A Framework for the Future: Reforming the Water Industry

April 2025

Key messages at a glance

Problem statement	Evidence	Recommended reforms
The industry is entering a new era of unprecedented capital investment but the imbalance between risk and reward means companies may not be able to attract the required equity. The regulatory funding model has been built around increasingly unachievable econometric standards of 'efficiency' that disregard the physical realities of building and operating assets.	· Globally, cumulative gap between infrastructure supply and demand expected to reach $15 trillion by 2040. · £270bn enhancement planned across industry between 2025-2050, nearly 3x current sector RCV of £99 billion. · Credit Rating Agencies (CRA) downgrades of UK water regulatory stability. · 6 companies going to Competition and Markets Authority (CMA). · Anglian is above median performer for 9 of 13 regulatory metrics yet expecting over £200m AMP8 penalties. · Over £800m total water company penalty in AMP7. · Anglian Water is sector-leading on leakage but expected to maintain AMP8 frontier position without funding.	· Derisk sector through fairer balance of risk and reward at Price Reviews. · Ensure Ofwat's financing and growth duties result in investable business plans. · Separate Price Review and Weighted Average Cost of Capital (WACC) for major projects. · Defer complex alternative supervisory arrangements until benefits have been realised from regulatory reforms.
The legislative and regulatory framework is incoherent, disproportionate and fragmented. Without strategic direction from government, regulators have over-reached into policy decisions.	· Estimated £10m AMP8 cost for reporting and assurance. · 30 overlapping reports to regulators on storm overflows. · PCDs: WUK calculates companies will need to submit more than 20,000 fields of data up to three times per year. · In 2017 Ofwat heralded a decade of falling bills resulting in the suppression of essential investment.	· Review and rationalisation of legislative and regulatory framework, as set out in the Corry Review.
There is no coherent vision for water. Instead, water companies are subject to an array of competing requirements that don't clearly align to policy objectives or regulatory investment cycles and offer poor value to customers.	· 50+ requirements in Defra's SPS for Ofwat with no prioritisation. · Storm Overflow Discharge Reduction Plan impact assessment gave societal value of negative £40m. · Installing Continuous River Water Quality Monitors will cost companies £3-5bn but will not provide a strategic overview of river health or improve it.	· Government long-term vision for water with strategic direction on trade-offs. · Establish regional 'central planning authorities' to oversee catchment-based investment plans and funding.
The current regulatory system does not reflect the needs of future generations, prioritising short-term bill impacts over longer-term resilience.	· Water is undervalued – our average bill is just £1.72 per day. NAO concluded government and regulators have failed to drive sufficient investment. · 0.4% asset replacement rate annually compared to 2% in manufacturing. · NAO: water main replacement 0.14%/yr between 2020-2024, enough to replace entire network once every 700 years. · 8,241km of climate vulnerable water mains in the east of England.	· Use adaptive planning to 1) establish long-term investment needs; 2) set investment programmes for next AMP. · Urgent action on asset health.
Government and regulators have not properly assessed the value for money and affordability implications of their planned procurement and funding model for major water infrastructure. Unnecessary barriers risk the efficient and timely delivery of major projects.	· Anglian Water's 92 planning applications in past three years: 52 were delayed, average of 60 days, longest 23 months. · Strategic Interconnecting Pipeline (SPA) required to go through 14 Local Planning Authorities. · Misaligned expectations and appreciation of challenges facing first-of-a-kind infrastructure such as SPA. · Water Framework Directive (WFD) requirements driving £1 billion in inter-catchment treatment costs for the Fens Reservoir.	· New infrastructure funding mechanism. · Review value assumptions of SIPR and DPC. · Designate new 'Regionally Significant Infrastructure Projects' in Local Planning. · Reduce threshold for NSIP designation. · Update permitted development list in Town and Country Planning. · Enhanced participation by RAPID, Ofwat, and Defra in project development.

Executive summary

Without fundamental reform to the current regulatory system, the water industry cannot play its role in addressing the challenges of our time: the climate and nature crisis, population and economic growth and changing societal expectations.

Change is urgently needed.

The regulatory focus on **keeping customer bills low[1] has suppressed essential investment**. This is exacerbated by a regulatory funding model built around increasingly unachievable econometric standards of 'efficiency' that disregard the physical realities of building and operating assets. As a result, **asset health is declining**, companies are locked into cycles of under performance and resilience (both financial and operational) has declined to the point where the **long-term investability of the whole sector is being called into question**.

The nature of the industry is changing, and the regulatory framework must evolve if it is to remain fit for purpose.

Delivery of new infrastructure is needed at an unprecedented scale. Between 2025-2030, total expenditure in the sector will increase by 71% in real terms compared to the previous five years. Over the next 25 years, the industry will invest over £270 billion in critical infrastructure such as new reservoirs and supply pipelines, desalination plants and sewage treatment works. The core focus of water companies will shift to developing major infrastructure alongside operations and core services.

The equity requirements will be unprecedented, signalling a shift to significant, long-term investment and RCV growth. Currently, the regulatory imbalance between risk and reward means companies will not be able to attract the required equity.

Five key outcomes are required to put the sector onto a sustainable and viable footing:

1. **Stable and balanced regulation to secure essential investment.**
2. **Proportionate, coherent legislative and regulatory framework.**
3. **Coherent vision supported by effective strategic planning.**
4. **Long-term focus to build resilience.**
5. **Regulatory model that supports infrastructure delivery.**

Achieving this will require a combination of stronger strategic direction from government and greater local decision-making to establish needs and plan investments. There must be rationalisation of the legislative and regulatory framework, and alignment of regulator responsibilities behind these new priorities. The approach to planning and procurement of major infrastructure will need to change – the expertise, understanding of uncertainties and geographic nuances within regulators is insufficient to meet the complexity and scale of infrastructure required for the future. And the Price Review process must deliver a fairer balance of risk and reward.

Against this backdrop of change, new supervisory arrangements would generate further disruption and come with the risk of replicating the flaws of the existing model of regulation. There is clearly a need to ensure effective oversight of the sector, but the decision over whether the supervisory model is the right answer should wait until the benefits of wider regulatory reforms have been realised, enabling the design of any new arrangements to reflect the changed state of the industry.

The prize for getting this right is huge. **The water industry is central to the UK Government's ambitions to deliver both the highest sustained growth** in the G7 and build 1.5 million new homes during this Parliament. The industry must also continue to play its part to improve the health of our rivers, protecting and enhancing the environment and improving services to customers.

These reforms are complex and sensitive, and to be successful will require a collaborative approach. We stand ready to play our part, to shape the next phase for our sector.

1 Ofwat PN17/17 (13 October 2017), Ofwat boss talks of the 'decade of falling bills'.

1. Stable and balanced regulation to secure essential investment

The problem

The industry is entering a new era of unprecedented capital investment, but the imbalance between risk and reward means companies will struggle to attract the required equity.

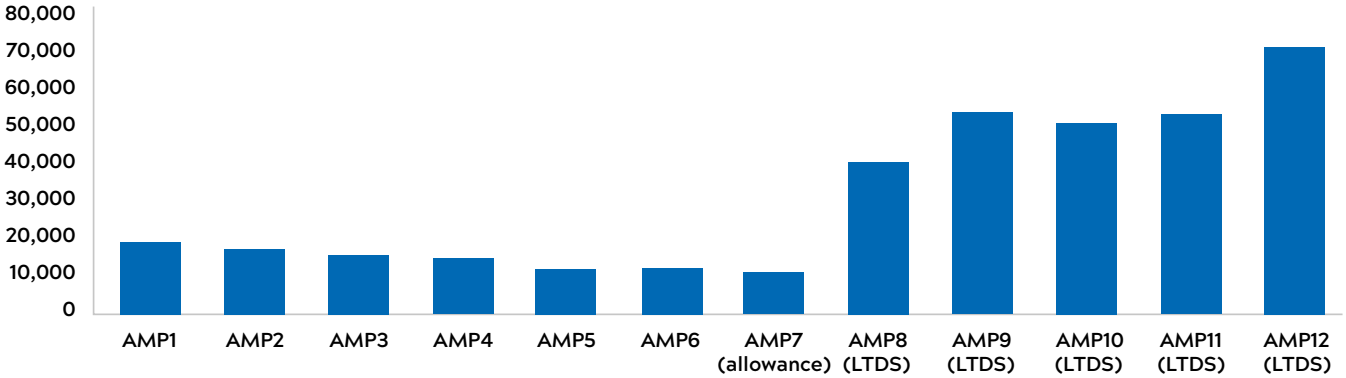
The Independent Water Commission Call for Evidence notes that 'a fair balance between risk and reward, and a stable regulatory environment' are prerequisites for the industry to attract finance. Neither of these conditions is currently being met. The increasing prominence of the Competition and Markets Authority (CMA) in the Price Review process reflects the scale of the problems with the existing framework: at PR24 six companies representing over half the industry's Regulatory Capital Value (RCV) are seeking a redetermination.

The changing nature of the industry

Investment requirements are increasing to unprecedented levels: the £270 billion of enhancement[2] spending between 2025-2050 is nearly three times the sector's current RCV of £99 billion.

To finance this investment, the sector must raise new equity on a scale not previously seen. The new equity Anglian Water is expected to raise in AMP8 is approximately a third of its existing equity.[3]

Industry enhancement expenditure over the long term (water and wastewater), £m (2022/23 prices)



The sector's ability to raise this new equity is being materially impacted by an imbalance in risk and reward in the PR24 Final Determination. This is evidenced by the recent action of Credit Rating Agencies (CRAs), including sector-wide downgrades and tighter requirements on issues such as gearing following both Draft and Final Determinations. Over the course of PR24, all three rating agencies have tightened their rating thresholds to reflect reduced 'stability and predictability of the regulatory framework'[4]. This tightening is equivalent to approximately a half rating.

2 Defined as investment required to achieve a step-change in service or to extent existing services to new customers.
3 A third of opening regulated equity on a notional basis.
4 KPMG, Estimating the Cost of Capital for PR24, page 108.

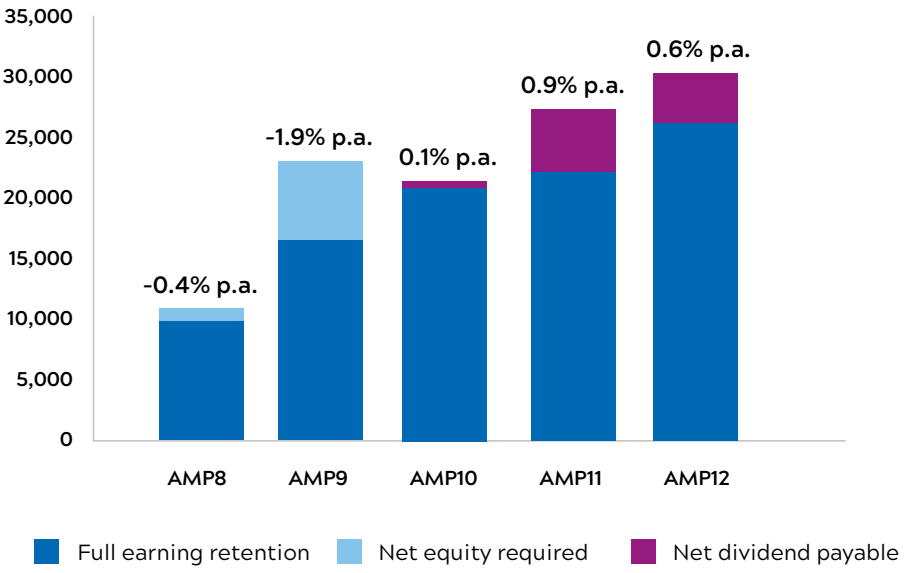
Within the context of new equity requirements, the current situation is not tenable. **Water companies are facing fierce competition to attract investment capital**: globally, the cumulative gap between infrastructure supply and demand is expected to reach $15 trillion by 2040.[6] However, in the UK **water sector, returns on investment are well below other utilities and infrastructure** sectors, with industry investors exposed to a correspondingly higher level of volatility and risk. For example, Anglian Water's investors will not receive a dividend net of equity injections for over 15 years (on a notional basis) and even when they do, the projected dividends will be well below what could be considered appropriate given the scale of risk.

Addressing the imbalance between risk and reward in financial settlements is the single most effective means to alleviate the sector's financial pressures. The actions of CRAs also illustrate the effectiveness of the market in assuring financial resilience. Ultimately, retaining committed, long-term shareholders in the sector will be the best guarantor of financial resilience.

Key facts

- UK water is in a global competition for investment: forecast cumulative gap between infrastructure supply and demand is $15 trillion by 2040.
- £270 billion of enhancement spending projected between 2025-2050 – nearly three times sector's current RCV of £99 billion.
- Companies are being denied a fair shot to succeed: Anglian Water is an above median performer for 9 of 13 metrics yet expecting £240 million AMP8 penalties.
- Collectively, the sector forecasts paying over £800 million in penalties during AMP7 despite spending considerably above Ofwat's allowances.

Anglian equity profile and implied net dividends[6]



5 BCG, November 2024, Bridging the gap: Leveraging the transformative power of private sector partnerships to build the infrastructure of tomorrow. Available here.
6 Assumes no de-gearing. £m real, 2022-23 prices.

What Anglian Water has done to address the problem

Anglian Water Group is owned by a consortium of committed, long-term investors including representatives of millions of individual pension holders. The ultimate beneficiaries of any financial returns are pension holders, including local authority scheme members here in the UK. Shareholders have reinvested dividends on many occasions to benefit customers and the environment. For example, in 2014, to fund the construction of East Hills Water Treatment Works to improve supply resilience for Norwich and investing £4.5 million between 2017-2020 into our Optimised Sewer Networks (OSN) programme, upgrading control systems to reduce flood risk. Shareholders have supported the business even when returns are not efficient to do so – also providing a range of financial support in recent years to support environmental improvements including funding our Get River Positive programme and £100 million in 2024 to improve pollutions performance.

Shareholder backing has been key to Anglian Water's long-term financial resilience. In 2009 unprecedented falls in inflation following the financial crisis threatened to decrease Anglian Water's regulatory asset value and thereby trigger a breach of our regulatory covenants. Shareholders stepped in with £115 million of additional equity, which was repaid in 2010, giving us the financial strength to withstand the peak of the global crisis. This strong backing has endured and enabled us to retain one of the strongest credit ratings in the industry.

These long-term, stable investors – stand ready to back the sector, but as the demands for investment increase, the balance of risk and reward must improve. The historic undervaluing of water can be gauged from over a decade of flat bills – Anglian Water's customers pay only £1.72 per day – which means this precious resource, essential to all, has not been valued commensurately with its value to society and the wider economy.

Impact of the problem: selected case studies

Miscalibrated performance framework

The analysis on page 7 shows the distribution of performance for Anglian Water against each of the 12 metrics reported in Ofwat's annual Water Company Performance Report, alongside the new common Outcome Delivery Incentive (ODI) metric for external sewer flooding. Anglian Water is above median for 9 of the 13 metrics. A well-calibrated framework should enable an above average performer to earn a fair return – the system is intended to balance rewards and penalties to ensure that the package as a whole is a 'fair bet'. It fails this test, with the notional company in Anglian Water's region facing penalties of £240 million.

The issue is illustrated by the national focus on leakage. We have a longstanding commitment to leakage reduction and have held an industry-leading position since 2010. Delivering further reductions in addition to what we have already achieved is challenging and expensive. However, we are being driven by a national target[7] to make further substantial reductions. The cost of leakage reduction in our LTDS is over £5 billion, 20% of our total forecast enhancement requirement. Within the context of widespread declining asset health this is disproportionate, particularly as there are cheaper options available to balance supply and demand.

Recommendations for change

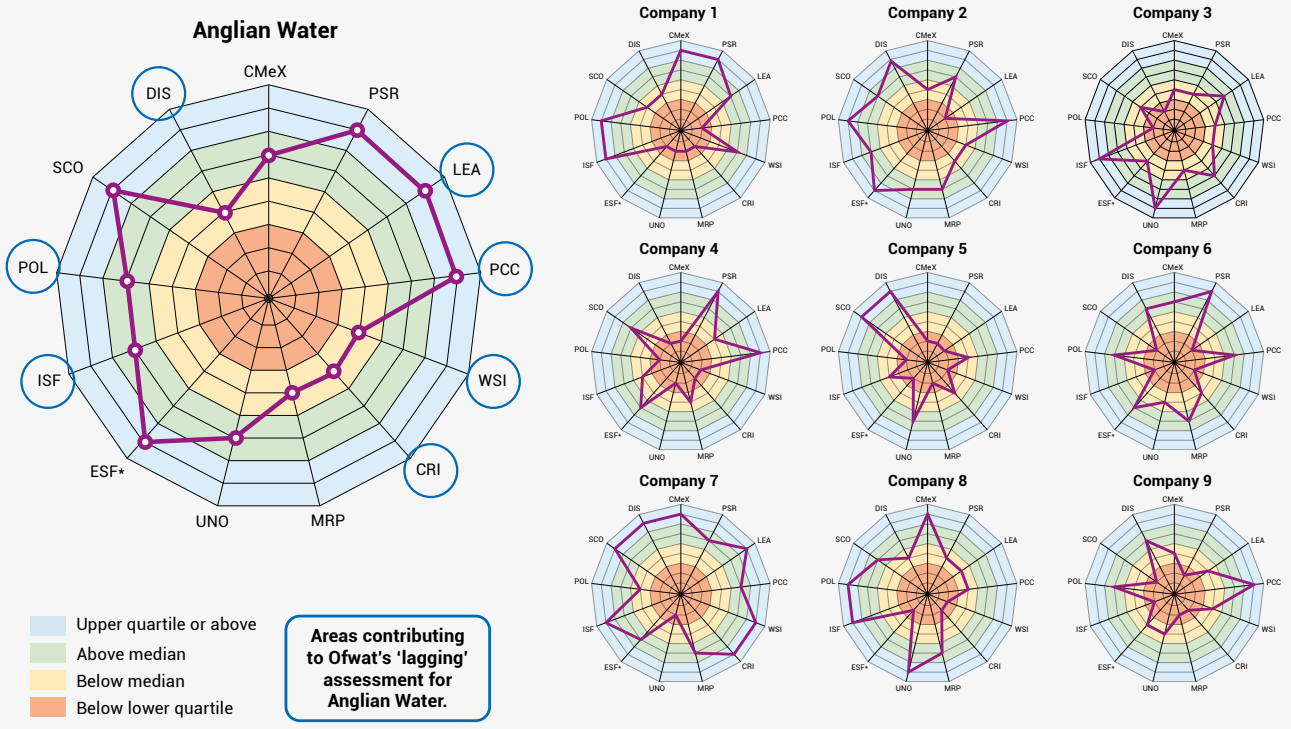
Derisk the sector through a fairer balance of risk and reward.

Greater equilibrium could be achieved between risk and reward through changes including:

- Targets need to be better calibrated to reflect company specific challenges.
- Setting appropriate cost allowances that reflect company specific factors.
- Setting the cost of capital based on all relevant market information and benchmarks.

7 The National Framework target to reduce leakage by 50% by 2050.

Miscalibrated performance framework: Anglian Water is above median for 9 of the 13 metrics yet facing AMP8 penalties of £240 million.



CMeX - Customer Measure of Experience
PSR - Priority Services Register
LEA - Leakage
PCC - Per Capita Consumption
WSI - Water Supply Interruptions
CRI - Compliance Risk Index
MRP - Mains Repairs
UNO - Unplanned Outage
ESF - External Sewer Flooding
ISF - Internal Sewer Flooding
SCO - Sewer collapses
DIS - Discharge Compliance
POL - Pollutions

Leakage compared on normalised basis, per unit length of mains.Total pollution incidents normalised per adjusted sewer length *External Sewer flooding is not one of the current 12 metrics but will become a common ODI at AMP8.

Independent assessment by Oxera

Ensure Ofwat's financing and growth duties result in investable business plans

Consideration should be given to how Ofwat's financing and growth duties interact to create a positive environment for investment. Further definition could be provided, for example by specifying tests or benchmarks that should be met, in order to ensure sector investability.

New regulatory model that is appropriate for large-scale infrastructure

Delivery of major infrastructure will soon be part of the core business of all water companies. There is a strong case for different regulatory approaches (including price controls and Weighted Average Cost of Capital (WACC)) for major infrastructure.

Assess need for new supervisory regime once the benefits of wider regulatory reforms have been realised

Addressing the regulatory flaws outlined in this paper will substantially improve operational and financial performance. The resilience benefits of additional complex supervisory arrangements can only be gauged once the benefits of de-risking the regulatory framework have been realised. Should this approach be introduced it must align with the UK Government's commitment to cut administrative costs for business by 25% by the end of the Parliament[8]. We would argue that this 25% reduction should be a baseline reduction and that further reductions should be expected above and beyond this 25% level from any interdiction of supervision.

8 HMT, 17 March 2025, New approach to ensure regulators and regulation support growth.

2. Proportionate, coherent legislative and regulatory framework

The problem

Lack of clear strategic direction and oversight from government has resulted in regulatory over-reach, fragmentation and duplication. Corry noted that the volume and complexity of regulation makes it difficult to both comply and enforce.[9] For example, when upgrading a wastewater treatment works companies must consider compliance against six separate European directives as well as the Environmental Permitting Regulations (2016), Environment Act (2021), the Levelling up and Regeneration Act (2023) and the Storm Overflow Discharge Reduction Plan (SODRP).

There are multiple overlaps in regulatory responsibilities and the requirements they impose on businesses. Storm overflow data is reported to Ofwat, Defra and the EA. Reporting formats, frequencies and methodologies all differ, creating complexity and a disproportionate burden. For the reporting year 2025, we expect to produce over 30 regulatory reports on CSO performance.

There are gaps in regulators' capacity and capabilities. For example, neither the Environment Agency nor Natural England are adequately resourced to undertake sufficient environmental monitoring. There is therefore no clear national picture of the health of our rivers to help target environmental investment. In addition, there are gaps around emerging pressures such as microplastics and forever chemicals.

Differences of opinion between government and regulators undermine industry's ability to plan and invest for the long-term. For example, Defra and the EA have given differing perspectives about whether or not Farming Rules for Water allow autumn spreading of biosolids (a product of wastewater recycling) on farmland. Consequently Ofwat has allowed industry insufficient funding to press ahead with commercialising alternative, environmentally-beneficial treatment pathways for biosolids, creating the risk that this valuable resource could ultimately end up being lost to harmful incineration or landfill.

Regulators frequently do not uphold the principles of best regulatory practice. For example, during PR24, WINEP guidance was updated a month before the deadline for Draft Determinations while Ofwat issued a consultation on a new Outturn Adjustment Mechanism two months before the Final Determination. There are several examples of the EA developing new policies and standards outside of business planning timescales and with very opaque regulatory impact assessments (see pollutions case study below). These lead to unfunded obligations, which can only be funded via already-stretched capital maintenance budgets.

The regulatory direction of travel is invariably to add more requirements and complexity without corresponding reductions elsewhere. The 1991 Water Industry Act creates 109 regulatory obligations for companies while our licence contains 125 obligations. Some are clearly superfluous; for example, companies must publish Market Information Tables for both water resources and bioresources annually, but neither have ever been used.

Government and regulators have also taken actions in response to public pressure that may actually make it harder to address problems. One example would be executive pay. Many executives across the industry will face the prospect of no bonuses from their operating companies in spite of their leadership being a critical part of the solution to longstanding issues. This is particularly the case for newly appointed executives. We must take care not to create unintended consequences that make the sector even less attractive to talented people who have employment choices elsewhere.

Key facts

- Regulatory requirements on companies are complex and only ever increase – 1991 Water Industry Act creates 109 regulatory obligations while our license contains 125 obligations.
- EA permit fees have nearly doubled (£9 million to £17.5 million) but waiting times for permits are still up to three years.
- Companies must submit over 30 overlapping reports during 2025 to government and regulators on storm overflow performance.

9 Dan Corry, April 2025, Delivering economic growth & nature recovery: An independent review of Defra's regulatory landscape, page 8.

What Anglian Water has done to address the problem

In the absence of an agreed future pathway for biosolids, Anglian Water convened a group with industry, regulators and government to develop the National Bioresources Strategy in 2023, setting out a 10-year plan to develop new processes and technologies and enable a transition away from recycling biosolids to farmland. We are continuing to work collaboratively to push forward a PR29 Action Plan to ensure adequate funding for vital development and commercialisation work.

Impact of the problem: selected case studies

Parallel and disconnected regulatory investigations

Ofwat's Flow to Full Treatment (FFT) investigation and the EA's Operation Standard investigation are markedly similar (both focused largely on performance in relation to spills to the environment) and ran concurrently. This creates a significant regulatory reporting burden: responding to an investigation requires enormous resources and the same or similar information has been provided on different occasions to each regulator. It is not evident that Ofwat and the EA coordinated any aspects of their investigations.

Assessing pollutions performance

The EA is introducing significant methodological changes to the way pollution incidents are reported[10] that will take effect from 1st January 2026. These changes are expected to materially impact reported performance in both the EA's Environmental Performance Assessment and Ofwat's Total Pollutions performance commitment. We acknowledge our pollutions performance needs to improve, and it is the pressing focus for Anglian Water over the next AMP. Nonetheless, these changes mean companies have no clarity as to how existing targets will be adjusted, and as a result are exposed to potentially significant financial and reputational risks.

Permit costs and delays

The Environment Agency issues water companies with permits related to our environmental discharges and waste activities. Fees for permits have nearly doubled from £9 million to £17.5 million, but the time taken to approve applications has not improved, and currently we are waiting up to three years for a permit to be issued.

Recommendations for change

A review and rationalisation of the legislative and regulatory framework

This review should align with the recommendations of the Corry Review and include:

1. A rolling programme of reform for specific regulations including the Water Framework Directive.
2. Consideration of how 'earned autonomy' could work within the water industry.
3. Updating regulatory duties to remove duplication and ensure alignment with coherent strategic direction set by government.
4. Whether merging regulatory functions would enable more joined-up and effective regulation.
5. The adequacy of regulators' skills, capabilities and funding arrangements – this should be shared with Skills England.

10 The removal of the category 4 classification, and the reporting of Dry Day Spills retrospectively identified by monitors as category 3 pollution incidents.

3. Coherent vision supported by effective strategic planning

The problem

There is no clear leadership for the management of water, evidenced by the lack of an overarching national policy or integrated multisector approach. Within this vacuum, key political questions have gone unanswered and the regulators have been left to pursue their own objectives independently of one another. Water companies have tried to fill this 'leadership gap' through, for example, partnership initiatives and working with mayoral Combined Authorities. But there is a limit to what can be achieved without clear direction and alignment.

The Corry Review highlights how the current approach brings confusion not clarity. Defra's 2022 Strategic Policy Statement (SPS) for water regulation is short-term (replaced every five years), directed only towards Ofwat, contains over 50 expectations and gives no guidance on trade-offs or prioritisation. It is not consistent with Defra's SPSs for other regulators and in some areas creates tensions. The NAO also noted that there is no national system for integrated decision-making and that the EA is not required to balance its duties to the water environment with Net Zero or cost considerations.

As a result, water companies face a suite of disjointed targets that don't align to broader societal and policy objectives, such as economic growth. For example, Defra's SPS does not specify enabling economic growth as a strategic priority for Ofwat; instead, growth is framed as a resilience challenge. Targets for abstraction reform and storm overflows are driving investment in high-carbon solutions, without consideration of the impact on Net Zero ambition. The NAO notes that Defra has not assessed the cost or deliverability of its ambitions, except for storm overflows. Many of the targets drive investment that is poor value for money.

Investment planning is siloed across sectors and does not add up to a coherent whole. For example, water companies are responsible for the development of Water Resources Management Plans, Drainage and Wastewater Management Plans, and Long Term Delivery Strategies. The guidance for these strategic plans is developed separately by the Environment Agency, Defra and Ofwat respectively, resulting in major inconsistencies across technical development and timescales. In addition, there is limited consideration of base requirements and no obvious links between the strategic plans and the setting of cost allowances.

The regulatory framework for the environment focuses on water company outputs. Whilst these will go some way to delivering the environmental improvements that we all wish for, there are significant policy gaps with regard to contribution from other sectors, in particular agriculture and highways.
Anglian Water will be investing £2.4 billion in environmental improvements between 2025-2030, and yet we believe that this will not change the ecological status of any waterbody. An outcomes-focused approach is essential, where all sectors (including water companies) are fully engaged and duty-bound to deliver improvements.

Key facts

- Defra's Strategic Policy Statement for Ofwat contains over 50 requirements with no guidance on trade-offs.
- Storm Overflow Discharge Reduction Plan impact assessment gave societal value of negative £40 million.
- Installing Continuous River Water Quality Monitors will cost companies £3-5bn but will not provide a strategic overview of river health or improve it.
- Disparity in funding allocated by Ofwat to highly prescriptive environmental outputs (£2 billion for standard AMP8 WINEP) vs. more innovative, collaborative approaches to delivering environmental and social outcomes at scale (£26 million for our Advanced WINEP).

What Anglian Water has done to address the problem

- We were the first company to enshrine our Purpose into our Articles of Association in 2019, underpinned by our belief that a water company has a role to play in society that goes beyond narrow legal requirements.
- Operating in a water scarce region, we recognised water resources planning requires an integrated approach. In 2014 we established Water Resources East (WRE)[11], now a world leader in integrated, multi-sector water resources planning. Board members include water companies, local authorities, NGOs and farming representatives.
- In 2021 we worked closely with WRE and WWF to develop a natural capital plan for the East of England. This was cocreated by 37 regional organisations using the innovative approach, Systematic Conservation Planning, in the UK for the first time.

11 wre.org.uk

- We are one of only three companies to have been awarded AMP8 funding for an 'Advanced WINEP'. Through the development of a Partnership Centre of Excellence, we will explore innovative governance and finance models to enable the delivery of clear environmental and social outcomes at scale. This learning will support transition into a multi-sector systems planner approach, described below.

Impact of the problem: selected case studies

Growth

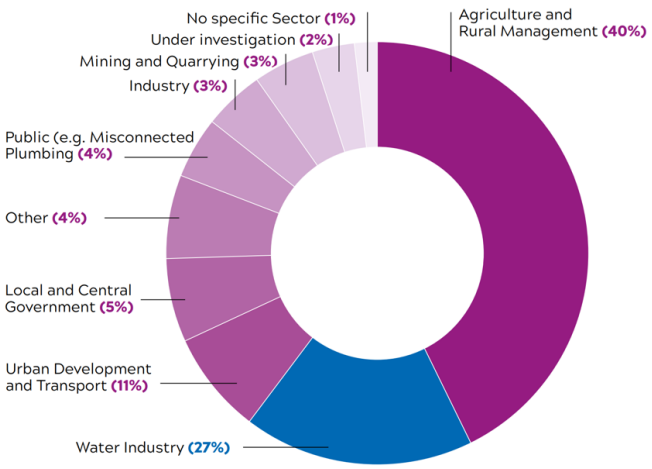
Water resources and wastewater infrastructure underpin economic and housing growth. Yet the existing framework is not set up to meet rising demand:

- Ofwat was given a new formal duty in 2024 to 'have regard to the desirability of promoting economic growth' but their initial interpretation of the duty focuses narrowly on so called 'efficiency' without consideration of the need to develop capacity or create the conditions for business confidence and investment[12].

- Water companies are not obliged to supply water for non-domestic use (e.g. industrial processes) if it is uneconomical to do so, or if it compromises domestic supplies. In addition, they have been set a target to reduce non-domestic water use by 9% by 2038.

- Creating capacity in water and wastewater systems allows companies to support growth opportunities, such as recent onshoring of drinks production and potential AI data centres. However, the current system only allows for investment where demand can be forecasted with certainty.

Reasons for rivers in England not achieving Good Ecological Status attributed to sector



Business demand is growing; in the region we serve it increased by over 10% in 2023. But our ability to support this demand is constrained. In 2024 we had to turn down over 25 business requests for water and set a 20m^3/day limit for all new non-domestic use. This has significant knock-on effects for our region's economic prosperity.

River health

Rivers across the UK have been modified and fragmented by barriers and face multiple threats from chemicals, nutrients and pollutants. According to Environment Agency data, water companies are responsible for 27% of the Reasons for Not Achieving Good Status (RNAGS). In our region, it's 18% – this is still too high, and we recognise our performance needs to improve. Nevertheless, government rhetoric on the water industry is contributing to a distorted public discourse around the underlying causes of poor river health. Other sectors can now deliver greater environmental benefit at lower cost but in the absence of a strategic, coordinated approach from government the Water Industry National Environment Programme (WINEP) has become the default funding approach for environmental improvements. In addition, the highly prescriptive regulatory approach hinders investment in nature-based solutions.

The Environment Act requires water and sewerage companies to build Continuous River Water Quality Monitoring (CRWQM) at all asset sites. The need to reduce spills is indisputable. The purpose of the monitors is to hold water companies to account for spillages and incentivise improvements to water quality. However deploying thousands of monitors across England will cost £3-5 billion. This does not include the cost of establishing robust databases, data integration software, and secure data storage solutions. There is a direct trade-off between increasing monitoring and funding projects which would have directly driven improvements in environmental outcomes. Making the most of the collected data is crucial to justify the investment. Standardising and accessing the data remains an ongoing challenge and requires significant investment in skills and people. And while pollution sources extend beyond wastewater networks, diffuse pollution and agricultural sources often go unmonitored.

Storm Overflow Discharge Reduction Plan (SODRP)

The SODRP is ostensibly designed to improve river health by limiting the use of storm overflows. However, the Government's own impact analysis found that the costs of achieving the Plan outweigh the benefits by £40 million as there is little evidence it will improve water quality.

12 Baringa, April 2025, How Ofwat's regulation impacts on economic growth.

Recommendations for change

Coherent strategic direction

Government must provide a coherent long-term vision for the wider water environment, that balances environmental health against other societal objectives, particularly growth. Clear long-term expectations of the water industry – and other sectors – should be set within this framework.

Set a legally binding common purpose

Ensure the sector is pulling in the same direction by establishing a common purpose for water companies, regulators, and relevant government departments (recognising that the role of organisations in its delivery will differ)[13]. This would build upon the direction of travel already taken in the Water (Special Measures) Act.

Multi-sector systems planning

We support the direction of travel for a stronger place-based approach. This could be done by establishing regional 'central planning authorities' (potentially by changing the status of existing regional water resource groups). These bodies would have the power to dictate requirements and potentially pool[14] investment across sectors to deliver the best outcomes. The new authorities would be responsible for:

- Environmental investment planning at a catchment level, aggregated into a regional whole.
- Drainage investment planning, at an appropriate scale and facilitating a more joined-up approach to drainage, such as is used successfully in the Netherlands.

Integrated adaptive planning (water companies)

The industry should build upon the LTDS to integrate strategic planning and embed adaptive planning techniques. Doing so helps government and regulators to:

i) identify strategic choices

ii) understand the implications of policy decisions

iii) manage the significant uncertainty associated with climate change and growth.

13 For example, The Well-being of Future Generations (Wales) Act establishes a legally-binding common purpose for public sector bodies in Wales.

14 By pooling investment, we mean that funds could be aggregated across common objectives. It is important for the funder to retain decision making power about how their money is allocated to ensure there is a connection between spending and outcomes.

4. Long-term focus to build resilience

The problem

The current regulatory system does not adequately reflect the needs of future generations, consistently prioritising short-term bill impacts over longer-term resilience. The NAO concluded that government and regulators have failed to drive sufficient investment in water infrastructure[15]. Suppressing essential investment only pushes into the future, unfairly storing up costs and risks for future generations.

Asset health is an urgent issue that requires immediate action, evidenced by its prominence in CMA appeals. Over multiple regulatory periods, Ofwat's approach has locked the industry into persistent underinvestment and asset health is deteriorating. The need for an alternative approach has been recognised by multiple organisations, including the CMA[16] and the National Infrastructure Commission.[17] Both Scotland and Northern Ireland's water regulators have taken action to reform their approaches. Despite this, Ofwat failed to reset their approach in time for PR24. The Asset Health Roadmap, although a welcome step in the right direction, does not go far enough.

The replacement value of operational water and wastewater assets in England and Wales is around £700 billion. PR24 FDs provided the sector with around £2.5 billion per year in capital maintenance: 0.4% of replacement value per year. This is plainly insufficient – by comparison the manufacturing sector allows for capital maintenance of around 2% per year. In addition, many of our more recently-installed assets have shorter lives of around 10-15 years but the changing nature of our asset base is not reflected in allowances.

Similarly, insufficient investment has been made to increase the capacity of water and wastewater systems. Any available capacity has been eroded as demand has increased, leaving systems vulnerable to climate change and undermining their ability to support growth. A historic focus on efficiency has ingrained a deep regulatory culture within Ofwat which is adverse to the development of true resilience. Significant regulatory attention has been given to the risk of overinvesting in redundant infrastructure, with little consideration of the consequences of underinvestment.

What Anglian Water has done to address the problem

- Customer affordability is clearly a critical concern. We have increased capacity to ensure we can support all customers experiencing water poverty, and introduced a new Medical Needs Discount funded by shareholders.

Key facts

- PR24 FDs provided the sector with around £2.5 billion per year in capital maintenance: 0.4% of replacement value per year. In comparable sectors like manufacturing capital maintenance is around 2% per year.
- Anglian Water's average customer bill in 2025-2026 is just £1.72 per day.
- Pioneering academic research has identified 8,241km of water mains in the East of England that are vulnerable to the impacts of climate change. But this research was dismissed by Ofwat at PR24.

- We have long advocated for a change in approach to asset health: in our 2007 Strategic Direction Statement, at the CMA in PR19, the development of PR24 methodology (e.g. advocating for the LTDS to incorporate base) and again at the CMA in PR24.
- In 2024 we established a collaborative project to identify new regulatory approaches to assessing and funding asset health, that identified several viable packages of recommendations. We provided an evidence-base for resilience and investment in climate-vulnerable assets, working with academics from Cranfield University and MapleSky.

Impact of the problem: selected case studies

A need to pivot investment to asset health

There is an urgent and pressing need to increase investment in asset health. We are concerned that significant investment is being directed towards service improvements of limited value, while the risks to our existing infrastructure remain unaddressed.

Since 2014, we have partnered with Dr Timothy Farewell and Cranfield University to understand the vulnerability of our water network to climate change. This research showed there are 8,241km of climate-vulnerable water mains in the East of England as many of the soils are highly shrinkable, often chemically aggressive and structurally unstable. Extreme temperatures and heavy rain exacerbate ground movements, resulting in higher numbers of bursts. We intend to remove 75% of these mains by 2060, requiring investment of up to £1.64 billion.

15 NAO, April 2025, Regulating for investment and outcomes in the water sector, page 11
16 At PR19 the CMA called for Ofwat to develop forward-looking asset health metrics.
17 See NIC, Developing resilience standards in UK industry (September 2024), page 9.

Ofwat's approach to funding mains renewal disregards this scientific evidence in favour of econometric modelling built around historic cost assessments and burst frequencies. At PR24 Ofwat acknowledged that renewal rates are too low nationally and provided ring-fenced allowances to increase maintenance. However they stated that base budgets should fund renewal of 0.3% of water mains annually. Consequently companies are being required to increase activity with no additional funding, and cannot focus renewal expenditure on building resilience to known risks from a changing climate.

Pushing investment into the future that is needed now

Climate change is already affecting rainfall patterns, resulting in wetter winters and more frequent and intense storm events[18]. This is increasing the risk of sewers becoming overwhelmed, but current regulation is not supporting companies to adapt their wastewater and drainage systems. To plan for climate change effectively, companies need:

i) clarity over the resilience standards to be achieved

ii) to develop plans to meet these standards

iii) to be funded to meet these standards.

None of these requisites are in place, despite the DWMP becoming a statutory requirement.

The scale of the challenge could be significant: climate change may increase the number of pollution incidents by as much as 32% over AMP8. But essential investment in drainage capacity is being pushed into the future, as demonstrated by our analysis of industry LTDS data.

Recommendations for change

Build investment programmes around long-term strategic plans

Integrated adaptive planning (water company) is required to understand costs and trade-offs, including across generations. Managing those trade-offs effectively requires a collaborative process to refine company plans; companies, regulators and government all have a responsibility to find the best balance. There are good examples of collaborative decision making, such as the ethical regulation model in Scotland, and Water Resources East's decision-making process. Once agreed, this would determine the need for infrastructure investment. Ofwat's focus would then be to establish efficient costs for delivering the agreed requirements.

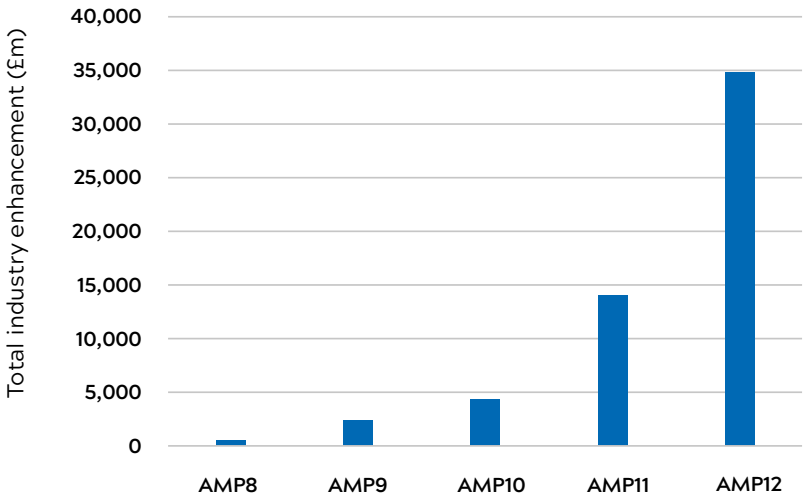
An urgent focus on asset health

The current regulatory approach is not adequate given the scale and criticality of the issue. A range of potentially effective approaches have been identified (see here for examples) and these urgently need progressing.

Designate new 'Water Growth Zones'

These should link to industrial and spatial plans such as New Towns and require regulators to allow us to proactively create water and wastewater capacity. Similar reforms are being made in the energy sector though the Strategic Spatial Energy Plan (SSEP).

Investment in drainage capacity



18 The State of UK Climate report shows that during the decade 2013 and 2022, UK winters were 10% wetter than 1991-2020 and 25% wetter than 1961-1990, with much smaller changes for spring, summer and autumn overall. Available here.

5. Regulatory model that supports infrastructure delivery

The problem

Government and regulators have not properly assessed the value for money and affordability implications of their planned procurement and funding model for major water infrastructure. There are two principal procurement frameworks for delivering major water infrastructure.

The ability of the industry to find appropriate models to finance the required levels of new infrastructure, whilst considering customer affordability and value for money obligations alongside the delivery of environmental benefits, remains a key challenge. Cost burden and risk allocation between customers, companies and new investors within an appropriate regulatory framework is a critical balance to achieve.

There are two principal procurement frameworks for delivering major water infrastructure: Specified Infrastructure Project Regulations (SIPR) and Direct Procurement for Customers (DPC).

The successful Thames Tideway project is the only use of SIPR to date, benefitting from specific Ofwat enablement, financial and construction market conditions at the time, plus an underlying government support package. Our Fens and Lincolnshire reservoirs are navigating this same procurement route, albeit within a very different macro-economic environment.

Whilst several DPC projects are currently at different stages of development, none have yet been successfully completed. Learnings and challenges experienced to date should be shared widely to modify arrangements, where required and enable their successful delivery.

Risk transfer arrangements must be established to ensure that the Infrastructure Provider (for SIPR) or Competitively Appointed Provider (for DPC) can assume full responsibility and liability for DWI water quality and Reservoirs Act obligations. These obligations would otherwise be passed through to, or remain with, the incumbent utility. Resolving this issue is essential for these delivery models to be effectively applied to water infrastructure investment.

There are a range of other barriers that undermine the efficient delivery of major infrastructure, including the planning system. There are two main planning routes that the water sector can use to consent infrastructure. Projects can go through the local planning process, or they can be designated as a 'Nationally Significant Infrastructure Project' (NSIP) and be promoted through the Development Consent Order (DCO) planning process. Despite the welcome reform announced recently to the National Planning Policy Framework and contained in the Planning and Infrastructure Bill, both routes remain slow. Anglian Water has submitted 92 planning applications in the past three years – 52 were delayed (56%). The average delay was 60 days, the longest 23 months.

The system is also poorly suited to the characteristics of projects of middling scale; the design of planning frameworks suits loft extensions or the Thames Tideway but nothing for projects in between.

Mis-alignment within or between regulators also causes challenge or decision-making delay on major projects. Local or project level officers can take a narrower or technical view that runs contrary to that regulator's strategic view.

Significant environmental considerations – such as the Habitat Regulations Assessment (HRA) and Sites of Special Scientific Interest (SSSIs) – are currently driving a wide range of options, creating substantial uncertainty in both project scope and cost. This risks years of extended debate and analysis. Furthermore, requirements under the Water Framework Directive (WFD) are currently leading to an estimated £1 billion in inter-catchment treatment costs for the Fens Reservoir project alone.

More pragmatic and timely solutions could rapidly emerge if all parties were aligned with the overarching justification for development and collaborated to develop an aligned approach to overcoming legal obstacles.

Key facts

- Anglian Water's 92 planning applications in past three years: 52 were delayed by an average of 60 days, longest delay was 23 months.
- Strategic Interconnecting Pipeline (SPA) required to go through 14 Local Planning Authorities.
- Misaligned expectations from regulators and poor appreciation of challenges facing first-of-a-kind infrastructure such as SPA.
- WFD requirements driving £1 billion in inter-catchment treatment costs for the Fens Reservoir.

What Anglian Water has done to address the problem

Where possible, we have worked with regulators to utilise the most efficient delivery route. For Middlegate Water Treatment Works, we agreed with Ofwat to use enhancement funding rather than a Competitively Appointed Provider (CAP) via DCP, because it was c.£20m cheaper, and allowed us to improve resilience and reduce carbon emissions (see case study).

Impact of the problem: selected case studies

Strategic Pipeline Alliance

Anglian Water is delivering 580km of new, interconnecting pipelines to secure water supplies for future generations, alongside protecting the environment by reducing groundwater abstractions. It will allow water to move from the wettest parts of our region in the north to the driest in the south. This is one of the largest infrastructure projects the UK has seen for a generation. However, it does not qualify for DCO because potable water transfers of any size are not included.

We were required to undertake 14 different planning applications for each authority the pipe travelled through. Many approvals were delayed, the longest by 23 months. There were three Judicial Reviews from landowners alongside significant archaeology and ecology work, including:

- 3,309 archaeological trenches
- 80 archaeological excavations
- 352km topological investigations
- 863 geotechnical bore hole and trial pit investigations.

This was compounded by delays caused by flooding and storms. As a scheme it typifies the lack of regulatory expertise on major infrastructure and 'first-of-a-kind' schemes, like SPA.

Middlegate Water Treatment Works (WTW)

Anglian Water was using the DPC model to develop the Middlegate Water Treatment Works in North Lincolnshire, to enhance long-term water supply resilience. The project aimed to process up to 31 million litres of drinking water per day. Significant progress was made developing the first design, build, finance, operate and maintain ('DBFOM') fixed price DPC commercial arrangements.

However, during procurement, we identified that using enhancement funding to deliver the project, rather than a Competitively Appointed Provider (CAP), would save c.£20 million, improving resilience and reducing carbon emissions. Ofwat accepted this change, although they raised questions in regard to the cost assumptions we used in our decision making. This outcome again emphasises that there needs to be greater scrutiny of the assumptions underpinning the use of DPC and SIPR.

Recommendations for change

Rethink infrastructure and financing

This could take one of several forms, including:

- Exploring the provision of an underlying financial support package for certain major infrastructure projects requiring project finance (such as the Fens and Lincolnshire reservoirs). This could come directly from government or through customer billing mechanisms.
- Creation of a fund for the water industry to unlock lower cost of capital through the portfolio effect.

Review assumptions around cost-effective procurement

Government, industry and regulators should «collectively test the assumption that DPC and SIPR will offer greater cost effectiveness for customers and identify how these models can best be delivered. This work could be considered hand in hand with the Corry Review's recommendations for a lead regulator for major infrastructure projects and the creation of the Defra Infrastructure Board.

Reduce the threshold for NSIP designation

Water companies should have flexibility to choose the optimal planning framework for the project. The NSIP threshold currently sits at projects over 80 million of litres of water per day. It does also not include potable water transfer of any size, which will be increasingly required as water scarcity grows.

Designate a 'Regionally Significant Infrastructure Project' category within Local Planning

These could be both fast-streamed through the planning process and have presumption in favour of consent. This could also include projects that, under the Planning Infrastructure Bill, could in future be directed out of the NSIP regime. They could also form the basis for measurement of Local Planning Authorities delivery performance.

Update the permitted development list in Town and Country Planning

This should cover basic aspects of schemes such as pumping station kiosks and embankments. A similar amendment was made in 2022 to support the effective roll-out of the 5G network.

Enhanced participation by RAPID, Ofwat, and Defra in project development

Greater involvement from RAPID, Ofwat, and Defra during the development phase would strengthen engagement with statutory and regulatory stakeholders. This would help align and resolve any discrepancies between local and national positions – for example, within the Environment Agency or Natural England – in a timely and coordinated manner. An effective way to enable this could be through a new duty (potentially on RAPID) to facilitate regulatory alignment where this will accelerate the delivery of major projects.

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