat has not had suitably flexible funding mechanisms that enable companies to seek additional efficient expenditure to fund these requirements. This either risks investment being cut elsewhere to deliver these new requirements, or delays to the delivery of improvements for customers and the environment.
4. **A better approach to dealing with rainwater.** As it is often prohibited to discharge clean rainwater into rivers, water companies are obliged to funnel it into already overloaded sewers. Many organisations are involved in the management of rainwater, including local authorities. We need a clearer national policy which prioritises utilising rainwater or returning it back to the environment as close as possible to where it originally landed, to avoid it overwhelming our sewer system. Government should also use policy to put a sharper spotlight on a greater range of the sources of water pollution, such as agriculture, highways and heavy industry.
5. **Attracting investment into the system.** To meet the huge challenges facing the country, as outlined above, the sector will need to attract record levels of new investment, whilst facing competition across the economy for finance, including, for example, from the energy sector. The National Infrastructure Commission estimates private infrastructure investment in England and Wales will need to increase from around £20-30 billion per year over the last decade to up to £50 billion by the 2040s.⁹ If investors are to put their money in water, then they need a fair return that reflects the risks that they are taking in providing the finance.
6. **Restoring public trust.** This should include considering how we ensure fairness, for instance whether the current way long-term infrastructure investment is funded equally across customers, aside from those on social tariffs, is fair. An important part of restoring public trust is also about accountability, ensuring water companies deliver what they say they will.

Conclusion

The Water (Special Measures) Bill is just one part of the Government's plan to reform the regulation of the water sector. It is right that the Independent Water Commission be given a broad remit to give it the best chance of succeeding in delivering the wider and much needed improvements of our rivers, lakes and seas and support economic growth.

We urgently need investment to secure water supplies for the future, enable houses to be built, business to expand, and end sewage entering our rivers and seas. We hope to see further reforms beyond this bill which will enable that.

January 2025

⁹ ['The Second National Infrastructure Assessment'](#), National Infrastructure Commission, October 2023.