

## **Future Water Association - Response to the Independent Commission on the Water Sector Regulatory System**

The Future Water Association (FWA), a representative body comprising more than 120 organisations across the UK water sector, is pleased to present this full response to the Independent Commission on the Water Sector Regulatory System. This submission is informed by insights emerging from the Future Water Report Card, the second edition of which will be launched in 2025. The report Card is a sector-wide diagnostic developed by Future Water to assess performance, challenges, and transformation priorities across key themes. The Report Card has shaped the direction of our Working Groups, which form the basis of the evidence and proposals set out in this document, drawing on the expertise and experience of FWA members and nine thematic Working Groups.

These Working Groups—Emerging Talent, Networks November, IP & Innovation, Standards & Regulations, Metering, Leakage, Development Services, Digital & Cyber Resilience and Insights—bring together a wide range of stakeholders, from frontline operators and SMEs to large engineering consultancies and next-generation professionals. Their insights reflect current delivery challenges and offer forward-thinking solutions grounded in practical realities (see Annex).

### **Executive Summary**

Our response recommends substantial reforms to the regulatory framework, underpinned by evidence and member insights. Proposals include establishing a dual-track regulatory model, coordinated regulatory oversight, integrated catchment management, long-term infrastructure planning aligned with housing growth and climate targets, and embedding workforce resilience in regulatory assessments. Enhanced innovation pathways strengthened cybersecurity governance, and a critical review of developer connection rights are also recommended.

## **Chapter 2: Overarching Framework for the Management of Water**

### **Clear Vision**

There is a need for a clear and unified vision for the water sector, which is currently lacking, particularly when compared to sectors like energy and transport, which benefit from clearly articulated strategic frameworks. This absence of a coherent, long-term vision for water has significant implications:

- **Fragmentation of Efforts:** Without a shared vision, efforts become fragmented, with different stakeholders often pulling in opposing or uncoordinated directions. For example, members have highlighted conflicting regulatory objectives or inconsistent policy guidance often result in inefficiencies and missed opportunities.

- **Short-termism:** The current regulatory framework (focused heavily around five-year AMP cycles) exacerbates a short-term mindset, impeding necessary long-term infrastructure investment, climate adaptation, and innovation.
- **Public Engagement and Trust:** The lack of a coherent water vision also hampers public understanding and trust as evidenced in the Future Water & Copper Consultancy report 'Building a Societal License'.

### **Recommendation:**

Create a compelling, sector-wide water vision—setting clear, long-term objectives for sustainability, resilience, environmental protection, and social value—is essential. This vision should involve key stakeholders providing a unifying strategic context for policies, investment decisions, regulatory activities, and public communication.

### **A Dual-Track Regulatory Model**

Members highlighted significant shortcomings of the current five-year AMP cycle, noting it creates volatility and short-term thinking, misaligned with the long-term nature of water infrastructure assets. Consequently, we strongly recommend:

- A dual-track approach, with Base operational expenditure (Botex) regulated over 20-25 years to provide stability, predictability, and accountability for long-term outcomes.
- Enhancement expenditure should remain within a five-year cycle for agile responses to emerging technological, policy, and demographic challenges.

**Member example:** A leading leakage services provider cited sudden budget shifts making long-term recruitment and innovation impossible, emphasising the need for longer-term stability.

### **Integrated Catchment and Environmental Management**

FWA supports integrating water governance with land use, biodiversity, and climate policies. Specifically, merging Natural England and the Environment Agency into a single environmental governance body would ensure coherent oversight, eliminate regional disparities, and streamline sustainable drainage, nutrient neutrality, and biodiversity net-gain standards.

**Member insight:** Several Development Services Group participants shared frustration with inconsistent guidance on sustainable drainage (SuDS), nutrient neutrality, and biodiversity net gain. A single coordinating body could streamline standards and remove regional disparities in interpretation.

## **Chapter 3: The Role of Regulators**

### **Regulatory Coordination**

Members identified regulatory fragmentation as a critical challenge, noting overlapping mandates of Ofwat, EA, and DWI create inefficiencies and delays. FWA proposes a formal Water Regulatory Coordination Forum to align objectives, share planning data, and improve joint oversight.

**Case study:** A water company faced significant delays when trialling innovative phosphorus removal technologies due to separate regulatory processes, highlighting the need for a coordinated approach.

## **From Punitive to Collaborative Regulation**

Members seek a regulatory culture shift towards collaboration, innovation enablement, and long-term resilience. We recommend:

- Establishing regulatory sandboxes for controlled, innovative trials.
- Incentivising cross-company collaboration and knowledge sharing, shifting from punitive compliance towards rewarding collaborative behaviours and outcomes.
- Exploring the value of establishing an 'Innovation Observatory' along the lines of the NIHR Innovation Observatory - <https://io.nihr.ac.uk/>
- Using the innovation fund to drive more R&D by encouraging lower TRL level innovations.

## **Chapter 4: Economic Regulation**

### **Long-Term Investment Planning**

A clear sector vision, referenced earlier, would provide a robust foundation for longer-term economic regulation, supporting consistent investment signals and a clear direction for infrastructure planning.

FWA proposes developing a 15-20 year National Water Infrastructure Roadmap, updated every five years, ensuring strategic infrastructure planning visibility. This addresses supplier "feast or famine" investment cycles (which leads to workforce reduction), supporting consistent workforce planning and technological investment.

### **Programme Visibility and Early Supplier Engagement**

Companies should be mandated to engage suppliers early, publish indicative investment plans, and facilitate co-design opportunities, ensuring delivery efficiency and realistic business plans.

**Case study:** Early supplier engagement on a regional leakage programme resulted in timely delivery, budget efficiency, and the introduction of innovative solutions.

In addition, FWA member want to see economic regulation incentivising and increased R&D investment, providing long-term certainty for innovators and the supply chain.

**Further Option:** Members also suggested considering a central procurement oversight body. This body would streamline investment decisions, reduce duplication, and enhance overall efficiency and transparency across the sector's infrastructure projects, mitigating the risk of rushed procurement cycles and associated inefficiencies.

## **Chapter 5: Public Policy Objectives**

**Referring to the Vision:** A unified vision would clarify and prioritise essential public policy objectives, such as resilience, environmental sustainability, workforce development, and digital transformation.

The vision would help to address rising public distrust linked to environmental concerns and perceptions of inadequate accountability. It would underpin a critical need for clearer, transparent communication from water companies. This includes explicit clarity around investment decisions, dividend distributions, and environmental responsibilities.

**Example:** Future Water has produced a report with Copper Consultancy based on surveys with the public which outlines what the public think about water and 'busts the perceptions and myths' in relation to the public about the water sector.

## **Workforce Resilience**

Members emphasised workforce capacity as a strategic risk, highlighting ageing workforce challenges, digital skills gaps, and competition from other sectors. FWA recommends:

- Explicit regulatory inclusion of workforce planning and resilience in business plan evaluations.
- Developing a National Water Sector Skills Strategy to ensure long-term workforce capacity, including apprenticeships, graduate programmes, and cross-sector training.

**Case Study:** One utility reported that its digital transformation programme was constrained not by technology but by the lack of available cyber and data professionals. With no recognised pipeline or accredited training scheme for water-sector digital skills, progress was delayed.

## **Cybersecurity and Digital Transformation**

Recognising increasing digitalisation risks, cybersecurity should be a central strategic concern. FWA strongly recommends:

- Board-level executive accountability for cyber resilience in all water companies.
- Sector-wide cyber standards co-developed with the National Cyber Security Centre, aligned with energy and transport sectors.
- **Evidence from Digital & Cyber/Metering groups:** Concerns were raised about the cybersecurity risks of rapid smart metering deployment, especially where legacy systems lacked adequate segmentation or backup protocols. Members highlighted that the sector can draw valuable insights from the aviation and energy industries, which have implemented robust cybersecurity governance structures.

## **Innovation and Technology Adoption**

Members cited barriers in scaling innovations beyond initial pilots. We propose:

- Establishing a national accreditation pathway enabling cross-sector adoption of validated technologies.
- Introducing consistent technical standards, minimising redundant innovation trials and customisation.

**Water Dragons insight:** Despite over 400 innovations being assessed since 2008, members noted that fewer than 10% have reached scale. The primary barrier is not quality but the need to re-demonstrate value to each water company under different specifications.

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## **Chapter 6: Ownership and Infrastructure Development**

### **Ownership Structures and Community Accountability**

Significant interest exists in exploring ownership models enhancing public trust. Notably, Welsh Water's mutual, customer-owned, not-for-dividend structure reinvests profits rather than distributing dividends, aligning commercial performance with public and environmental outcomes.

FWA suggests:

- Introducing public interest charters and community outcome frameworks for all water companies, with performance-linked incentives to drive broader social and environmental benefits.

### **Developer Connections and Infrastructure Capacity**

Members expressed concerns regarding statutory developer connection rights independent of infrastructure capacity. We strongly recommend:

- Reviewing statutory rights, making connections conditional on strategic capacity assessments.

**Case study:** Unmanaged developer connections in one region caused operational disruptions and regulatory breaches, emphasising the need for upfront infrastructure planning.

There are successful models such as the Canterbury wastewater project, where developers partnered with local authorities and suppliers to deliver a small-footprint local treatment scheme. This model delivered rapid capacity, environmental gains, and community support.

### **Highways**

**Members highlighted** significant concerns regarding the environmental impact of highway drainage systems, noting the current lack of comprehensive monitoring and regulatory oversight. It is recommended that highway authorities should adopt full environmental monitoring practices and be formally subject to discharge consents akin to those required for wastewater treatment works. This approach would ensure that

pollution from road runoff, such as heavy metals, hydrocarbons, and sediment, is effectively managed and mitigated, significantly improving environmental outcomes

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## **Conclusion:**

The Future Water Association strongly believes that transformative change within the UK water sector is not only necessary but achievable. To deliver such transformation, the sector urgently requires a coherent, unified, and ambitious vision—one that places sustainability, resilience, and long-term strategic planning at its core. Crucially, greater investment in Research and Development is needed to support innovative solutions, underpin regulatory and technological advances, and meet the complex challenges posed by climate change, population growth, and digital transformation. By embracing a dual-track regulatory approach, fostering enhanced collaboration among regulators, suppliers, and innovators, and embedding workforce and cyber resilience into regulatory frameworks,

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## **Annex: Future Water Working Groups and Consultation Process**

The Working Groups were established in direct response to the findings of the Future Water Report Card, which identified a number of priority areas requiring deeper exploration. These groups bring together expertise from across the sector to co-

develop insights, propose regulatory and policy reforms, and highlight delivery realities.

Each of the Working Groups contributed thematic insights:

- **Emerging Talent** explored challenges in sector outreach, early-career support, and future workforce branding.
- **Networks November** focused on resilience planning, delivery barriers, and the role of climate adaptation in network design.
- **IP & Innovation** examined barriers to commercialisation, collaboration platforms, and opportunities for shared IP frameworks.
- **Standards & Regulations** assessed regulatory overlaps and recommended a single portal for compliance guidance.
- **Metering** addressed policy inconsistencies between household and non-household sectors, and the need for data standardisation.
- **Leakage** proposed reforms to customer-side leakage incentives and cross-utility data sharing.
- **Development Services** focused on planning permissions, NAV licensing, and the integration of local water solutions.
- **Insights** contributed findings on public trust, customer engagement, and outcome-based communications.
- **Digital & Cyber Resilience** reviewed the options for Cyber Resilience and associated skills

The consultation methodology included roundtables, surveys, and targeted group discussions, ensuring that the final response reflects the broadest possible member input.