Independent Water Commission: interim report

We welcome the Commission's interim report and that its headline conclusions largely align with Waterwise's submitted evidence:

- **Clearer, more consistent long term direction** must be led by Government with all the sectors that impact on and interact with the water environment involved.
- **Streamlining the legislative framework** clarifying responsibilities and supporting innovation.
- **Strengthening and rebalancing the regulatory model** listening to the customer voice and implementing more affordability support.
- **Infrastructure resilience as a strategic priority** implementing an infrastructure resilience and asset health framework to plan for the long-term system pressures.

The direction being taken indicates potential opportunity for alignment and delivery of Waterwise's Water Efficiency Strategy to 2030. However, currently the report, while referring to water efficiency and demand reduction as key areas, lacks any detail and therefore it is difficult for us to comment on whether we are yet wholly supportive of the approach. We recognise this is an interim report analysing the issues, and that the Commission will provide further detailed recommendations and solutions, including on interventions to support the long-term resilience of water supplies. We therefore look forward to the Commission's final report and recommendations due to be published later in the Summer.

Detailed review

The Commission received 50,000 responses to its call for evidence and the interim report has highlighted the following key areas to be at the centre of reforming the water system. We have looked at the Waterwise response to see whether there is alignment with our recommendations and those of the Commission.

Strategic direction

Waterwise's evidence

- Clear visible leadership is needed from Government and regulators on water efficiency, water resilience and meeting the supply/demand gap.

- The Government should be more prescriptive in its expectations of the water sector.

- A holistic approach is needed to meet national goals and objectives, improve the water environment, and create a water system that contributes to net zero, without talking in terms of trade offs. Plans and decision-making must no longer be siloed.

Commission's preliminary conclusions

- The Commission recognised nothing happens without water. It stated central Government must take the lead and provide clearer, long-term strategic direction on what is needed from the water system. We welcome that the Commission recognised balancing the different pressures on water, including providing a plentiful water supply, requires direction and guidance on objectives and priorities that only government can make, but all sectors need to be involved.

- The Commission found UK and Welsh Governments have tried to provide strategic direction, but their plans (including Water Strategy for Wales 2015, UK's Plan for Water and Environmental Improvement Plan) have not made priorities clear or ensured they are delivered, with no guidance for regulators. The five yearly Strategic Policy Statement (SPS) framework is short term, not outcome focused, and applies only to Ofwat placing the onus on the water industry.

- The Commission is considering how the UK and Welsh governments can provide greater clarity including through new government led, long term water strategies for England and Wales with long term and interim targets. They are considering whether they should have a statutory basis, and accountability mechanisms.

- To support delivering these strategies, the Commission thinks the governments could provide strategic direction to all regulators at each 5 yearly price review. SPSs could be replaced with guiding principles, guidance on ordering government priorities, with SMART outcome targets to assist planning and regulatory decision making for the next funding period. This would empower regulators with discretion regarding competing priorities.

Water system planning

Waterwise's evidence

- We need an integrated approach that recognises all national policies and targets impact water availability, and properly considers local water supply and environments.

- Government and regulators need to engage with experts, water companies, and local government (at all levels) for joined up responsibility with leadership, increased democratic accountability, and to unlock mutual benefits.

- We want an integrated management approach with aligned decision-making throughout the system so that national targets can be translated into local objectives.

- Streamline activities for more efficient water planning, and move away from the water companies can fix this mentality, to engaging all sectors which impact the water system, and ensuring funding meets national targets.

Commission's preliminary conclusions

- Only Government can set the overarching strategic goals, priorities, and standards for the water system. Translating this into investment and improvement needs sectors and authorities outside the water industry better involved. Planning is carried out through a variety of processes that are complex, expensive, non-transparent and very heavily focused on the water industry.

- For England, the case is strong for current Environment Agency planning functions to be replaced with effective regional water system planning arrangements involving all sectors that impact on quality and quantity of water. These arrangements should have authority over non-water industry funding and sectors that impact the system. The Commission is exploring a range of options for how this could be organised, including committees on existing regulatory bodies or freestanding bodies, and how local engagement and accountability can fit into regional water systems. However, it also thinks Defra should have a coordination role to ensure national goals are achieved e.g. drought resilience.

- In Wales, the argument is stronger for a national level planner responsible for a short and long term strategic plan, with greater involvement from local organisations and sectors, and a connection to local democracy.

- The Commission is considering the plans these arrangements will need to produce, (including streamlining the current number), and their relationship with regulators.

Legislative Framework

Waterwise's evidence

- The role of water conservation and water efficiency needs to be strengthened in any changes, ensuring future water sector plans, delivery and investment, and government policy, meets national policy and statutory objectives.

- The Water Framework Directive is vital, since the Environment Act 2021 lacks an apex water target, whilst a stronger legal and governance framework is developed.

- Government level recognition that nothing happens without water is needed. A statutory demand target for water efficiency should be included in Water Availability Impact Assessments for all new government policy and legislation.

- All regulators whose sectors impact the water environment, should have a duty to contribute to delivery of the Environment Act 2021 and Climate Change Act 2008.

Commission's preliminary conclusions

- There is a strong case to review and rationalisation the legislative framework. The commission heard it is overly complex, lacks clarity and focus on key priorities, and is stifling solutions and innovation. The regulations being applied do not connect with the desired outcomes, so that they are not fully aligned with Environment Act 2021 Environmental Improvement Plan targets.

- In Wales, the legislative framework needs to better align with the Welsh Government's collaboration ambitions in the Well-being of Future Generations (Wales) Act and sustainable natural resource Environment (Wales) Act 2016.

- Rationalisation is a major exercise beyond the Commission's scope, but it is considering a number of key objectives which could be used in a review to ensure the framework is consistent, coherent, and navigable. Overlapping and contradiction needs to be removed, and review should update legislation in line with current science and consider best practice in other jurisdictions.

- Innovation is being limited by a lack of flexibility. The Commission is looking at recommendations to establish a legal or policy framework to support the exercise of 'constrained discretion' by regulators in England and Wales to deliver a range social, environmental, and economic objectives.

Regulatory reform

Waterwise's evidence

- The regulatory framework is complex and has sector oversight gaps and changes are imperative to ensure the drinking water and water supply regime is fit for an increasingly water-scarce future.

- Government must establish a clearer regulatory framework, setting out the long-term vision and how this will contribute towards the achievement of environmental targets and outcomes.

- Streamline regulators roles and activities, and address the current critical funding, resource and capacity gaps preventing effective regulation.

- There is an overreliance in setting base expenditure levels on central econometric models.

- Address current regulations limiting innovation (especially reusing water and harvesting rainwater).

Commission's preliminary conclusions

- The regulatory framework has lost public trust and needs to be reset. The underlying legislative framework is complex and regulators lack capacity and capability to undertake their functions.

- Economic regulation needs fundamental strengthening and rebalancing. Ofwat's approach places "excessive reliance" on econometric modelling and it should also take a strong company specific supervisory approach and tailor decisions to companies' specific circumstances. The Commission is considering if this could be a formal statutory duty to supervise, and the capacity, expertise, powers and tools needed to engage with and better understand water companies, intervene where risks are identified, and support them to perform in the public interest.

- Environmental regulators need a stable consistent approach to funding, and to be equipped with the skills and expertise, to carry out their functions. The Commission is exploring how environmental regulation can be strengthened and modernised, including through the use of digital monitoring and permitting technologies.

- The Commission's systems planning conclusions are intended to support regulators to support more innovation in the water sector.

- Reform is needed to the way different public policy objectives are brought together and interact in the current regulatory framework. Options for how this might be done range from rationalising regulators' duties and remits, and more effective processes for reconciling objectives, to more fundamental structural options for integrating regulatory remits and functions. The Commission is considering the costs and benefits of options in what it recognises as a complex area.

- The Commission recognised water regulators lack the necessary resources and skills to undertake their function and are considering how to improve this.

- The Commission is considering options for customer affordability support, including strengthening social tariffs and tailoring bills to reflect consumption.

- It is also considering how to strengthen the customer voice, and states it welcomes the new provisions in the Water Special Measures Act 2025 to embed consumers in water company decision-making.

- The Commission states the Government setting high level strategic priorities will ease tension between regulators who set the requirements on water companies and determine their costs (Environment Agency, National Resources Wales, Drinking Water Inspectorate), and the economic regulator (Ofwat) who determines the revenues they can receive. Additionally, reform is needed to the way different public policy objectives are brought together and interact in the regulatory framework.

Company structures, ownership, governance and management

Waterwise's evidence

- Waterwise did not submit significant evidence on this.

Commission's preliminary conclusions

- The Commission believes the publicly regulated monopolised water industry should offer low risks and returns, and is examining how to restore regulatory system stability and predictability to attract investors.

- The Commission believes the introduction of a long-term strategic plan at government level, should help address long-term stability concerns.

Summary of call to evidence responses

The Commission stated that it received "significant input", via the evidence received, to support demand management including tackling leakage, behaviour change, new charging structures to incentivise efficient use, and new infrastructure to drive reuse of water.

The summary of responses published with the report additionally showed Waterwise's submissions, and strategic objectives, align with stakeholder and public opinion.

- The top three changes to the overall water regulatory framework respondents believed would ensure it can supply a resilient long-term supply of water were:
    - Integrated water management framework to improve management of the water system - 59%
    - Changes to regulatory responsibilities or introduction of new requirements or standards to oversee delivery - 53%
    - New water demand and efficiency policies - 48%
- The top three changes respondents believed would ensure customers are paying fairly for the water they use were:
    - Improve transparency for customers on how money from bills is used - 67%
    - Explore innovative water charging to support affordability and/or efficient use of water - 46%
    - Increase the use of smart meters - 32%

Waterwise's conclusions

We welcome the Commission's report and particularly its recommendation for a more directive role for the government. This aligns with our call to address the democratic deficit and the need for more impactful Strategic Policy Statements. We are encouraged by the Commission's recognition that nothing happens without water, and secure, resilient supplies of water are essential to public health, economic growth, and the environment. We agree with the Commission that a clear framework for delivery is needed to close the gap between Government priorities and statutory targets, and actual outcomes. We support the conclusion that water companies need ambitious plans supported by effective action from governments and regulators, and that ensuring a long term water supply requires both domestic customers and industry to manage demand.

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