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Welsh Government Consultation Document

Green Paper: Shaping the Future of Water Governance in Wales

Delivering Sustainable Water Management for Communities,
Business, the Environment, Nature, and Long-term Resilience.

Date of issue: 3 February 2026

Action required: Responses by 7 April 2026

Overview

The aim of this Green Paper is to set out our proposals for the future of water governance in Wales.

It provides the Welsh Government's response to the recommendations in the Independent Water Commission's review of the water sector and invites views on how we can deliver a water system that works for everyone in Wales.

How to respond

Please submit your comments by 7 April 2026 in any of the following ways:

- [Complete our online form](#)
- Download, complete our response form and email:
CCES.StrategyAndChangeTeam@gov.wales
- [Download, complete our response form](#) and post to the address set out below under contact details.

Further information and related documents

Large print, Braille and alternative language versions of this document are available on request.

Contact details

For further information:

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This document is [also available in Welsh](#)

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Ministerial Foreword

Water is essential to every part of life in Wales for the health of our people and nature, the success of our economy and the resilience of our communities. It is a precious resource that must be managed sustainably, fairly and in the public interest.

A decade ago, the Water Strategy for Wales set a clear vision for managing water as a strategic national asset. Since then, we have made progress improving drinking water quality, investing in environmental protection, expanding support for consumers and embedding the principles of the [Well-being of Future Generations \(Wales\) Act 2015](#). We have invested over £56 million since 2022 to tackle water quality challenges across Wales, funding enforcement, monitoring, and nature-based solutions to protect our rivers.

But Wales now faces a new reality. Climate and nature emergencies, alongside persistent challenges, demand urgent action. The water system designed for a different time no longer meets the needs of our people, our environment or our economy. We have made good progress, but people across Wales are rightly concerned about sewage discharges, outdated infrastructure and the condition of water in their communities. We cannot stand still. It is time for fundamental reset.

Improving the health of our rivers will require action across the whole water environment. Pressures from land use, agriculture and the way organic materials are managed once applied to land all contribute to the condition of our catchments. We are therefore taking a whole-system approach, ensuring work to change water governance in Wales is aligned with wider action to address nutrient pollution, strengthen accountability and restore trust that the system works in the public interest.

This Green Paper marks a moment of opportunity, a once in a generation chance to improve how the system works. Over the next decade, we will shape and deliver a water system that works for Wales, protecting nature, supporting communities and driving a low-carbon future. This is our decade of recovery.

Our ambition is to create a Welsh regulatory framework that reflects our priorities and strengthens accountability. We want to establish a Welsh economic water regulator with the authority and independence Wales needs, but this cannot happen without securing the necessary devolved powers. That is why we will work with the UK Government to seek additional legislative competence and bring forward a new Water Bill to embed public value and environmental resilience at the heart of the system. This will lay the foundations for a transparent, responsive approach shaped by the needs of people and communities in Wales. Our approach to economic regulation will be underpinned by an intention to create an investment environment which is stable and predictable.

This is a pivotal moment for Wales. We are taking a proactive, collaborative and future-focused approach to deliver a system that meets Welsh priorities while ensuring co-ordination on cross-border issues and alignment where it matters. Change is also taking place in England. On 20 January 2026, the UK Government published its White Paper, A New Vision for Water, setting out a programme of change for the water sector in England. While the White Paper is focused on arrangements for England, the current integrated nature of parts of the water system

means these changes have implications for Wales and underline the importance of effective cross-border coordination during the period of transition.

While these changes will make things work better, they will not remove the difficult choices ahead. Investment needs for environmental improvement, climate adaptation and infrastructure renewal will exceed what customers can reasonably afford. Hard decisions will be necessary when balancing investment with affordability, and these will require firm, evidence-based decisions to deliver the best outcomes for Wales.

Attracting investment is critical, and our approach will embed a policy and regulatory system that is robust, transparent and trusted, giving confidence to investors and partners across Wales and the wider UK. Delivering on this ambition will require sustained long-term commitment. Securing the investment needed to improve environmental outcomes, renew ageing infrastructure and strengthen resilience will depend on a stable, transparent and trusted regulatory system. The development of future arrangements is not an end in itself, but a means of providing the long-term certainty required to support responsible investment while keeping services affordable. This Green Paper sets out how future arrangements in Wales could better align investment decisions with public value, environmental priorities and the needs of future generations.

The current system is too complex. It lacks the transparency and responsiveness people expect. This Green Paper sets out how we aim to simplify and strengthen arrangements, putting environmental protection and public value at the centre of water governance.

The Independent Water Commission (the Commission) recognises that Wales's circumstances differ from England, with a smaller sector, devolved priorities and a strong focus on well-being and sustainability. We will build on those strengths, ensuring decisions are made in the public interest.

We will take a holistic approach to planning and regulation, considering the whole water environment rather than focusing solely on the industry. Improvements will require changes in how we use land and action across a whole range of sectors. Wales faces challenges including resilience to flooding and drought, decarbonising the sector, reversing biodiversity loss and upgrading ageing infrastructure while keeping services affordable. By working collaboratively across government, industry and communities, we will turn these challenges into opportunities for innovation and resilience.

We will embed circular economy principles across the water system. This means tackling issues at source, promoting positive behaviours and ensuring materials, including chemicals of concern, are managed and disposed of responsibly. By adopting an upstream approach, we will reduce the impact of pollutants on water quality, for example through better management of sewage sludge. This is a new and ambitious commitment for Wales, moving beyond end of pipe solutions to proactive prevention.

This is not just about the water industry. It is about the whole water environment and how we manage pressures across sectors. We welcome the Commission's recommendations which have shaped this Green Paper. But this is only the start. We want your views and evidence to help us build a system that delivers for people, nature and future generations.

Wales is taking decisive action. We want clean and thriving rivers, safe and high-quality drinking water, fair and affordable services, and infrastructure ready for the challenges ahead. We will strengthen accountability, rebuild trust and provide a regulatory framework that attracts investment and drives innovation. Together, we have a shared duty to leave our water systems in a better state than we found them, resilient, sustainable and ready for future generations. That work begins now.

Executive Summary

We are determined to deliver a Welsh water system that is sustainable, resilient, and delivers lasting environmental and public value. A system that supports healthy communities, flourishing businesses, and thriving biodiversity. As set out in our Water Strategy for Wales, we are committed to the sustainable management of our water resources, efficient water use, the protection and improvement of water quality, resilience to climate change, and the enhancement of our natural water systems. Central to this vision is a national, systems-based approach that brings together communities, businesses, regulators, and government to ensure decisions taken today deliver benefits for generations to come.

This Green Paper sets out our intent for the future of water governance in Wales. Building on the strong foundations of our Water Strategy, it responds to new and emerging challenges on matters such as climate pressures and environmental water quality, and the need for greater public trust and accountability. It outlines our proposals for reform and invites views on how we can deliver a water system that works for everyone in Wales.

Our approach is shaped by the principles of fairness, sustainability, and public value, and is guided by our legal duties under the Well-being of Future Generations Act 2015, [the Environment \(Wales\) Act 2016](#) and the [Wales Act 2017](#). We are committed to working in partnership with all groups to ensure future arrangements are inclusive, transparent, and responsive to the needs of Wales.

This Green Paper also responds to the final report of the Commission, which provides a comprehensive review of the water sector and the wider water environment. It identifies seven key areas where bold reform is needed. The Commission's recommendations offer a strong foundation for change, and this Green Paper outlines the Welsh Government's initial direction of travel, reflecting Wales's distinct context, values, and devolved responsibilities.

Each chapter corresponds to a theme identified by the Commission and builds on the vision and principles set out in our Water Strategy for Wales. It outlines the Welsh Government's thinking and invites views to inform the next phase of reform. This is a critical opportunity to build on the Commission's findings and ensure that any future system delivers for Wales, for our communities, environment, and economy.

For our consumers in Wales, we will embed structured local and regional engagement into the new National System Planning process so communities can help shape catchment priorities and give their views on where investment should be focused. We will also consult on strengthening redress for Welsh customers, (either through a Wales-specific route or participation in an England and Wales ombudsman model, and assess affordability tools for low-income households to help keep bills fair and consistent. During transition, the Strategic Policy Statement will set interim expectations for service, transparency and support for customers in Wales.

To secure a sustainable and resilient water environment in Wales, we are seeking views on a National System Planner for Wales. This will support alignment of decisions for river basins, coasts and aquifers so they pull in one strategic direction and reflect Welsh priorities. Catchment programmes will integrate company investment, NRW regulation and local measures, targeting the biggest ecological

gains first. We propose to consult on a minimum environmental transparency standard and explore options for publishing public dashboards that combine discharge, river health and enforcement data. We are also seeking evidence on what further changes to Permitted Development Rights for water infrastructure should be considered and on safeguards needed to balance faster delivery with environmental protection and community engagement as part of any future reform of Permitted Development Rights.

A central objective of the approach set out in this Green Paper is to ensure future investment in the water system supports long-term environmental recovery, resilience and affordability. The Welsh Government recognises attracting and sustaining investment depends on regulatory clarity, stability and confidence in the long-term direction of travel. This consultation therefore explores how future arrangements in Wales could better align planning, regulation and investment with public value and environmental outcomes.

We are taking a transparent and phased approach as we move from current arrangements towards future ones. It is envisaged there will be three broad phases. Firstly, legislative change, with Wales seeking enabling powers through UK Government legislation, and subject to this, a subsequent Senedd Bill to introduce updated arrangements to deliver new powers in Wales; secondly, we will need to establish a new economic regulatory body for Wales, incorporating the economic regulator and system planner; and thirdly the new body will ‘Go Live’ and undertake the new functions in the 2030s marking the introduction of updated arrangements for how functions are carried out in Wales and the point at which new arrangements are fully operational. Throughout this period, continuity of regulatory oversight will be maintained, including during the next price review period, with interim direction and joint transition planning used to provide clarity for companies, customers and investors.

During transition, existing regulatory responsibilities will continue to apply, including for drinking water quality, environmental regulation and customer advocacy, while arrangements are coordinated to ensure stability and effective delivery across Wales.

In Wales, it is anticipated that within the three phases of change we will have two transition periods which will evolve as workstreams progress. The first transition plan is a joint plan with Defra to ensure regulatory continuity, with the second covering the steps needed to transition to the new body and regulatory regime in Wales.

The first transition plan will set out the key stages and principles for change for Wales, providing clarity for stakeholders on how the programmes in England and Wales will interact during the period when the reforms are being instituted. We recognise some decisions will remain subject to consultation and legislative processes. It is important to recognise that the timelines for change in Wales and in England are different, and for Wales this initial plan will focus on ensuring continuity of regulatory oversight and steers on water company planning processes, in addition to clarity on governance, timelines, and engagement arrangements during transition. We will continue to work with Defra to ensure legislative milestones, governance

arrangements, and cross-border regulatory functions are aligned, while also reflecting the distinct context and timetable for reform in Wales.

Water companies operating in Wales will be guided by a national outcomes framework and a revised approach to business planning. Overlapping plans are consolidated and refocused on deliverability and multi-benefit outcomes. A Wales Water Governance Code will make board-level responsibility for asset health trajectories and environmental/customer outcomes explicit, backed by public performance dashboards. Targeted Permitted Development Rights will speed low-risk routine works; strategic consenting will be sequenced via the systems plan.

Cross border considerations are critical as the transformation of the water sector cannot be delivered in isolation. Water is a shared resource that underpins public health, environmental resilience, and economic stability. It touches every aspect of life, from drinking water safety and consumer protection to climate adaptation and biodiversity, and its management must reflect both current needs and those of future generations.

We are currently working with the UK Government to explore the proposals set out in the Green Paper. This includes discussing the scope of the legislative and executive competence that may be required to implement these proposals. Welsh Government and UK Government both recognise we are entering a new normal. To deliver this successfully, the right governance and devolved functions must be in place, supported by legally sound processes. We are asking for expanded legislative competence and for relevant statutory powers and executive functions, currently found in England and Wales wide legislation to sit clearly within the remit of the Senedd and Welsh Ministers' because they are essential to implement the Commission's recommendations for Wales and to deliver our broader policy ambitions for resilience, fairness and environmental integrity. These recommendations call for clarity of roles, stronger accountability, and integrated planning across borders, and they align with our vision for a system that works for Wales while contributing to shared UK objectives.

The rationale is clear. Shared assets and interconnection points require coordinated oversight to avoid unintended impacts on communities or the environment. Strategic resource planning must reflect Welsh priorities while remaining aligned with wider UK resilience objectives. Dispute resolution and transparency mechanisms, as recommended by the Commission, need a statutory footing to command trust and confidence. These powers will enable Wales to legislate for a distinct regulatory framework while maintaining cooperation on cross-border matters.

This is about protecting public health, water security and environmental integrity, while ensuring investor confidence and consumer protections. Reform must command trust and be delivered with people, not to them, through meaningful engagement and collaboration.

Chapter 1: Our Strategic Direction for Water in Wales

This chapter sets out the strategic direction for water in Wales, responding to the Commission's recommendation for a clearer long-term national approach. It makes the case for refreshing the National Water Strategy for Wales and reviewing how Welsh Ministers set strategic direction for the water industry, recognising existing

frameworks do not yet provide sufficient long-term focus, milestones or cross-sector alignment. The chapter is grounded in the Welsh legislative context, builds on the strengths of the Welsh water sector and collaborative governance arrangements, and marks the start of policy development. It also explores options for strengthening how strategic priorities are communicated to the industry, including existing mechanisms and the Commission's proposed Ministerial Statement of Water Industry Priorities, seeking views on how transparency, alignment and delivery could be improved.

Chapter 2: Planning Together for a Resilient Welsh Water System

This chapter considers how system-wide water planning in Wales could be strengthened and better coordinated. It outlines how Wales plans to introduce a National System Planning Function to coordinate water management across Wales, seeking views on its scope, responsibilities and relationship with existing plans such as Water Resource Management Plans, Drainage and Wastewater Management Plans, River Basin Management Plans and drought planning. The chapter addresses how planning across sectors, including agriculture, housing, transport and land use, could be better aligned, and how cross-border catchments and shared infrastructure should be managed. It also explores planning horizons, investment cycles and options for simplifying and aligning existing planning requirements to support resilience, environmental outcomes and long-term investment.

Chapter 3: Modernising our Legislative Framework in Wales

This chapter examines the existing legislative framework governing water in Wales and considers where it may no longer provide the most effective basis for protecting public health, the environment and long-term resilience. It responds to the Commission's recommendations by identifying areas for potential review, including wastewater and drainage legislation, the Water Framework Directive Regulations, public health considerations, monitoring requirements and the treatment of emerging pollutants. The chapter emphasises the need to maintain environmental protections, align with wider Welsh legislation, and ensure any future legislative change supports clarity, coherence and effective delivery. Views are sought on priorities, sequencing and timescales.

Chapter 4: Strengthening Welsh Water Regulation and Accountability

This chapter considers how regulatory responsibilities and accountability in Wales could be strengthened. It explores options for future economic regulation in Wales, including the potential for a standalone Welsh economic regulatory function, while recognising dependencies on legislative competence and the need for continuity during transition. The chapter addresses interfaces with environmental regulation, drinking water regulation and consumer protection, including the roles of Natural Resources Wales, the Drinking Water Inspectorate and Consumer Council for Water. It also considers cross-border arrangements and interim oversight, seeking views on how regulatory clarity, accountability and public confidence can be maintained.

Chapter 5: Delivering Better Outcomes – Reforming Regulation in Wales

This chapter explores how regulatory approaches in Wales could better support environmental improvement, customer experience, affordability and innovation. It considers regulatory engagement, performance frameworks, enforcement tools and transparency, including the use of digital monitoring and public reporting. The

chapter sets out the Welsh Government's position on the Commission's recommendations relating to sludge management, including options for bringing sludge activities within environmental permitting, strengthening assurance and addressing emerging risks. It seeks views on how regulatory oversight can be effective, proportionate and aligned with wider environmental and public health objectives. It also includes a specific call for evidence on digestate production and use.

Chapter 6: Ensuring Strong, Responsible Water Company Governance in Wales

This chapter addresses ownership, governance and financial oversight of water companies operating in Wales. It considers the Commission's recommendations on board responsibilities, senior accountability, financial resilience, transparency and investor confidence. The chapter explores how expectations on governance and behaviour could be strengthened to support long-term environmental performance, affordability and public trust, while recognising the importance of stability for investment and credit confidence. Views are invited on how governance arrangements could better reflect Welsh priorities and public value.

Chapter 7: Building Resilient Infrastructure and Healthy Water Assets for Wales

This chapter focuses on infrastructure resilience and asset health. It examines the Commission's recommendations on asset mapping, resilience standards, forward-looking metrics and supply-chain risk, and considers how oversight of infrastructure planning and delivery could be improved. The chapter also addresses planning and consenting processes, including the role of Permitted Development Rights, and seeks views on how infrastructure delivery can be made more efficient while safeguarding environmental protection, community engagement and long-term resilience.

Chapter 8: Making Change Happen – Transition and Implementation for Wales

This chapter sets out how change to future arrangements for water in Wales could be managed and sequenced over time. It describes the approach to transition, including the use of joint transition planning and interim direction to ensure continuity of regulatory oversight, clarity for companies and consumers, and effective cross-border coordination. The chapter also outlines proposed governance and advisory arrangements to support delivery, provide transparency and maintain confidence through periods of transition, including during the next price review. It recognises that timelines in Wales and England differ and seeks views on how change can be managed in a way that reflects the distinct context of Wales while supporting stability, resilience and long-term outcomes.

Delivering Water Reform for Wales - Our pathway to change

This is a once in a generation reform of water governance, and wider reform of the water system. This programme will reshape how water services are regulated, planned and delivered, with implications for economic regulation, environmental oversight, drinking water quality, consumer protection and public value. The scale of reform is matched by its complexity, and the journey must be carefully paced, strategically sequenced and grounded in the realities of transition, legislation and delivery.

We begin with this Green Paper, which marks the formal start of consultation on the Commission's recommendations and our response. This is an important opportunity for stakeholders, communities and delivery bodies to help shape the direction of reform. This phase is critical to testing priorities and refining the scope of future legislation and regulation.

Following the consultation, we will publish a summary of responses which will highlight outcomes and next steps.

Our timeline is shaped by the wider legislative context. On 20 January 2026, the UK Government published A New Vision for Water, its White Paper setting out proposed legislative reforms to the water sector in England. While this legislation will primarily establish arrangements for England, the scale of reform and the current integration of elements of the water system mean these changes have direct implications for Wales and underline the need for coordinated transitional arrangements and clear interfaces between Welsh and English bodies.

The UK Government is expected to introduce a new water reform Bill during this Parliament. We anticipate that UK Government will legislate to establish the legal framework for reform in England, including the creation of new regulatory bodies and planning functions. While any legislation's primary purpose will be to establish arrangements for England, given the current integrated nature of much of the system, any change will have direct implications for Wales. As such, any legislation will need to provide appropriate enabling powers to progress reform in Wales, set out transitional arrangements, which ensures there is no gap in regulatory oversight for Wales, while new structures are established and to be clear on the interface between Welsh and English institutions.

We are working closely with UK Government counterparts to ensure our legislative requirements are reflected in potential future legislation. This is essential to ensure Wales has the powers it needs to establish its own regulatory system, which is effective, independent and aligned with Welsh priorities.

Subject to the agreement of the new government post the May 2026 Senedd election, the Welsh Government will publish a White Paper after the enactment of UK Government primary legislation, setting out detailed proposals for Welsh legislation. This will be informed by feedback to the Green Paper consultation, and the provisions of the UK Government's primary legislation and our engagement with UK Government. The White Paper will provide a comprehensive framework for reform in Wales, including the establishment of new regulators, the allocation of powers and responsibilities, and the mechanisms for delivery and accountability.

Our White Paper will go further in setting out our delivery pathway for the new Welsh economic regulator and system planner. This includes relevant information about its

legal basis, governance model, funding arrangements, and operational remit. It will clarify how the regulator will interact with other bodies, including Welsh Government, local authorities, Natural Resources Wales (NRW), the Drinking Water Inspectorate (DWI) (or those functions within a new integrated regulator in England), and future regional water planning arrangements in England, and how the new Welsh regulator's functions will be phased in during the period of reform. The White Paper will also address the development of regulatory methodologies and performance frameworks.

Again, subject to the agreement of the new government post-election, we intend to bring forward our own Water Bill in the next Senedd term. This Bill will be focused on ensuring that Wales has the powers to deliver an effective regulatory system. It would be intended to cover economic regulation, drinking water quality, the interests of consumers, environmental oversight and broader public value. It will be designed to enable long-term resilience, affordability and sustainability, and will reflect the distinctiveness of Welsh governance and the responsibilities we hold for future generations.

Following the enactment of a Water Bill for Wales, we intend for the new Welsh economic regulator and system planner to be established. Our current proposal is for the system planning function to be located within the new economic regulator. However, this is a significant decision that will shape how the new arrangements work in practice, including how the regulator operates and collaborates with partners. We welcome views on this approach.

Given the complexity of the processes that will be needed in the new body, we will need to make sure we get the processes and system right from the outset. On this basis, we expect this process to take a minimum of two years, meaning the new body could be in place in the early 2030s. We recognise a new regulator would need to be able to lead the first full price review for Wales (PR34) in 2034. To lead the first full price review for Wales (PR34) in 2034, the new regulator would need to be operational by 2030 at the latest. As the legislative process in Wales will need to proceed in sequence, this timeline means that contingency arrangements will be required to ensure effective regulation for PR34.

Therefore, we will continue to work closely with the UK Government on transitional arrangements, ensuring support from the English economic regulator continues whilst the Welsh economic regulator is being established. Careful planning will be undertaken for knowledge transfer and handover of regulatory tools and processes, with clear communication to stakeholders. The remit of the system planning function, in Wales, is under consideration and will be determined in consultation with partners, reflecting the evolving needs of Wales during this period.

To ensure there is no gap in regulatory oversight for water companies in Wales, it is intended that Ofwat, and any subsequent integrated regulator in England, will provide economic regulation functions for Wales in the interim.

Their work would be subject, as now, to policy direction from the Welsh Ministers. We will set a clear direction of travel and clear priorities which will enable the current regulators to work towards our objectives and the intentions of the new system. We will issue an initial Strategic Policy Statement to Ofwat in early 2026 and work with Defra to publish a joint transition plan for the water sector in early 2026. Further guidance and direction will be provided as required.

Alongside legislative reform, the Welsh Government will also begin work to refresh the Water Strategy for Wales. This will build on the existing strategy published in 2015 but will be updated to reflect the new and changing challenges that we face today, as well as the new institutional landscape following the outcomes of these reforms.

The refreshed strategy will be developed in parallel with our proposed Water Bill for Wales and will provide a long-term vision for water governance in Wales, one that is systems-focused, cross-sectoral and aligned with the Well-being of Future Generations Act.

While planning for the future, we must continue to deliver in the present. We remain responsible for meeting statutory functions and delivering immediate priorities. These include commitments to improving river water quality, supporting nutrient management boards, strengthening flood and drought resilience, ensuring safe drinking water quality, making progress against the objectives of the River Basin Management Plans.

We are working with communities, businesses, and partners across Wales to address climate change, keep water affordable, support fair pricing, and protect customers. Reducing demand for water and making sure our supply is resilient are key priorities. Achieving this relies on everyone, government, organisations, and the public, working together to use water responsibly and manage our natural resources sustainably, so we can prevent waste and protect supplies for the future. The Welsh Government will continue to lead the Price Review Forum, working closely with Ofwat and water companies to ensure performance improvements are delivered throughout the current regulatory cycle. Across all these areas, we are taking action and driving reform, informed by the recommendations of the Commission.

Chapter 1: Our Strategic Direction for Water in Wales

This chapter responds to the Commission's recommendation for new national strategies. We will provide a clearer long-term vision, guide delivery, and support joined up working across sectors. This chapter outlines the case for refreshing the National Water Strategy for Wales and updating the Strategic Policy Statement to achieve this to provide a clearer long-term vision, guide delivery, and support joined up working across sectors.

We are committed to delivering a resilient, integrated and sustainable water system that reflects the needs of communities, the environment and future generations. This chapter builds on the statutory framework established by the Well-being of Future Generations Act and the Environment (Wales) Act 2016, which together require public bodies to consider a long-term, preventative and collaborative approach to managing natural resources.

The next phase of reform will also be shaped by the proposed Environment (Principles, Governance and Biodiversity Targets) (Wales) Bill (the Environment Principles Bill), which will establish an environmental objective to attain a high level of environmental protection and an improvement of the environment and embed key environmental principles and duties to integrate environmental protection, including the polluter pays principle, into Welsh law. This Bill will introduce a statutory framework for biodiversity targets, including a duty on the Welsh Ministers to set at least one biodiversity target relating to pollution, and strengthen the Welsh Ministers' existing duties to seek to maintain and enhance biodiversity and promote the resilience of ecosystems under section 6 of the Environment (Wales) Act 2016. It will also provide a clearer legal basis for aligning water governance with broader environmental and public health outcomes, supporting integration across planning, regulation, and delivery.

The Commission's report provides a valuable evidence base to help us build on this foundation. It recognises the distinct context in Wales, including our legislative framework and collaborative governance culture. These features offer a strong platform for reform and a clear opportunity to shape a strategic direction that is uniquely Welsh.

Wales's water sector benefits from two principal undertakers, each bringing distinct strengths to the delivery of water and wastewater services. Dŵr Cymru Welsh Water serves most of Wales. The company's not-for-dividend model sees it reinvesting surpluses to improve services and infrastructure.

Hafren Dyfrdwy Cyfyngedig, is smaller and is focused on supporting the needs of its communities in north-east and mid-Wales.

In addition to these main providers, a small number of independent undertakers operate in specific developments.

Together, these companies help ensure water services in Wales are reliable, sustainable, and responsive to the needs of all communities. We are at the start of the policy development journey. The feedback received through this Green Paper will help inform our approach. Our aim is to build on what we already have, strengthening strategic clarity, improving delivery mechanisms, and ensuring that our water system is resilient, sustainable and trusted.

Recent evidence confirms that pressures on Wales's freshwater environment remain acute. The most recent State of Natural Resources Report for Wales 2025, published by Natural Resources Wales, concludes that the overall resilience of freshwater ecosystems has not improved since 2020, despite targeted interventions in some catchments. The report highlights continuing pressures from nutrient pollution, altered river flows, physical modification and climate change, and warns that without further action some iconic species and river systems face significant long-term decline.

This evidence demonstrates that improving river health in Wales requires a strategic approach which considers the full range of pressures acting on the water environment. These pressures extend beyond wastewater treatment to include land use, nutrient management and the way organic materials are managed once applied to land. Addressing these challenges requires clearer strategic direction, better alignment between policy areas and a stronger focus on outcomes at catchment scale. This Green Paper responds directly to this evidence by setting out how strategic direction, planning and regulation can be strengthened to reverse decline and build long-term resilience across Welsh river catchments.

1.1: Welsh Government's Strategic Direction

Commission recommendation 1

The UK and Welsh government should each bring forward a new, long-term, cross-sectoral, and systems-focused National Water Strategy for England and Wales respectively

We accept this recommendation. We recognise the need for a clear, long-term strategic direction that articulates national priorities, sets interim targets, and provides a framework for delivery across sectors. This is essential to ensure that water governance in Wales is future-proofed, resilient, and capable of responding to the complex challenges posed by climate change, population growth, biodiversity loss, infrastructure ageing, chemicals and contaminants of concern.

In Wales, we already have a strong foundation. The Water Strategy for Wales, published in 2015, sets out our vision for a sustainable and resilient water system. It reflects our commitment to public value, environmental stewardship, and collaborative governance. However, the Commission has identified that current strategic documents fall short in several key areas. They do not enable an integrated approach across sectors such as agriculture waste, transport, housing, and energy. They lack long-term milestones and do not provide a clear trajectory for delivery. They do not sufficiently assess costs, trade-offs, or the implications of different policy choices, and they are not underpinned by statutory duties or review mechanisms that ensure accountability and transparency.

The Commission proposes that Welsh Government bring forward a new, statute-backed National Water Strategy for Wales, with a 25-year horizon and 5/10/25-year milestones aligned to the Price Review cycle. This would be supported by a broad cost-benefit assessment and a requirement to consult widely. It would provide a coherent framework for aligning regulatory, planning, and investment decisions across the water industry and beyond.

We have agreed in principle to proceed with a new strategy in the next Senedd term. Strategic direction must be grounded in a clear understanding of the reform

landscape, including the roles of new institutions, planning frameworks, and regulatory arrangements. It must also reflect the distinct Welsh context, including our legislative framework and governance culture.

We intend to consider the development of a new strategy following the proposed UK Government's water reform bill becoming an Act. This will provide greater clarity on the legislative framework and regulatory architecture across the UK, including the roles and powers for economic regulation, system planning, and impacts of other delivery bodies. It will allow us to reflect our plans for regulatory reform in Wales, which will be delivered during that the first five year period of a new long-term strategy.

In the meantime, we will continue to signal strategic intent through updates to existing guidance and policy statements, engagement through a reinvigorated Water Industry Forum, cross-government coordination on climate, nature, and public health outcomes, and ongoing collaboration with UK Government on transitional arrangements. We will work closely with the water industry and associated regulators to ensure the distinct nature of requirements in Wales are accounted for through regulation, planning and supporting consumer needs in Wales.

This is Stage 1 of the reform process, where both the UK and Welsh Governments are independently setting out their next steps. However, in some areas, Wales is reliant on UK Government progress, particularly in relation to legislation that enables structural reform. We will take time to understand the moving parts of the reform programme to lay the groundwork for setting a new strategic direction. This includes assessing the implications of UK Government's legislation for Welsh delivery bodies, understanding the role and remit of a future Welsh economic regulator and system planner, clarifying the interface between economic regulation, environmental regulation, and strategic planning, and engaging with stakeholders to test priorities and delivery models.

Any future strategy must be aligned with the Well-being of Future Generations Act and the Environment (Wales) Act 2016, reflecting our distinct Welsh context. It must also be underpinned by statutory duties, impact assessments, and review mechanisms to ensure transparency, accountability, appropriate funding and continuous improvement.

1.2: Setting Direction for the Water Industry

Commission recommendation 2

The UK and Welsh governments should revise the legal framework for the Strategic Policy Statement and replace this with a new Ministerial Statement of Water Industry Priorities (MSWIP), directing all water industry regulatory and systems planner functions.

The Welsh Government supports the intent of this recommendation. Providing clear, consistent and actionable guidance to the water industry is crucial to ensuring company plans align with national priorities and deliver public value.

In Wales, we already convene the Price Review Forum, which brings together regulators, water companies and stakeholders during the price review process and was recognised as a positive innovation in Wales in the Commission's report. This collaborative model reflects our commitment to transparency and shared decision-making. It also provides a platform for aligning investment decisions with public

policy goals, including affordability, climate resilience, biodiversity, and community wellbeing.

The Commission has proposed the introduction of a new mechanism, the Ministerial Statement for Water Industry Priorities (MSWIP), to replace the current Strategic Policy Statement model. This would be published every five years, aligned with the Price Review cycle, and would set out expectations for all regulators, not just Ofwat. It would sit beneath the National Water Strategy for Wales and provide clearer guidance on trade-offs, targets, and delivery expectations.

Welsh Government recognises the case for setting out these issues but has not yet determined whether the proposed model would be the most effective mechanism to do this. We acknowledge the Commission's rationale and will consider the proposal as part of the broader reform programme. This includes assessing how such a mechanism might complement a future system planning function, support alignment across regulators, and reflect the distinct Welsh context. In England, the UK Government set out its approach to strategic direction for the water sector in its White Paper, *A New Vision for Water*, published on 20 January 2026. That document signals reforms to how strategic guidance is provided to the sector in England. In Wales, this Green Paper is consulting on the most effective mechanisms to set strategic direction in a Welsh context, reflecting devolved priorities and the potential future establishment of new regulatory and system planning arrangements.

Any future guidance mechanism will be co-developed with stakeholders and designed to support ethical regulation, negotiated outcomes, and the integration of wider public policy goals, such as affordability, public health, biodiversity, and climate resilience. It would also need to be proportionate, transparent, and deliverable.

Determining a way forward on this will be phased to align with Welsh Government processes and the wider reform timeline. In the interim, we will continue to use existing mechanisms, such as the Welsh Government led Price Review Forum, existing guidance and direction powers (where appropriate) and cross-government coordination, to signal strategic intent and support alignment across the sector.

Chapter 2: Planning together for a Resilient Welsh Water System

This chapter responds to the Commission's recommendations to introduce system planners. It sets out proposals on how Wales will establish a National System Planning Function to lead integrated planning across water supply and the water environment, helping different sectors work together and ensuring plans reflect national priorities.

Wales's water sector is defined by its distinctive governance model and the presence of two principal undertakers. These are Dŵr Cymru Welsh Water, owned by Glas Cymru, and Hafren Dyfrdwy Cyfyngedig, a subsidiary of Severn Trent plc serving North East and Mid Wales. These companies deliver water and wastewater services to the vast majority of Welsh households and businesses, reflecting the priorities and values of Welsh communities. The sector is also shaped by cross-border relationships, with companies such as Severn Trent Water and United Utilities holding abstraction rights or infrastructure links that connect Wales's water resources to neighbouring regions in England.

Alongside these incumbents, New Appointments and Variations (NAVs), independent companies licensed by Ofwat, play a role in providing water and

wastewater services to specific new developments in Wales. NAVs deliver infrastructure and retail services for new housing and commercial sites. The Commission's Final Report highlighted the importance of integrating NAVs into the Welsh regulatory and planning framework to ensure consistency, competition, and consumer protection. As we consider our system planning approach, we will consider how all providers operate within a coherent, outcome-focused framework.

We are committed to delivering a resilient, integrated and sustainable water system that reflects the needs of communities, the environment and future generations. This commitment is embedded in the Well-being of Future Generations Act and the Environment (Wales) Act 2016, which together provide a statutory foundation for long-term, collaborative and preventative approaches to public service delivery. This existing framework will be strengthened by the provisions in the Environment Principles Bill.

We will move from fragmented and process-heavy planning towards a coherent, outcome-focused system. The Commission's recommendations on system planning are closely aligned with this ambition. They also support the principles of sustainable development, enabling better integration of water supply and environmental planning, more transparent investment decisions, and clearer accountability across the sector.

Transition and Design Process

We are in the early stages of considering how to take forward the proposals outlined in this chapter of the Green Paper. We support the concept of system planning and see a potential opportunity to integrate this function with economic regulation to provide greater long-term certainty about investment priorities. As set out above, we welcome views on this approach. While system planning in Wales is best undertaken at a national level, planning at the catchment scale is essential for delivering the outcomes Wales needs. We will ensure the new system planning function actively supports and integrates catchment and regional interfaces, particularly for sectors beyond the water industry. The feedback received through this Green Paper will help inform our approach.

Given the Commission's recommendation for a regional approach in England, implementation of system planning in Wales and in England will vary. Nevertheless, there will be commonality and opportunities for mutual learning as we develop arrangements. We will also need to agree how system planning in the two nations will interact along the border and in respect of cross-border movements and catchments.

Our primary goal is to sustain core regulatory functions while England and Wales transition to differing models. This transition cannot be rushed, it must be carefully sequenced and supported by suitable legislative functions, resources, skills, and capacity.

We are committed to maintaining high standards across shared catchments, ensuring water quality and ecosystem health are protected for all communities affected by cross-border flows. Achieving this will require close cooperation between Wales and England, especially in areas where water resources and infrastructure are interconnected. We will work proactively to align regulatory frameworks, investment decisions, and operational practices wherever possible. This

collaborative approach will help deliver high standards of environmental protection, public value, and long-term resilience across the water system.

Timetables and planning cycles

As part of our early considerations, we will review the range of statutory and regulatory plans that currently operate across the water sector. This includes price review cycles, Water Resource Management Plans, Drought Plans, Drainage and Wastewater Management Plans, River Basin Management Plans, and other relevant strategies such as catchment management and investment plans.

The Commission identified streamlining and aligning these cycles could bring significant benefits. We are committed to streamlining and aligning planning cycles wherever this brings clear benefits for Wales. Our aim is to reduce duplication, free up capacity, and support more integrated and accountable decision-making. We will take care to manage any risks, ensuring statutory requirements and local needs are not overlooked, and will communicate changes clearly as we move forward. We will also work closely with UK Government and partners in England to address cross-border impacts, particularly for shared catchments and regulatory interfaces, so planning remains effective and coordinated across national boundaries.

We will also consider how planning cycles can be made flexible enough to respond to emerging priorities, such as climate change, nature recovery, and new regulatory requirements. Our approach will be informed by robust analysis and stakeholder engagement, and we will ensure changes are proportionate, deliverable, and support the long-term resilience of the sector.

Next steps and areas for consideration

The Welsh Government will take forward the design of a National System Planning Function through a structured and inclusive process. This will be guided by existing policy and legal frameworks, including the Well-being of Future Generations Act, and will be co-developed with stakeholders across the water sector, regulators, and UK Government counterparts. We will also take account of the Commission's recommendations in paragraphs 92–151 of the final report, which set out the rationale, scope, and delivery considerations for systems planning reform.

In particular, the Welsh Government will consider:

Defining the scope of the “system”

Clearly articulating what activities and processes the systems planner will cover, such as discharges to sewer, reuse of final effluent, treatment of residues, and sludges to land. This will ensure that all aspects of water management are appropriately planned and regulated.

Collaboration with other organisations

Determining how the system planner will collaborate with other organisations that retain statutory or operational responsibilities for elements of water, wastewater, or environmental planning. This includes setting out clear governance arrangements and mechanisms for effective joint working, to avoid duplication and ensure coherence across the sector.

For example, close partnership with NRW will be critical for any new arrangements. There are also opportunities for NRW and Ofwat to strengthen their collaboration as

we move towards the new system. This joined-up approach will help ensure coherence and effective delivery across the sector.

Governance and interaction with existing frameworks

Providing clarity on how the system planner will interact with existing planning frameworks and regulatory bodies, ensuring roles, responsibilities, and lines of accountability are transparent and robust.

Timetables and planning cycles

We will review the range of statutory and regulatory plans currently operating across the water sector, including price review cycles, Water Resource Management Plans, Drought Plans, Drainage and Wastewater Management Plans, River Basin Management Plans, and other relevant strategies such as catchment management and investment plans, to determine the most effective planning cycles.

Managing timetable divergence across borders

Addressing the potential for timetable divergence between Wales and England, particularly in cross-border catchments and shared water bodies, Welsh Government will work with UK Government and relevant regulators to coordinate planning cycles and minimise risks arising from misalignment.

Nature, location, and delivery of the system planning function

Consideration will be given to whether systems planning should be a new, consolidated function or an enhancement of existing arrangements. This includes evaluating whether the function should be standalone or embedded within another organisation, and identifying where it would be most effectively delivered.

Evolving scope and ambition

We will seek to strike the right balance between consolidating and improving existing water sector planning and expanding the scope of planning across wider sectors. The scope and ambition of the system planner may expand over time.

Legal powers and statutory duties

Ensuring the system planner is equipped with the necessary legal powers and statutory duties to coordinate across sectors and drive delivery.

Transition and continuity

Maintaining continuity of existing planning functions during the transition will be important. This may involve interim arrangements and transitional forums to ensure a smooth handover.

Resources and capability

The systems planner must be equipped with the data, tools, and expertise required to deliver its functions effectively.

This will be an iterative process. We will consult widely, test options through joint working groups with relevant stakeholders, and ensure that any new arrangements are robust, proportionate, and deliverable. We will also engage with UK Government as these functions are established.

2.1: System Planning

Commission recommendation 3

A comprehensive systems planning framework should be introduced for England and Wales with responsibility for integrated and holistic water system planning. In England, the systems planners should be regional – or ‘regional water authorities’. In Wales, the systems planner should be a national authority.

The current planning landscape is fragmented, overly complex, and insufficiently aligned with national priorities, as the Commission rightly assesses. As such we accept the principle of this recommendation and recognise the potential benefits of a statutory system planning function for Wales. While we have emerging ideas about the design, scope, and institutional form of such a function, no final decisions have been made.

The Commission’s proposals in paragraphs 92–151 of their report provide some prompts in considering the role, powers and delivery model of a system planner. However, we recognise that the Commission’s proposals are heavily informed by the intention for the function to operate regionally within England.

There are different opportunities, and priorities, for a system planning function operating at Wales level. In our view, some of the areas for system planning set out in the report would risk duplication with existing responsibilities or imply a transfer of responsibilities from incumbent regulators, which seem unlikely to be appropriate at a Wales scale.

However, we do see real potential for bringing together planning outputs and defining a longer-term, integrated plan covering water resources and water supply; drainage and wastewater; and environmental water quality to inform investment priorities and to provide clarity to the wider system, for example land use planning. While it is likely there would be some change for those with current responsibility for plans in the water sector, we would see this as primarily a new function providing direction to those with existing roles and then focused on integrating the output of specific plans and making the trade-offs between different priorities.

Our current view is that placing the system planning function within the economic regulator could offer real benefits. It would enable economic regulation, and periodic price reviews, to take place within the context of a clearly defined strategic and broadly-based plan, rather than being driven by a bottom-up list of projects from companies and regulators every five years.

This would enable much more transparent identification of priorities over time, based on their delivery against the objectives set by Welsh Government, and clearer and more stable proposition for investors.

It would also mean that, for each price review, you could start with a broadly defined envelope of affordability, financeability and deliverability and then work to that envelope, rather than starting with what you might want to invest in and letting that drive the cost. Given the ongoing, high levels of investment anticipated to be necessary in the water sector, this would represent an important shift in ensuring future plans are affordable and would provide a better mechanism for making choices about priorities and trade-offs. We will ensure there are safeguards so that investment in asset health is not compromised when setting financial limits for business plans.

We are keen to hear your views on this approach before any final decision is made. Your feedback will help shape the final design and ensure the system planning function best meets the needs of Wales.

It is important to recognise regulatory requirements and performance targets, particularly those responding to nature and climate emergencies, may at times push the limits of affordability, financeability and deliverability, as seen in Price Review 2024 (PR24). In some cases, statutory obligations for Special Areas of Conservation or Water Framework Directive (WFD) water bodies that drain to a Special Area of Conservation mean that affordability cannot be the overriding consideration; environmental need and legal compliance must take precedence to sustain ecosystem resilience and the sustainable management of natural resources.

This approach therefore requires a careful balance. While the envelope concept helps manage costs and prioritise investment, there will be circumstances where regulatory or environmental imperatives require investment beyond what is initially considered affordable. In such cases, it is expected that a way will need to be found to fund these measures if they are deemed necessary. These trade-offs must be transparently assessed and justified within the price review process.

Alongside these considerations, it is important water customers have an appropriate role in informing decisions about investment priorities and the management of affordability. Customer input will help inform priorities and trade-offs, alongside statutory requirements, environmental obligations and the need to secure long-term resilience and sustainability for Wales. We will explore building such a system and consider carefully what it would imply for existing water planning functions and would welcome feedback on this high-level concept.

As noted above, we are less convinced by some of the Commission's suggestions, for example moving the responsibility for being the River Basin Management Planning Authority from NRW into a system planner but we would welcome views on the Commission's proposals and alternative approaches.

The feedback to the Green Paper in this area will inform further policy development, legal analysis and stakeholder engagement. We will consider how a new system planning function will align with Welsh Government processes, including the Senedd electoral timetable, legislative programme, and budget cycles.

2.2: Planning Cycles and Investment Horizons

Commission recommendation 4

The 5-year Price Review cycle should be retained, in England and in Wales, for setting water bills and company revenues over a 5-year period. But water industry investment planning should be conducted on a 5/10/25 year basis with the greater certainty and granularity for the first 5 years, more indicative plans for the following 5 years and higher level indication for the longer term.

We accept the principle of this recommendation. We recognise the value of retaining the five-year Price Review cycle for setting customer charges and company revenues, while enabling longer-term planning horizons to support strategic investment, resilience, and delivery. As set out above, there is an opportunity in Wales to fundamentally embed this approach by making system planning a function

of the economic regulator. This could help ensure short-term affordability is balanced with long-term infrastructure and environmental needs.

In implementing this approach, the economic regulator will need to have regard for statutory timescales that may overlap with Price Review periods. For example, activities subject to statutory Best Available Technique reviews, such as regulated sludge treatment, will be governed by statutory deadlines, which may take precedence over Price Review cycles. This will help avoid challenges experienced in the implementation of new legislation and linked statutory reviews.

In developing this approach, we will also need to consider how planning horizons align with the new Senedd electoral cycle. From 2026, Senedd elections will take place every four years. This change creates a different rhythm for policy development and scrutiny, and any long-term planning framework will need to be flexible enough to accommodate shifts in government priorities while maintaining continuity of delivery. The five-year horizon may continue to provide a useful bridge between regulatory and the Senedd electoral cycle, while the 10 and 25 year horizons offer a structure for setting out longer-term ambitions that can be revisited and refreshed over time.

It is important to emphasise that the environment's needs should remain consistent and prioritised, regardless of the political system or process. While political cycles may influence priorities and the speed of delivery, environmental objectives must be maintained as a constant throughout planning and implementation. This principle is reflected in the Commission's Final Report and will underpin our approach.

The transition to longer-term planning will be phased and supported by guidance, tools, and capacity-building across the sector. We will also need to consider cross-border implications, particularly for companies operating in both Wales and England, to ensure clarity and consistency in expectations.

We welcome views on how longer-term planning horizons should be implemented in Wales, including how they can best support strategic investment, align with Senedd cycles, and deliver benefits for communities and the environment.

2.3: Consolidation of Water Industry Plans

Commission recommendation 5

Water industry planning should be rationalised down from 9 plans into 2 core planning frameworks – 'Water Environment' and 'Water Supply'. This applies to England and Wales.

We agree with the intent of this recommendation and acknowledges the challenges posed by the current planning landscape.

The legislative and regulatory framework for the water system in Wales (and England) has developed piecemeal over many years. As a result, it is now overly complex, difficult to navigate, and often lacks clarity and focus on key priorities and outcomes. Some elements are also outdated. This complexity is reflected in the current planning landscape, which includes multiple overlapping statutory and non-statutory plans. The existence of nine separate statutory and non-statutory plans creates complexity and can hinder strategic coherence across the sector. However, we are not convinced that removing the separate planning requirements is necessarily the right answer.

We see value in bringing together planning outputs at the strategic level, led by a regulator with both economic and system planning functions. We also recognise the importance of ensuring that environmental and system needs are not overshadowed by economic priorities. Our governance model will provide clear safeguards so that environmental protection, resilience, and public value are given equal consideration alongside economic regulation. Within this framework, we will actively seek opportunities to rationalise and integrate specific plans wherever this will strengthen the focus on environmental and system outcomes. Any changes will be made to enhance, not dilute, our commitment to these priorities. We invite views on opportunities to bring plans together, and on whether any changes in ownership of plans would be appropriate, ensuring statutory duties and priorities are maintained.

Any consolidation would represent a significant undertaking. It would require careful consideration of legislative frameworks, statutory duties, and the roles of multiple organisations across government, industry, and regulation. Balancing economic, environmental, and social drivers within governance arrangements will be critical, with clear accountability for maintaining this balance and reconciling competing objectives in practice.

In developing this approach, we will draw on and retain expertise within NRW and Wales's water companies. Future planning must also support catchment-level priorities, multi-benefit investment, and actions beyond those led by water companies, particularly in relation to drainage, land use, agriculture and nature recovery. We recognise the importance of addressing drought resilience and promoting river restoration for flow management and biodiversity, alongside exploring how plans can better support flood risk management and climate change mitigation and adaptation.

This work will align with our wider legislative programme and be supported by statutory guidance. Any changes must be deliverable, inclusive, and capable of supporting long-term resilience and sustainability. We also acknowledge that many aspects of water planning and infrastructure interact at the Wales–England border. Changes in planning arrangements in either country will require careful coordination to avoid unintended consequences, including consideration of how Welsh frameworks interface with English planning systems.

We welcome views on how best to approach these issues, including the practical steps required, the potential benefits and risks, and the implications for delivery across the sector.

2.4: Consistency and Economic Appraisal

Commission recommendation 6

The national coordinator of the systems planner in England, and the national systems planner in Wales, should take on responsibility for ensuring consistency in scenarios, assumptions, and metrics for water industry planning across the new planning framework.

Commission recommendation 7

The systems planner, with the support of the economic regulator, should require, support, and scrutinise a strengthened approach to option development and cost-benefit analysis across water industry planning frameworks. This applies to England and Wales.

We accept the principle of recommendations 6 and 7. Improving consistency and economic rigour across water industry planning is essential. Our preferred approach is to combine the system planning function and the economic regulatory function within a single body. This would allow the system planning function to lead the process, while the economic regulatory function would translate plans into the necessary regulatory controls and targets. This structure offers a clear and effective way to progress these recommendations. It would also provide clarity in setting common scenarios, assumptions and metrics, and ensure that economic appraisal is embedded throughout the planning process.

Strengthening economic appraisal, particularly in relation to option development and cost-benefit analysis, will be essential to ensure future investment decisions are transparent, evidence-based, and capable of delivering best value for the public and the environment.

The transition to a more consistent and economically rigorous planning framework will need to be phased and supported by statutory guidance, capacity-building, and stakeholder engagement. We will also consider cross-border implications, particularly where planning assumptions and regulatory expectations differ between Wales and England and where there is a movement of bioresources (sewage sludge, water clarification sludges etc). Ensuring coherence, even where there are differences, across jurisdictions will be important to avoid duplication and ensure clarity for companies operating in both nations.

We welcome views on how these functions should be developed and delivered in Wales, and the practical steps required to strengthen consistency and appraisal across the sector.

Chapter 3: Modernising our Legislative Framework in Wales

Water sector reform is an opportunity to strengthen legal frameworks relating to water, reflecting the priorities of our communities in Wales.

We broadly agree with the aims of the Report's recommendations in this area, which advocate using legislation to drive improvements for the environment and public health, whilst developing a clearer legal framework that will better enable the regulators to hold companies and sectors to account.

A review of the legislation and evidence will enable us to ensure it is fully aligned with Welsh aims and priorities and takes account of changes related to better insight into new substances in the environment. In doing so, we would ensure there was no reduction in the protections for the environment provided while Wales was in the European Union. This reflects our stated policy position and reflects the environmental provisions in the EU-UK Trade and Cooperation Agreement including the principle of non-regression in Article 391(2) (which obliges both parties not to weaken or reduce their environmental and climate standards below the levels in place at the end of the transition period in a manner affecting trade or investment). We would also reflect the outcome of current discussions on EU Reset.

The Welsh Government is already undertaking work in closely related policy areas which affect river health and water quality. This includes work to strengthen the regulation and enforcement of how organic materials such as sewage sludge, digestate, manures and slurry are managed once applied to land. This work responds to long-standing concerns about nutrient pollution, cumulative impacts within catchments, gaps between planning and regulatory controls, and the limited ability of existing frameworks to assess the effects of organic materials once they leave permitted installations. These issues have been raised consistently by environmental organisations, regulators and communities, and are of particular concern in sensitive river catchments. This Green Paper should therefore be read alongside that work. Together, they reflect a shared objective to ensure that the legislative framework in Wales is robust, coherent and capable of addressing both diffuse and point-source pressures on the water environment, while providing clarity and certainty for land managers, communities and businesses.

3.1: Legislative framework and targets

Commission recommendation 8

The UK and Welsh governments should review the current water legislative framework and amend it accordingly.

A strong legislative framework, along with appropriate targets, is essential to ensure the management of water supports environmental improvement, climate change adaption and mitigation, nature recovery, meets the needs and expectations of our communities and enables sustainable economic growth. In developing any revised legislative framework, we will ensure new provisions dovetail effectively with existing legislation that is fundamental to managing and controlling the water system. This will help maintain coherence across statutory duties, avoid duplication or gaps, and support integrated outcomes for Wales.

The current legislative and regulatory framework for the water system in Wales (and England) has developed in stages over an extended period. We agree this has led to

a legislative framework that is overly complex, difficult to navigate, and lacks clarity and focus on key priorities and outcomes. As indicated at page 101 of the Commission's report, some of the legislation is also outdated and may not accurately reflect the latest scientific understanding or public priorities, for example the [Urban Waste Water Treatment \(England and Wales\) Regulations 1994](#) (UWWTR 1994).

Consequently, we intend to accept recommendation 8 to review the water legislation framework as it applies in relation to Wales and make appropriate amendments. As recognised in the Report, this is a very significant undertaking given the sheer volume of legislation in this area and will take time.

We note the Commission's suggested parameters for conducting the review of legislation, set out at Chapter 3 of their report. We agree that those are sensible parameters to guide the scope of the task, whilst recognising parameters may necessarily evolve as the work is undertaken. As with any legislative reform of this nature, we would engage with the public, stakeholders and relevant scientific and technical experts.

As part of this exercise, we will take the opportunity to better align the legislative framework with the ethos of the Well-Being of Future Generations Act, including our ambitions for long term collaborative approaches to sustainability.

We would welcome views on a realistic timescale for this review and any areas of priority to focus on, for example overlaps or gaps in the current system.

3.2: Wastewater and drainage

Commission recommendation 9

The UK and Welsh governments should update and reform the UWWTR 1994 to deliver better outcomes and a more sustainable approach to drainage and wastewater management. This should involve reporting on whether an Extended Producer Responsibility scheme is needed for the water sector to fund necessary improvements.

Commission recommendation 10

Government should consider legislative changes to drive a more coherent approach to 'pre-pipe' solutions to stop pollutants and rainwater entering the system.

Wastewater and drainage systems are critical to public health and environmental protection. We agree the legislative framework for wastewater and drainage should be reviewed. However, real improvements in outcomes can be secured without waiting for legislative change. Our focus remains on practical actions, both now and in the future.

The current framework, including the UWWTR 1994, is complex and does not always target the most significant impacts on public health or the environment. Much of our infrastructure is ageing and relies on combined foul and rainwater systems, which creates challenges, especially in the context of climate change. Any legislative changes must respond to this reality and direct regulatory and investment effort towards tackling the greatest negative impacts first, within a clear long-term plan. The framework should also take a holistic approach to catchments, enabling upstream interventions and prioritising nature-based solutions rather than relying solely on hard engineering.

Other priorities include capital replacement and maintenance of existing assets, addressing chemicals in excess (nutrients) and chemicals and materials of concern (PFAS (per-and polyfluoroalkyl substances) and other substances), managing sewer capacity pressures and storm overflows, improving consumer behaviour, and reviewing trade effluent consenting. It is important to note that some regulated sectors are already required to demonstrate the indirect downstream impacts of any disposal to sewer under Environmental Permitting Regulations, which are derived from European law. We will review other existing regulatory frameworks that make provision for controlling indirect emissions to ensure a comprehensive approach.

Consequently, the Welsh Government accepts recommendations 9 and 10. Action is already underway, including legislation to ban wet wipes containing plastic, a significant source of microplastics in water, which has already been passed in Wales.

Legislative reform is not the only driver of improvement. We need stronger regulatory enforcement, including civil sanctions and incentives that support positive outcomes. There are opportunities to trial innovative approaches and deploy whole-catchment, nature-based solutions. Achieving this will require all sectors to work together, not just the water industry, and investment in cost-effective interventions.

We will also work with the water industry to reduce inappropriate materials entering their network, such as wipes, sanitary products, cotton buds, fats, oils, and greases, by preventing these items from being flushed or poured away. Reducing this burden on water systems protects the environment, lowers maintenance costs, and strengthens resilience, helping communities enjoy cleaner, safer, and more reliable water while supporting more stable and potentially lower bills.

The legislative framework should integrate biodiversity and other policy areas, and dovetail with existing legislation to maintain coherence and avoid duplication. We would welcome views on a realistic timescale for reviewing legislation in this area, on overlaps or gaps in the current system, and on how enforcement can be targeted more effectively to address root causes. We would also welcome views on other priorities for action, such as innovation, public engagement and investing in nature-based solutions.

3.3: The Water Framework Directive Regulations

Commission recommendation 11

The UK and Welsh governments should consult on reforms to the WFD Regulations, including broadening the scope to include public health outcomes.

Commission recommendation 12

To facilitate a robust assessment of how public health can be effectively incorporated into a new water framework, the UK and Welsh governments should establish taskforces led by the Chief Medical Officers of England and Wales to review the incorporation of public health better into the legislative framework for water.

[The Water Environment \(Water Framework Directive\) \(England and Wales\) Regulations 2017](#) (WFD Regulations) provide the statutory framework for managing the water environment in Wales. Under these Regulations, surface waters are classified into 'water bodies' and assessed for Good Ecological Status or, for heavily

modified and artificial water bodies, Good Ecological Potential, as well as Good Chemical Status for all water bodies.

Bathing and shellfish waters are designated as protected areas under the WFD Regulations and are subject to additional statutory requirements under the [Bathing Water Regulations 2013 and the Shellfish Water Protected Areas \(England and Wales\) Directions 2016](#) (the 2016 Directions). While some integration with public health and food safety legislation exists, further alignment may be needed. There is a need to consider how this framework interacts with other regimes, including the [Conservation of Habitats and Species Regulations 2017](#) and requirements for Strategic Environmental Assessment and Habitats Regulations Assessment (HRA). These assessments will continue to address health impacts in the next cycle of River Basin Management Plans.

The Commission's report highlights challenges in implementing River Basin Management Plans, which are a statutory requirement under the WFD Regulations. The "one out, all out" rule for classification means a water body only achieves good status if all elements, including both ecological and chemical status, are good. This approach can obscure incremental progress and make it harder to communicate improvements to stakeholders. Current evidence suggests the Good Ecological Status/ Good Ecological Potential and Good Chemical Status objectives will not be met for all water bodies. Reasons for this are complex, but a key issue identified by the Commission is the difficulty in following through on River Basin Management Plan actions and the lack of financial incentives for sectors outside the water industry.

Public health is not a core objective of the WFD Regulations, which primarily focuses on ecological and chemical status rather than direct human health outcomes. In contrast, legislation such as the Bathing Water Regulations 2013 places explicit emphasis on protecting people from pathogens through microbiological standards for designated bathing sites, while the 2016 Directions support shellfish life and growth and contribute to food safety by requiring monitoring of contaminants and pathogens in shellfish harvesting areas. Together, these frameworks complement the WFD Regulations by targeting health risks that the WFD Regulations do not directly cover.

The current framework has not kept pace with emerging and complex risks, including persistent chemicals such as PFAS, microplastics, and excess nutrients that may result in eutrophication under certain conditions. These pollutants pose long-term ecological and potential public health challenges, yet they are not adequately addressed by existing monitoring and classification systems under the WFD Regulations. There is therefore a case for reform to ensure the WFD Regulations remain effective, future-proof, and responsive to scientific evidence, public expectations and stakeholder needs, enabling them to tackle both legacy and emerging threats to water quality.

In considering future changes, we will reflect our commitment to "health in all policies". This includes the concept of One Health, which the World Health Organization defines as an integrated, unifying approach that aims to sustainably balance and optimise the health of people, animals and ecosystems. Any revised framework will need to link effectively with existing regimes and the proposed economic regulator and system planning functions. It should also aim to be inclusive of all land-use systems that impact water quality to enable effective delivery.

If wider public health considerations are identified, thought could be given to options to addressing these by expanding the scope of the WFD Regulations or by creating a new regime. Either way, progress should be reported separately, one measure tracking environmental quality and ecosystem function, and another focusing on public health outcomes. We recognise the interdependencies of human and ecosystem health and the opportunities to develop an approach that offers synergies and multiple benefits.

When considering measures to improve water quality standards, it is important to recognise that not all water bodies can or should receive the same level of protection as designated bathing waters. Bathing waters are subject to stricter microbiological requirements because they are intended for direct human contact, whereas other water bodies may serve ecological or resource purposes where different standards are appropriate. This distinction underlines the need for proportionate and targeted measures that reflect both the intended use and the practical feasibility of achieving compliance. Views are invited on feasible options and geographic scope. We will also draw on advice from the Health Protection Advisory Group, chaired by the Chief Medical Officer for Wales, which is already examining water quality and its impact on public health.

The Commission's report also highlights the importance of amenity value and the need to reflect this in any future framework. The case for change here is less strong, and how amenity value might be measured is less clear-cut, but we welcome views on what might be possible and how it could be measured.

Any future framework will need to be affordable, provide value for money, be straightforward to navigate and implement, and be fit for purpose. Determining the preferred approach will require a robust assessment of costs, benefits, and feasibility. Although planning and reporting for the WFD, UWWTR, and Bathing Waters may change, existing environmental standards will be maintained.

3.4: Monitoring the water environment

Commission recommendation 13

Future water monitoring programmes should be reviewed and adequately resourced, to accurately reflect the state of the environment.

Monitoring the water environment is a critical element of the WFD Regulations. It ensures transparency, accountability, and supports informed regulatory decisions.

The current monitoring framework is resource-intensive, requiring comprehensive data collection across all water bodies and pollutant types. Due to resource constraints, monitoring has been reduced, leading to gaps and use of outdated data. There are gaps where pollutants are not monitored at all, and delays in reporting create time lags. These issues undermine the accuracy of environmental classifications and the effectiveness of pollution control. Gaps can be temporal, spatial or relate to specific chemicals. Addressing these weaknesses is essential to improve confidence in data and decision-making.

We are committed to reviewing and enhancing future water monitoring programmes, ensuring they are properly resourced to accurately reflect the state of the environment. In line with this, we accept recommendation 13. A robust monitoring regime is essential to achieving our environmental objectives and tracking progress towards water quality targets.

A core, adequately funded sampling and monitoring programme delivered by NRW must be at the heart of future regulation. This programme should report on water quality, identify drivers of poor quality and provide source apportionment at a sufficient level of detail to enable targeted action.

We also recognise the need to consider trade-offs. Improving water quality often means removing pollutants either at source or at treatment works. Our preference is for pollution to be removed at source, and only if that is not feasible should pollutants be removed downstream. Removal at treatment works can affect sludge quality, which has implications for wider environmental protection and human and animal health. Any future approach must include an assessment of these intended and unintended consequences to ensure improvements are sustainable and do not increase overall risk.

Monitoring must also support compliance with flow and conservation objectives, not just water quality. We are interested in views on what a core monitoring programme should include, as well as its scope and frequency. We also want to explore how technology, predictive modelling and citizen science can provide a richer and more dynamic picture of the water environment.

Funding remains a key issue. The Commission suggests applying the polluter pays principle to monitoring costs. We will review funding mechanisms to ensure long-term sustainability and effectiveness.

3.5: Constrained discretion

Commission recommendation 14

In England, the review of the legislative framework should take forward the concept of 'constrained discretion' for the regulator. This should also apply to the water systems planners, should they sit in an independent body.

Commission recommendation 15

In Wales, a strengthened constrained discretion framework should build on the discretion already enabled by the sustainable development principle within the Well-being of Future Generations Act.

The concept of constrained discretion refers to allowing regulators flexibility in how they deliver outcomes, within a defined set of legal and policy boundaries. While some water sector legislation is highly prescriptive, limiting regulators' ability to adapt to specific circumstances, other frameworks, such as environmental permitting, allow for more tailored approaches.

In Wales, the Well-being of Future Generations Act and the Environment (Wales) Act 2016, embed sustainable development principles and well-being goals. These principles enable regulators to justify flexible decision-making. NRW shared examples of this with the Commission.

NRW also has powers designed to allow it to solve problems where existing regulatory routes do not exist, not to avoid current obligations. These powers allow NRW to test new approaches and learn from them. In addition, NRW can use discretion within some regulatory frameworks to support innovative trials and provide bridging solutions for low-risk activities. This includes the Operational Technical Agreement, which is currently being used for nature-based solution trials. Discretion

in applying regulatory tools also exists in England, but Wales has additional flexibility afforded through the Well-being of Future Generations Act and related legislation.

From the evidence presented to the Commission, and other feedback, it is clear some regulatory obligations and approaches to performance incentives and penalties remain too rigid. This can hinder innovation and the deployment of nature-based solutions. The challenge is not a lack of ambition, NRW is updating its Trials Instruction to apply more widely and has issued regulatory decisions to support the water industry, including recent approvals for water clarification waste. The main constraints are resourcing and the absence of income streams for this work.

Consequently, we accept recommendation 15 which calls for a strengthened constrained discretion framework to build on the discretion already enabled by the sustainable development principle within the Well-being of Future Generations Act. In doing so, we recognise Wales's unique legislative context and the commitment to sustainable development. We also acknowledge the need to enhance regulatory flexibility while maintaining accountability, long-term environmental protections and transparency. This approach should apply not only to NRW but also to Ofwat and any future economic regulator.

Chapter 4: Strengthening Welsh Water Regulation and Accountability

This chapter responds to the Commission's recommendations on regulatory reform. It sets out how governance arrangements in Wales could be strengthened to improve transparency, clarify responsibilities, and embed public value more consistently across the water sector.

Governance and accountability are central to the effective functioning of any water system. They shape how decisions are made, how responsibilities are allocated, and how performance is monitored and improved. The Commission has identified current arrangements, while operational, are fragmented and lack transparency. This can weaken public trust, reduce strategic coherence, and limit the sector's ability to respond to long-term challenges.

In Wales, we have an opportunity to take a more strategic approach to governance reform. Our devolved powers and legislative framework, including the Well-being of Future Generations Act, the Environment (Wales) Act 2016, and the Environment Principles Bill, provide a strong foundation for change. These frameworks emphasise long-term thinking, public value, and environmental protection, and will need to be fully considered in the design of any new governance model.

Developing a separate economic regulation function for Wales, with a built-in system planning function is an opportunity to deliver a more integrated and responsive approach to managing water. It will strengthen public confidence and support long-term investment in infrastructure and environmental protection. It is important to note that the establishment of a separate economic regulator for Wales is subject to ongoing discussions with the UK Government regarding the legislative competence of the Senedd and executive competence of the Welsh Ministers. This is about redesigning an approach inherited from before devolution, not adequately tailored to Wales's needs. We can replace this with an ethical, collaborative framework built on sustainability, affordability and fairness.

Any reform must also be situated within the broader policy and fiscal context. The Welsh Government's broader policy position, as reflected in the Strategic Priorities and Objectives Statement to Ofwat, set out expectations for regulation, which is proportionate, transparent, and focused on long-term outcomes. These priorities include intergenerational equity, resilience, and value for money for customers and communities.

Regulatory reform in the water sector must reflect these principles and be designed to support wider ambitions for a stronger, greener, and fairer Wales.

It is also essential that we think through how changes to regulation interface with the new four-year Senedd electoral cycle, enabling strategic continuity while allowing for democratic scrutiny and policy renewal. We will also need to consider how the Welsh approach will work alongside the new integrated regulator being established in England. This includes managing cross-border issues, ensuring clarity on roles and responsibilities during any transition, and maintaining effective collaboration where shared interests exist.

Commission recommendation 16

The UK Government should establish a new integrated regulator in England. This should combine the functions of Ofwat, DWI, and water functions from the Environment Agency and Natural England. This recommendation relates to the regulatory architecture in England and is therefore a matter for the UK Government.

The Welsh Government notes the Commission's proposal to consolidate economic, environmental and drinking water regulation into a single integrated body for England. We recognise this reflects concerns about fragmentation, duplication and the need for clearer accountability in the English system.

In Wales, we have already confirmed we will take a different path, in line with the Commission's recommendations. As discussed further at section 4.1 below, we are committed to establishing a separate economic regulator for Wales and as discussed earlier in this consultation, subject to the views of consultees, our emerging preference is to embed the system planning function alongside that role. We are actively discussing these issues with the UK Government to ensure any new arrangements fully reflect Welsh needs and priorities.

We agree with the Commission's recommendation that the DWI should remain an England and Wales service. However, we recognise that the process of transferring this function from Defra into a new regulator in England may present challenges. It is essential that any changes to the regulatory architecture in England do not undermine the effectiveness or independence of drinking water regulation in Wales.

The Drinking Water Inspectorate provides independent assurance of drinking water safety and standards, and the Welsh Government is clear there should be no gap, dilution or weakening of these public health protections. Any future consideration of changes to regulatory arrangements would need to maintain or enhance confidence in the safety and quality of drinking water in Wales. We are working closely with the UK Government to ensure Welsh interests are fully protected and any transition is managed transparently and collaboratively.

While the establishment of a new integrated regulator in England is not a decision for Welsh Government, it does have implications for Wales. The UK Government has proposed that the new English body may temporarily oversee certain regulatory functions for Wales while Welsh institutions are being established. Ensuring this is provided for in planned legislation and delivered effectively is critical to ensuring continuity of the oversight of the water industry in Wales until new institutions are fully established.

This is a complex and sensitive phase of establishing new arrangements. The Welsh Government will work closely with UK Government counterparts to ensure interim arrangements are clearly defined, time-limited and do not undermine the development of Welsh regulatory capacity. We are committed to providing clarity throughout this process.

During the period when the new arrangements are being established, regulatory functions for Welsh companies will be temporarily overseen first by Ofwat and then by the new English regulator, once established. Throughout this period, the regulator will be required to deliver effective regulation for Wales, fully responsive to Welsh needs and priorities. We will continue to set out our expectations and requirements through mechanisms such as the Strategic Policy Statement and other directions,

ensuring the regulatory approach fully reflects Welsh standards and policy objectives. We will work to ensure these requirements are embedded in all interim arrangements, and that the roles and responsibilities of both UK and Welsh regulatory bodies are clearly communicated to all stakeholders. We will continue to engage with UK Government as they design and implement their new English regulator to ensure cross-border issues are addressed and Welsh interests are protected. We will also assess the potential for future collaboration, data sharing and regulatory alignment, where appropriate, while maintaining the distinctiveness of the Welsh model.

Our focus remains on building a Welsh regulatory system which is coherent and accountable. We aim to deliver long-term benefits for our communities and environment. While the regulatory architecture in England may change, we will maintain a system that reflects our values, supports our priorities and delivers public value across the water sector. Welsh standards or priorities will not be diluted during the transition.

4.1 Establishing a New Economic Regulator for Wales

Commission recommendation 17

The Welsh Government should establish a new economic regulatory function in Wales that can align directly with the Welsh Government's strategic direction and guidance. The Commission's view is that the better course, subject to consultation, would be to embed this into NRW alongside the wider regulatory functions for water in Wales, though a small freestanding body, as in Scotland, might also be considered.

Commission recommendation 18

The regulator should adopt a more 'supervisory approach' to regulating individual companies. This applies to England and Wales.

Commission recommendation 19

The regulator should ensure funding is directed appropriately to renew assets by clearly defining and ring-fencing base capital expenditure (capital maintenance), base operational expenditure and enhancement capital expenditure allowances. This applies to England and Wales.

The Commission recommended the Welsh Government establish a new economic regulatory function for the water sector in Wales. Its view, subject to consultation, was that this function could be embedded within NRW alongside its wider regulatory responsibilities. It also noted a small, freestanding body, like the Scottish model, might be considered.

We support the Commission's recommendation to establish a new, standalone economic regulator for the water sector in Wales. We do not intend to create a single 'water regulator' for Wales. We have already brought together environmental regulation, natural resource management and linked functions in NRW. We value NRW's integrated remit and the requirement to consider the sustainable management of natural resources, working across land, water and marine environments. We do not wish to undermine this either by stripping out water functions or by adding an additional responsibility, such as economic regulation. We recognise establishing a system planning function within the economic regulator may

have some implications for NRW's functions. However, as set out in chapter 2, we anticipate system planning will primarily be an additional function rather than a replacement for existing activity at national level.

We will set out clear governance arrangements so that ultimate decision-making powers are defined, accountability is transparent, and environmental protection is safeguarded. In doing so, we will consider how NRW's statutory roles and powers will influence, and where necessary be able to challenge, system planning decisions to ensure environmental outcomes are protected.

To establish an economic regulator with the desired powers/functions, further legislative competence and executive functions will likely be required. We are working with the UK Government to seek the necessary powers and to ensure changes to the regulatory framework can be delivered in a way that reflects Welsh priorities and statutory responsibilities.

Agreement with the UK Government is necessary and we recognise the importance of resolving these matters promptly to provide clarity for stakeholders and to support effective long-term planning.

If appropriate powers are not conferred on Wales to deliver its own regulatory framework, the UK Government would need to ensure suitable economic regulation for water in Wales is maintained. In such circumstances, robust reassurance will be needed that the new UK-led regulator will fully protect Welsh interests, uphold Welsh policy priorities, and deliver for Welsh communities and the environment.

A new, stand-alone economic regulator for Wales would mark a significant shift in how economic regulation will be delivered. It reflects the need for a body that is fully aligned with Welsh priorities, values, and devolved responsibilities.

The Commission's recommendation to embed economic regulation within NRW was considered in detail. However, the Welsh Government has concluded that a freestanding body offers greater clarity, independence, and strategic coherence, particularly in the context of wider regulatory reform and the need to ensure transparency and public confidence.

This new regulator will be designed from first principles to reflect the Well-being of Future Generations Act, the Environment (Wales) Act 2016, the proposed Environment Principles Bill, and the broader ambitions of Welsh water reform. It will not simply replicate Ofwat's model. Instead, it will develop a distinctive Welsh approach to economic regulation, prioritising stability, public value, affordability, resilience, and long-term outcomes for Wales.

Establishing such a body is a complex and multi-layered process. It requires careful sequencing of strategic design, consultation, legislative development, and operational transition. There will be sustained engagement with the UK Government to ensure a smooth transition from the new single UK Government regulator to a Welsh economic regulator. The process begins with defining the regulator's purpose and scope, including its relationship with NRW, DWI, water companies in Wales, and UK Government regulators. The scope will also cover water supply and sewerage licensees (retailers) and cross-border appointed companies that operate partly in Wales, such as United Utilities, Severn Trent and South Staffs Water. Where necessary, we will include caveats to clarify roles and avoid overlap or gaps. These decisions will shape its legal powers, staffing needs, and governance model.

The regulator's role in system planning, price review oversight, and performance monitoring must be clearly articulated. Its accountability to the Senedd, and its relationship with Welsh Government, must be robust, transparent and consistent with the arm's length principle. A period of engagement and then consultation will be essential to test the proposed model and build legitimacy.

Stakeholders across the sector, including consumer groups, environmental organisations, investors and the public, will be invited to contribute to the design of the regulator. We recognise the importance of the economic regulatory regime to investors and credit ratings. This engagement will help ensure that the regulator is seen as independent, expert, and responsive to the needs of Wales.

Legislation will be required to establish the regulator formally. We anticipate this will require a Welsh Bill to enable water reform, supported by enabling provisions in UK Government's legislation. The legislative process must be thorough and inclusive, allowing for scrutiny and refinement.

The transition from Ofwat and then the new UK Government regulator to the new Welsh regulator must be managed with great care. This is a sensitive period, where clarity and continuity are paramount. Both the Welsh and UK Governments are making significant changes to their respective regulatory arrangements, and it is essential these are coordinated effectively. The Welsh Government is working closely with Defra to agree the most appropriate transitional arrangements. At present, a temporary oversight role for Ofwat, and its successor body, offers important continuity and certainty, and ensures the relevant functions remain at arm's length from Government. However, this is a shared process, and decisions will be taken jointly to ensure the best outcome for both England and Wales. We are committed to ensuring regulatory stability during the period of change.

Subject to UK Government agreement on the devolution of the required regulatory functions, any interim arrangements must be clearly defined, time-limited, and designed to support the establishment of the Welsh regulator. There are real risks in not getting this transition right, and both Governments are committed to managing it in a way that maintains confidence, avoids disruption, and lays strong foundations for long-term regulatory success. We will also clarify how the Welsh arrangements will interface with the new integrated regulator in England, including cross-border planning, data sharing and enforcement co-ordination.

Our approach to social partnership will be central to this process. By working collaboratively with trade unions, employers, and other stakeholders, we will ensure we establish a new economic regulator for water in Wales which reflects shared values and delivers fair outcomes. This inclusive approach will help build trust, strengthen accountability, and support a smooth transition that benefits communities and the wider economy.

The handover must avoid regulatory gaps, duplication, or confusion, and must be communicated transparently to stakeholders and the public.

Throughout this process, the Welsh Government will need to ensure the regulator is financially sustainable. A funding model based on full cost recovery from the industry will be developed, in line with the polluter pays principle. The regulator must also be able to recruit and retain high-quality staff, which may require flexibility in pay structures and governance arrangements.

The creation of a new economic regulator presents significant opportunities. It allows Wales to align economic regulation with its strategic priorities, embed public value and sustainability into regulatory decisions, and improve transparency, accountability, and responsiveness. It also supports long-term investment in resilience, affordability, and innovation.

However, the reform also carries risks. Legislative delays, capacity constraints, and interface challenges with UK regulators and cross-border water bodies must be anticipated and mitigated. There is also a risk of unintended consequences from structural separation, such as fragmentation or duplication. These risks will be managed through dedicated implementation planning groups and ongoing engagement with stakeholders.

The outcome Wales seeks is clear. We will deliver a regulatory system that keeps water services affordable, resilient and sustainable, ensuring regulation actively supports our communities and environment and provides reassurance to investors and capital markets.

Chapter 5: Delivering Better Outcomes – Reforming Regulation in Wales

The Commission has made a series of recommendations aimed at strengthening the regulatory framework for the water sector across England and Wales. These proposals reflect that the current system, while having delivered some important outcomes, is no longer fully equipped to meet the challenges of the future. Issues such as climate change, affordability, environmental degradation, and the need for long-term infrastructure investment require a regulatory approach that is more transparent, accountable, and aligned with public value.

In Wales, the context is changing. We have committed to establishing a new economic regulator for the water sector, creating a unique opportunity to design a system that reflects our devolved responsibilities and the values of our communities.

This chapter sets out our response to the Commission's recommendations on economic regulation, governance, enforcement, drinking water oversight, water efficiency and strengthening customer experience and advocacy in Wales. It outlines how we will approach reform in a phased and collaborative way, ensuring that the future regulatory framework is fit for purpose, proportionate, and capable of delivering for the people and environment of Wales.

The preferred way of working is for the new economic regulator to work collaboratively with, and draw on expertise from, other bodies through an open and collaborative approach – rather than seek to duplicate efforts. This is consistent with the Supervisory Approach recommended by the Commission. The aim is for the regulatory system to seek to work in parallel with that elsewhere in the UK, sharing information, models and parameters where appropriate, always bearing in mind the necessity of keeping the water sector in Wales at least as attractive to bond investors as regimes elsewhere in the UK.

5.1 Reforming Economic Regulation Methodologies and Financial Frameworks

Commission recommendation 20

Following the establishment of a new methodology for assessing asset condition and expected life, the regulator should consider the merits of linking RCV run-off more closely to the economic depreciation of assets. This applies to England and Wales.

Commission recommendation 22

The regulator should review the performance incentives framework, to rationalise the overall number of PCs and make their corresponding ODI rewards, penalties and returns at risk, clear. This applies to England and Wales.

Commission recommendation 23

UK Government should consider providing the CMA with responsibility to set a common WACC methodology for all UK regulated sectors. This includes the water sector in England and Wales.

Commission recommendation 24

Defra should change the nature of the CMA dispute process for water companies from redeterminations to a standard appeal procedure, in line with other sectors. This applies to England and Wales.

As Wales moves towards establishing its own economic regulator for the water sector, we recognise the need to revisit and reform the methodologies that underpin regulatory decision-making. The Commission's recommendations reflect longstanding concerns about regulatory complexity, transparency, and alignment with public value. These reforms are not simply technical adjustments, they are foundational to building a regulatory system that is credible, fair, and fit for Wales.

A number of these changes can be made now and do not require a reformed regulatory regime to be in place. We are keen to prioritise those changes which stakeholders view as offering the most significant benefits. We are also keen to work closely with UK Government on progressing these recommendations.

Asset Depreciation and RCV Run-Off (Recommendation 20)

One of the central issues is the treatment of asset depreciation. The Commission recommends that, once a new methodology for assessing asset condition and expected life is in place, regulators should consider aligning regulatory capital value (RCV) run-off more closely with economic depreciation. In Wales, we recognise that the current approach, which often relies on fixed assumptions, can obscure the true condition of infrastructure and distort investment signals. Reforming this methodology will require collaboration across engineering, finance, and policy, and must be grounded in a clear understanding of the outcomes we want to achieve. This includes resilience infrastructure, efficient investment, and fair, transparent costs.

Performance Incentives Framework (Recommendation 22)

Alongside asset valuation, the Commission also calls for a review of the performance incentives framework. The current system built around performance commitments and outcome delivery incentives has become increasingly complex, with concerns about clarity, proportionality, and the link between rewards, penalties, and actual service outcomes.

In Wales, we will explore how this framework can be rationalised, ensuring that incentives are meaningful, understandable, and aligned with the priorities of Welsh communities. This work will involve engagement with water companies, regulators, and consumer groups, and must be coordinated with reforms to price reviews and regulatory reporting.

We would be keen to hear views on changes to the current performance commitment and outcome delivery incentive regime which should be prioritised now.

Weighted Average Cost of Capital WACC Methodology (Recommendation 23)

The Commission also raises questions about the role of the Competition and Markets Authority in setting the WACC across UK regulated sectors. While this is a matter for the UK Government, the Welsh Government will engage constructively in discussions about consistency, transparency, and the implications for devolved regulation. We will work with the UK Government to ensure that any changes to

WACC methodology reflect the distinct context of Wales, including our approach to affordability, investment certainty, and public value.

Dispute Resolution Process (Recommendation 24)

Finally, the Commission recommends Defra change the nature of the Competition and Markets Authority dispute process for water companies, moving from redeterminations to a standard appeal procedure.

This proposal has legal and constitutional implications for how disputes are handled across borders, particularly in the context of devolved responsibilities in Wales.

In Wales, we recognise any changes to dispute resolution mechanisms must be fully compatible with Welsh law and devolved powers, both now and in the future as we move towards establishing a Welsh economic regulator.

Defra in their White Paper, A New Vision for Water, have stated their intention to bring the water sector into alignment with other regulated sectors by replacing the current third-party redetermination led by the Competition and Markets Authority with a more focused appeals process. Their aim being to help create a price review process that is faster, more resource-efficient, and more predictable for water companies and investors.

We will work in partnership with the UK Government to ensure any new dispute resolution process is developed jointly, with clear arrangements for managing cross-border disputes and safeguarding Welsh interests. Our priority is to ensure the process is fair, proportionate, and accessible. This would enable a regulatory culture which reflects Welsh priorities, statutory requirements, and the interests of Welsh stakeholders. We will seek legal reassurance that any changes to the dispute resolution framework do not undermine the effectiveness of Welsh regulation or the rights of Welsh consumers and companies.

We recognise the importance of clarity and certainty for water companies, consumers, and regulators during any transition. As changes to the dispute resolution framework are considered, we will engage with stakeholders in Wales to understand their needs and concerns, and ensure new arrangements are communicated clearly and implemented in a way that supports confidence in the regulatory system.

Next steps

This is an area of reform where there will be close collaboration with UK Government.

The process of reforming economic regulation methodologies will be iterative and consultative. It begins with a review of existing frameworks, identifying where complexity, lack of clarity, or misalignment may be undermining effectiveness. It continues with engagement, across government, industry, and communities, to design a system that reflects Welsh values and priorities. It then moves forward through legislative and operational change, coordinated with the establishment of the new Welsh economic regulator.

There are risks in this process. Changes to depreciation, incentives, or dispute mechanisms could lead to uncertainty, volatility, or unintended financial impacts if not carefully managed. There is also a risk that reforms could be seen as technocratic or disconnected from the lived experience of consumers. These risks

will be mitigated through clear communication, phased implementation, and a commitment to transparency and public engagement.

At the same time, the opportunities are significant. Wales can build a regulatory system that is simpler, fairer, and more responsive. These reforms support better investment decisions, improve accountability, and help ensure that the costs borne by consumers are proportionate and justified. They also align with the broader goals of the Welsh Government including economic resilience, environmental sustainability, and the delivery of public value.

The outcome Wales seeks is a regulatory framework that enables long-term infrastructure planning, supports affordability, and reflects the values of our communities. This chapter of reform is about building the financial architecture of a system that works for regulators, providers, and the people of Wales.

5.2 Strengthening Governance and Enforcement in Wales

Commission recommendation 21

The regulator should withdraw the quality and ambition assessment (QAA). This applies to England and Wales.

Commission recommendation 25

The regulator in England and in Wales should significantly reform the system of Operator Self-Monitoring. It should develop a strengthened approach to monitoring, using greater digitisation, automation, public transparency, third-party assurance and intelligence-led inspections

Commission recommendation 26

The UK Government should review the approach to Continuous Water Quality Monitoring. This review should evaluate the effectiveness and value for money of these monitors, with a view to enhancing cost efficiency through the adoption of technological advancements.

Commission recommendation 27

The UK and Welsh governments should tighten regulatory oversight of sludge activity by moving the treatment, storage and use of sludge into the Environmental Permitting Regulations.

Commission recommendation 28

The UK and Welsh governments should implement the civil sanctions provisions in the Water (Special Measures) Act 2025 that will expand the regulator's toolkit to enable swifter enforcement.

Commission recommendation 29

The EA should accelerate their efforts to bring resolutions to long-running enforcement cases in consideration of the public interest of delivering justice for any historic offences.

Commission recommendation 30

The regulator should significantly accelerate the implementation of digital programmes to support intelligence-led and transparent enforcement and compliance activities.

The credibility and effectiveness of water sector reform depend not only on the design of new regulatory bodies, but on the strength of the governance and enforcement systems that underpin them. The Commission's recommendations in this area reflect a clear call for change. This includes the current frameworks for oversight, monitoring and enforcement, which are no longer sufficient to meet the challenges facing the sector.

In Wales, we are committed to building a system that is transparent, accountable, and capable of delivering public value.

We also want to see an approach which reflects the Well-being of Future Generations Act and the Environment (Wales) Act 2016, which require public bodies to consider a long-term, preventative and collaborative approach to achieving long-term outcomes. We see opportunities to apply ethical regulation principles and working towards negotiated settlements within a new Welsh economic regulator and system planner.

Governance Framework and Withdrawal of QAA

The Commission recommends the regulator (Ofwat) withdraw the Quality and Ambition Assessment (QAA), which applies across England and Wales. This change will require an update to regulatory guidance to ensure clarity and consistency during the transition.

In Wales, we will work with Ofwat and UK Government to manage the withdrawal of QAA in a way that avoids disruption and maintains confidence in regulatory processes. Guidance will be revised to remove references to QAA and these revisions will clarify roles and responsibilities for the new Welsh economic regulator and system planner and ensure consistency with devolved priorities and Welsh legislation.

At the heart of this reform is the need to move away from fragmented and reactive enforcement, towards a model that is intelligence-led, digitally enabled, and grounded in environmental and public health outcomes.

Digital enforcement and monitoring

The drive to accelerate digital enforcement and monitoring across the Welsh water sector is both necessary and timely. The Commission's recommendations highlighted the transformative potential of digital programmes, enabling regulators to monitor performance in real time, identify risks early, and respond swiftly to breaches.

In Wales, we will look at investment in systems that allow regulators to do these things. As we embark on this journey, we will ensure affordability remains at the heart of every decision. We will look at opportunities to invest in new technologies, such as automated sensors, public dashboards, and cross-agency data-sharing, to deliver tangible improvements in regulatory effectiveness and customer outcomes, while maintaining value for money. Our ambition is to achieve accessible, proportionate and best value for money digital solutions.

We welcome views on how digital enforcement and monitoring can be delivered in a way that is affordable for Welsh customers.

Operator self-monitoring

A system of operator self-monitoring provides a clear mechanism to support the polluter pays principles and is the appropriate approach in a high trust system, which is what we want to work towards. In the meantime, recognising there are concerns about the robustness of these systems, we are interested in hearing views about appropriate steps which could be taken to provide greater assurance.

This may include greater levels of automation; additional, carefully targeted third-party assurance and inspections, or other approaches which aim to build confidence that monitoring and reporting is both robust and proportionate.

The UK Government's White Paper, A New Vision for Water, published on 20 January 2026, signals an intention to move towards greater independent assurance and transparency in monitoring arrangements in England. This consultation therefore seeks views on the appropriate balance for Wales between operator-led monitoring, independent assurance and public transparency, taking account of Welsh priorities, proportionality and affordability.

Oversight of sludge activity

Sewage sludge is the residual solid waste generated from wastewater treatment. Most sludge is produced and treated by Water and Sewerage Companies, and sludge is also generated from the treatment of private sewage systems, such as septic tanks. When treated appropriately, sludge can provide a valuable source of organic matter and plant nutrients, helping support soil health and the circular economy. Oversight is therefore essential to ensure it continues to be used safely, sustainably and in a way that protects public health and the environment.

The Commission has recommended the treatment, storage and use of sewage sludge be brought under the Environmental Permitting Regulations. In Wales, we support the principle of strengthened oversight and recognise the importance of ensuring sludge is managed through a clear and proportionate regulatory framework that reflects modern science, treatment technologies and supply-chain practices. Treatment, storage, and non-agricultural use of sewage sludge are already regulated under Environmental Permitting Regulations in Wales. Only agricultural use requires further consideration for inclusion within those Regulations

It is recognised that [The Sludge \(Use in Agriculture Regulations\) 1989](#) (SUiAR) and the associated Code of Practice have seen only limited updates since they were introduced. Over the same period, sludge treatment processes, supply-chain arrangements and scientific understanding of contaminants have evolved substantially.

Voluntary measures, such as the Safe Sludge Matrix, have been used to support good practice. However, these do not provide comprehensive or future-proof coverage. The regulations also do not allow the regulator to recover the cost of compliance activity. SUiAR is not well-equipped to respond to new scientific evidence on contaminants such as microplastics, PFAS and antimicrobial resistance markers, nor does it reflect the more complex, multi-party sludge supply chains now in operation.

Any reform must also consider sludge derived from non-mains supplied systems. Current regulations capture these sources. This ensures all forms of sludge are managed appropriately, avoiding regulatory gaps.

The Commission has highlighted expansion of regulatory activity alone will not be sufficient. The Welsh Government will work with water companies, regulators, and industry stakeholders to consider a long-term strategy for managing sludge. This will address innovation, investment, and future regulatory cycles (including PR29 and beyond). The Commission has called for a comprehensive approach, and this strategic work will consider how we can build resilience in the sludge system, improve traceability across the supply chain, and support the development of new treatment and recovery technologies.

Cross-border movement of sludge will require careful consideration. Operational and commercial practices mean that sludge moves between England and Wales. We will therefore work with Defra and other devolved Governments to understand existing arrangements, resolve regulatory and operational challenges and ensure robust controls are maintained.

Further analysis is required to determine the appropriate scope, design and delivery approach for this recommendation. This includes assessing the potential impact on operators and regulatory bodies. It will also require consideration of how each option's implications for regulatory coherence, cost recovery, enforcement powers and the agility of the system to adapt to emerging risks.

This work will be carried out in consultation with NRW, relevant industry stakeholders and public health bodies. Subject to the outcomes of this analysis, we will consider the most appropriate approach to sludge management, informed by best practice and mindful of approaches already taken and proposed by other UK governments.

Evidence from regulators, environmental organisations and wider monitoring has highlighted the contribution land spreading of organic materials can make to nutrient pollution in sensitive catchments if not effectively controlled. Concerns have been raised about sewage sludge, digestate and manures, including their cumulative impacts, the adequacy of monitoring and enforcement, and the long-term implications of contaminants such as excess nutrients, microplastics and other emerging pollutants. These issues are being considered as part of the wider proposals to change water governance in Wales, alongside work to strengthen regulatory accountability and public confidence in our water systems.

To support consultation, below are five potential pathways:

Option 1 – Integrate sludge fully into the Environmental Permitting Regulations

This legislative option would involve bringing the additional sludge activities fully under the Environmental Permitting Regulations, modernising and consolidating the currently fragmented system. Since they were first introduced, SUIAR and the associated Code of Practice have seen only limited updates, and their core structure and requirements have remained broadly unchanged. Over this period, sludge treatment processes, supply-chain arrangements and scientific understanding of contaminants have continued to develop.

To deliver this approach, the Environmental Permitting Regulations could be amended to include land application for recovery of sludge. SUIAR could be repealed, and relevant provisions in the [Controlled Waste Regulations 1992](#) updated or replaced as necessary. This would consolidate oversight under a modern permitting regime.

This approach would give NRW the ability to cost-recover, provide clear regulatory oversight and enforcement powers, ensure consistency with England, and close future regulatory gaps such as those relating to persistent chemicals or other emerging contaminants.

This option aligns with the Commission's recommendation that regulatory oversight of sludge activity should be strengthened through a permitting framework. It also provides a more adaptable basis for regulation, allowing standards and requirements to evolve as treatment practices, technologies and scientific understanding continue to progress.

Option 2 – Non-legislative improvements to standards and assurance

This non-legislative option, which could provide an interim or complementary solution while legislative changes are developed. This could include strengthening voluntary assurance schemes such as the Biosolids Assurance Scheme and updating industry codes of practice so that they align with wider controls for materials applied to land.

Any strengthened scheme would need to meet relevant regulatory requirements. Updated codes could help improve consistency and transparency across the sector. These measures would support quicker improvements in practice without the need for immediate legislative change.

However, this option would not introduce cost-recovery powers for NRW and would continue to operate alongside existing statutory arrangements. It may therefore enhance standards in the short term but would not address long-term coherence or adaptability available under a consolidated permitting model.

Option 3 – Combined legislative and assurance-based model

A hybrid option could combine key elements of the SUIAR into the Environmental Permitting Regulations. This would establish a statutory baseline while allowing earned recognition for an operator who is compliant and adheres to regulator approved assurance standards.

This model would provide scope for NRW to cost recover and provide regulatory flexibility while maintaining high standards amongst operators. Earned recognition reduces the administrative burdens for operators demonstrating strong performance, supported by robust monitoring arrangements.

Further work would be required to design the mechanisms for earned recognition and ensure proportionality and consistency across the system. This approach provides a phased pathway toward a more modernised permitting structure, offering both stability and flexibility during transition.

Option 4 – Updating existing regulations with enhance quality controls

This option would retain the existing legislative framework but modernise SUIAR to improve alignment with controls for other waste-to-land activities. It would also require all domestic sludge to be managed through a regulator-approved assurance scheme such as the Biosolids Assurance Scheme, helping ensure consistent standards across operators.

This approach could support clearer expectations and enhance confidence in sludge use as an interim step. However, it would not introduce cost-recovery powers for NRW and would continue to operate within an older statutory framework. It may therefore be most appropriate as a temporary or transitional approach while longer-term reform is developed.

Option 5 – No change to the current regulatory framework

Maintaining the current regulatory framework would provide continuity. However, it would not reflect the developments in sludge treatment processes, supply-chain operations or scientific evidence that have emerged since the SUIAR and Code of Practice were introduced. The absence of cost-recovery mechanisms, limited monitoring capability and reduced adaptability to future risks means that this option may not fully support long-term regulatory resilience or environmental outcomes.

Stakeholder views will help determine whether this approach remains appropriate for future needs.

Overview of potential options

The five options set out above reflect a range of potential pathways for the future regulation and oversight of sludge activities in Wales. They include legislative, non-legislative, hybrid and status-quo approaches. Each option has different implications for regulatory design, implementation and operation, and presents a range of potential advantages, limitations and practical considerations. At this stage, no preferred option has been identified.

Some options would introduce new regulatory mechanisms, while others would enhance existing arrangements or maintain the current framework. The Welsh Government is seeking views on how each option might operate in practice, including potential impacts on industry, regulators, land managers, public health and the environment.

Legislative options could offer opportunities to revise the underlying regulatory framework. Non-legislative and hybrid approaches may support improvements within the existing system or provide flexibility during any period of change. Continuity options may provide stability but may also require consideration of how effectively they meet future needs.

Given the differences between the Welsh and English contexts, we are particularly interested in stakeholder views on how each option might support clear,

proportionate and effective oversight in Wales, including any implications for data, monitoring, supply-chain arrangements and operational delivery.

We welcome feedback on all options presented, as well as any additional approaches or considerations that stakeholders believe should form part of this consultation. Any reforms and assurance schemes will be developed in line with Welsh Government policy and wider regulatory requirements, embedding Control of Agricultural Pollution Regulation and other relevant standards.

Regulation of Digestate in Wales – Call for Evidence and Options for Reform

Digestate produced from the anaerobic digestion (AD) of biodegradable feedstock is increasingly used across Welsh agriculture. It is primarily used as a sustainable bio-fertiliser, soil conditioner and nutrient source for agriculture, replacing synthetic fertilisers. Although it shares some characteristics with sewage sludge, it presents a distinct set of regulatory, environmental and operational challenges. The current framework for digestate management has evolved piecemeal, with differing environmental standards and oversight mechanisms depending on the type of feedstock, treatment process and end-use. This has resulted in uncertainty for operators, regulators and land managers, and raised questions about whether existing arrangements are sufficiently robust to protect water quality and environmental outcomes.

Feedback from stakeholders and emerging evidence highlight the need to consider digestate separately from sewage sludge. This includes understanding how AD plants operate in Wales, the scale and nature of their feedstocks, key properties of digestates, how digestate is treated and applied, and the regulatory controls governing its use. Welsh Government is aware of growing interest in this area, including from environmental NGOs, and the need to address potential gaps around environmental permitting, monitoring, consistency of standards, and the interface with existing waste and agricultural regimes.

Given these issues, we are seeking views on whether the current regulatory framework for production and use of digestate provides adequate environmental safeguards and delivers clarity for operators and land managers. This includes how the current options of regulatory tools for AD addresses the environmental risk of the process. We also invite evidence on how digestate use contributes to a circular economy in Wales, nutrient management pressures and water quality challenges in sensitive catchments, and whether stronger regulatory or assurance mechanisms may be required.

To support a clearer assessment of the options, this Green Paper includes a **specific call for evidence on digestate production and use**. Specific questions related to digestate are included in the Consultation Response Form (questions 18 – 20).

Civil Sanctions and Enforcement

[The Water \(Special Measures\) Act 2025](#) provides an important new toolkit for enforcement, including civil sanctions that allow regulators to act more swiftly and proportionately.

The Welsh Government supports the principle of implementing these provisions and recognises their potential to strengthen regulatory response and drive compliance. Delivering this reform will require a phased programme of legislative, operational and regulator development. This includes drafting statutory guidance, designing enforcement protocols, building regulator capacity, and engaging stakeholders.

Implementation will require dedicated funding to support training, legal support, and digital systems. Work is underway to assess how these powers can be applied in practice, ensuring their use is transparent, consistent, and aligned with the principles of fairness and environmental justice.

Continuous water quality monitoring

The Commission also recommends the UK Government reviews their approach to continuous water quality monitoring, with a view to enhancing cost efficiency through technological innovation. Welsh Government will separately consider the appropriate approach for Wales, engaging with UK Government on their own review.

Water companies in Wales are already using techniques such as enhanced sensor networks, remote monitoring and predictive analytics. We will work with them and other partners to explore how these approaches can be strengthened and integrated with water quality modelling. Bringing monitoring and modelling together will help us better understand activities and their impacts on the environment, supporting more targeted and effective interventions.

Cross-border enforcement coordination

Finally, the Commission calls on the Environment Agency to accelerate its efforts to resolve long-running enforcement cases. While this recommendation applies to England, it has implications for Wales, particularly in cross-border catchments and shared regulatory functions. We will work with UK Government counterparts to ensure that enforcement is timely, transparent, and coordinated across jurisdictions.

This coordination will also need to address issues such as sludge movements between companies operating in England and Wales. NRW is already working with the Environment Agency on resolving these matters under the Environmental Permitting Regulations, and we will continue to engage on how best to manage compliance and enforcement in these areas.

Next Steps

Reforming governance, enforcement and monitoring in Wales will be a complex and interdependent process. It will begin with a comprehensive review of existing frameworks to identify gaps, overlaps, and areas of weakness. This will be followed by engagement across government, regulators, industry and civil society to design a system that reflects Welsh values and priorities. Throughout effective engagement with the UK Government will be essential, particularly during the period when regulation of Welsh water companies continues through the new UK Government water regulator, until the Welsh regulator is established. The process will then move forward through legislative and operational change, coordinated with the establishment of the new Welsh regulator, with regulation of Welsh water companies continuing through the new English regulator until the Welsh regulator is in place.

There are risks in this process. Changes to monitoring protocols or enforcement powers could lead to confusion, resistance, or unintended consequences if not

carefully managed. There is also a risk that reforms could be seen as punitive or overly centralised. These risks will be mitigated through clear communication, phased implementation, and a commitment to transparency and public engagement.

However, the opportunities are significant. Wales can build a governance and enforcement system which is trusted, effective, and capable of delivering long-term benefits for people and the environment. These reforms support the delivery of environmental outcomes, improve public confidence, and create a more level playing field for operators. They also align with broader Welsh Government priorities, including the Well-being of Future Generations Act, the Environment Principles Bill, and commitments to environmental justice and community engagement.

The outcome Wales seeks is a system where enforcement is timely, proportionate, and grounded in public value.

A system where governance reflects the values of Welsh communities and the responsibilities we share for our environment and future generations.

5.3 Ensuring Drinking Water Standards and Regulatory Capacity in Wales

Commission recommendation 31

The UK and Welsh governments should take steps to ensure full cost recovery from the industry to ensure that the regulatory service is self-sufficient and in line with the polluter pays principle.

Commission recommendation 32

The UK and Welsh governments should ensure that their regulators are equipped with sufficient powers, operational flexibility and the ability to recruit and retain high-quality technical staff. This should include establishing the new regulator outside of public sector pay controls.

Commission recommendation 33

The UK and Welsh governments should ensure an effective process is in place for regularly reviewing and updating drinking water standards.

Commission recommendation 34

The UK and Welsh governments should introduce powers to strengthen the regulator's toolkit in relation to drinking water, including an extension of its powers to cover all third party operators, and powers to directly impose financial penalties.

Commission recommendation 35

The regulator, water industry and UK and Welsh governments should secure and expand Regulation 31 testing services for drinking water products.

We are committed to maintaining and strengthening the safety, quality and oversight of drinking water in Wales to protect public health. The Commission's recommendations in this area reflect the need for a regulatory system that is not only technically robust but also capable of adapting to future challenges, including climate change, population growth, and evolving public health expectations.

We agree in principle with the direction of the Commission's recommendations but recognise that further work is needed to determine how best to take them forward in

a way that reflects the Welsh context, including our devolved responsibilities and the operational realities of the sector.

Regulatory capacity and independence

At the heart of this reform is the recognition regulators must be equipped with the powers, flexibility, and capacity to deliver their functions effectively. This includes the ability to recruit and retain high-quality technical staff, operate independently of overly restrictive pay frameworks, while still offering value for money, and responding swiftly to emerging risks. We will ensure the structures and resourcing of our regulatory bodies are resilient, well-supported, and fit for purpose.

The UK Government's current intention is for the DWI to be incorporated into the new single regulatory body for England. The DWI currently operates as a joint regulatory body for England and Wales. The Chief Inspector of Drinking Water for Wales is appointed by Welsh Ministers and exercises statutory functions in relation to drinking water regulation in Wales, reporting directly to Welsh Ministers.

In principle we are supportive of the continuation of this regulatory function covering Wales and England. However, we recognise moving DWI into Defra's new single water regulator will pose challenges, including complicating the new regulatory body's geographic scope and remit on a permanent basis. This is a different situation than that presented by the new English regulator maintaining regulatory responsibilities during a transition to new arrangements.

As this transition takes place, the Welsh Government will work with Defra to assess the appropriateness of drinking water regulation for Wales being managed by that body. We will consider whether it would be more effective for a dedicated regulatory function to be established within Wales, reflecting our devolved responsibilities and distinct policy context. and to minimise complexity in the scope and remit of the new English regulatory body. Any decision will need to be informed by detailed analysis and engagement and must be supported by transitional arrangements that ensure continuity, accountability, and public confidence.

Cost recovery and the polluter pays principle

The Commission recommends the UK and Welsh Governments take steps to ensure full cost recovery from the industry, in line with the polluter pays principle. We support this principle which is being embedded in law through the Environment Principles Bill, which is currently progressing through the Senedd. This legislation introduces a statutory framework for environmental principles, including polluter pays, and establishes new duties for biodiversity targets and environmental governance.

As part of this, we will explore how regulatory services, including drinking water oversight, can be funded fairly, transparently and sustainably. This will include clarifying whether the approach applies to private water supplies and considering whether it should extend to other sectors. We will assess implications for affordability, investment certainty and the balance of costs between consumers and providers. Any changes will be carefully considered to ensure they support long-term resilience and reflect the values of Welsh communities.

Our view is cost recovery must align with the polluter pays principle and be implemented in a way that is proportionate, fair and consistent with our wider environmental objectives. This approach may also apply to other environmental

sectors over time, as part of integrated governance. We welcome views on how this principle should be applied in practice, including its scope and any safeguards needed to protect affordability.

Drinking water standards

We will work with the UK Government and the DWI to ensure drinking water standards are regularly reviewed and updated. This is an area for early action by Welsh Government.

This is essential to maintain public confidence and ensure that Wales remains aligned with best practice. The review process will be collaborative, drawing on scientific evidence, public health data, and stakeholder input. It will also consider the implications of climate change, emerging contaminants, and technological innovation. We will look at how data collection and sampling can support future planning by identifying environmental risks early and managing them effectively. We will also consider how intake standards can be better aligned with environmental standards, or at least how this alignment can be made clearer and more effective.

Regulatory powers and enforcement

We support the extension of regulatory powers to cover all third-party operators involved in drinking water provision, and the introduction of powers to impose direct financial penalties where standards are breached. These changes would help ensure consistency, accountability, and public protection across the sector.

Further work is needed to define how these powers would be applied in practice, including the development of guidance and enforcement protocols.

Regulation 31 testing services

The Commission's recommendation to secure and expand Regulation 31 testing services is particularly important. These services underpin the safety of drinking water products and infrastructure, and their availability must be maintained and strengthened to meet future demand. We will explore, with partners, options for increasing testing capacity, including investment in laboratory infrastructure and partnerships with academic and commercial providers.

Next steps

The reform process in this area is interdependent with wider changes to economic regulation, environmental oversight, and public health governance. It must be carefully sequenced to avoid duplication, confusion, or gaps in responsibility. There is a risk that changes to regulatory powers or structures could lead to uncertainty among operators or the public. These risks will be mitigated through clear communication, phased implementation, and ongoing engagement with stakeholders.

At the same time, the reforms present significant opportunities. Wales can build a regulatory system that is proactive, responsive, and grounded in public value. These reforms support the delivery of safe, high-quality drinking water, improved public confidence, and ensure that regulation keeps pace with technological and environmental change.

Wales aims to establish a drinking water regulatory system that continues to provide safe drinking water for all residents, with an emphasis on effectiveness,

trustworthiness, and long-term advantages for both individuals and communities. It must be able to respond to emerging risks, support innovation, and ensure that the sector operates in a way that reflects the values and priorities of Welsh society.

5.4 Water Efficiency and Reuse in Wales (Recommendations 36–40)

Commission recommendation 36

The Commission recommends the UK and Welsh governments improve regulatory oversight of water industry abstraction activity by bringing it under the Environmental Permitting Regime.

Commission recommendation 37

The UK and Welsh government should accelerate efforts to reduce household water consumption by introducing compulsory smart metering for a wider range of circumstances.

Commission recommendation 38

Tariff structures should be changed to incentivise water efficiency. This could involve removing falling block tariffs for non-household consumption.

Commission recommendation 39

Standards should be issued for the roll-out of smart meters in the non-household market in England and Wales.

Commission recommendation 40

The UK and Welsh governments should work with their regulators to develop a new policy and regulatory framework to drive the adoption of water re-use infrastructure in the household and non-household markets.

We recognise improving water efficiency and accelerating the adoption of reuse infrastructure are essential to building a resilient, sustainable water system for Wales. This strengthens resilience for society and the environment and is a key step in adapting to climate change. We also recognise reduced water availability can exacerbate water quality pressures if not managed well.

This is an area which has historically had less focus in Wales than environmental water quality but must move up the agenda. The perception that Wales always has plentiful rainfall can create complacency, despite our heavy reliance on surface water storage and relatively fragmented water resource zones. With a changing climate, this vulnerability must be addressed proactively.

The Commission's recommendations in this area reflect the urgency of responding to climate pressures, population growth, and the need to reduce environmental impact across the sector. Water abstraction, consumption, and reuse are not isolated technical issues, they are deeply connected to wider questions of infrastructure planning, affordability, and behavioural change.

We agree in principle with the direction of the Commission's recommendations, but further work is needed to understand how these proposals can be taken forward in a way that reflects the Welsh context, including our devolved responsibilities, infrastructure landscape, and policy priorities. Our approach will be evidence-led and sequenced and will consider distributional impacts and affordability.

Abstraction permitting (Recommendation 36)

The Commission recommends bringing water industry abstraction activity under the Environmental Permitting Regime. The Welsh Government recognises the potential benefits of improved regulatory consistency, stronger environmental oversight, and more integrated catchment management. The Commission highlights that moving abstraction under the Environmental Permitting Regime can modernise and speed up regulatory review, enabling NRW to focus on the riskiest abstraction activities while safeguarding supplies and the environment

Abstraction in Wales is governed by a complex landscape of existing abstraction, legacy infrastructure, historic canal systems, and regionally variable water demands. Any changes to permitting must be carefully considered to avoid unintended impacts on navigation, heritage assets, and community water use. We will include an assessment of water availability at catchment scale, alongside environmental flow needs, to ensure changes are proportionate and effective. We invite views on the appropriateness of integrating abstraction into the Environmental Permitting Regime for Wales and on alternatives that could strengthen oversight while reflecting Welsh conditions.

We will work with NRW and other stakeholders to assess how abstraction permitting could evolve in a way that reflects the distinct characteristics of Welsh catchments, recognising the significance of abstraction for drinking water supply and a range of agricultural and business uses, as well as the role of canals and other standard abstraction sources. This will include an assessment of water availability at catchment level, alongside environmental flow requirements, to ensure resilience and sustainable use. We will also examine how changes would interact with existing regulatory frameworks, water resource planning, and the broader goals of resilience and environmental protection. Further engagement will be needed to ensure reforms are proportionate, evidence-based, and sensitive to local contexts.

Smart metering (Recommendations 37 and 39)

The Commission recommends accelerating efforts to reduce household water consumption through compulsory smart metering in a wider range of circumstances (Recommendation 37) and issuing standards for non-household smart meter roll-out across England and Wales (Recommendation 39).

In Wales, we support the ambition to improve water use efficiency, but compulsory rollout raises important questions around affordability, consumer protection, and technical feasibility. We recognise that in Wales a high proportion of low income families live in unmetered and low rateable value properties. Compulsory metering could substantially increase bills for these families.

We will assess the costs and benefits of smart metering for households and non-households, including impacts on vulnerable customers, and the case for standards that ensure data quality, interoperability and consumer protection. We will test delivery models, governance and funding options before making proposals, and will coordinate with UK partners where standards are GB-wide.

Tariff reform (Recommendation 38)

The Commission calls for changes to tariff structures to incentivise water efficiency, including removal of falling block tariffs for non-household consumption. We support measures to encourage water efficiency but want to understand more about the potential impact for businesses and other non-household users to inform a decision on whether this is an appropriate next step.

We welcome and will gather evidence on non-household usage, options for tariff reform, potential equity impacts and practical incentives that reduce consumption without undermining essential services. Any changes would be carefully sequenced and aligned with smart metering and data improvements.

Water reuse infrastructure (recommendation 40)

The development of water reuse infrastructure is a longer-term but critical goal. We will explore how planning policy, building standards, housing, environmental regulation, public health, and industry can work together to support uptake of reuse technologies, including greywater systems, rainwater harvesting, and industrial recycling.

In the next Senedd term, we will review planning guidance, regulatory frameworks, and investment programmes to enable adoption of reuse solutions at scale. This will include engagement with developers, local authorities, and industry to identify barriers and opportunities for innovation.

Next Steps

The process of reform in this area is complex and interdependent. Changes to abstraction permitting will be coordinated with environmental regulation, catchment planning and assessments of water availability. Any reforms to smart metering and tariff reform would need to be sequenced to avoid confusion or unintended distributional impacts and to maximise measurable savings. Water reuse infrastructure will be supported by planning policy, technical and public health standards, and public engagement, and integrated with modelling so that monitoring data informs action.

There is a risk that reforms could be fragmented or poorly understood if not carefully managed. These risks will be mitigated through clear communication, phased implementation, and ongoing evaluation. At the same time, opportunities are significant. Wales can lead the way in developing a water system that is efficient, resilient, and responsive to environmental pressures.

These reforms support our net zero commitments, reduce pressure on ecosystems, and help ensure that water services remain affordable and equitable. They also align with the Well-being of Future Generations Act, the Environment Principles Bill, and our broader sustainability goals.

The outcome Wales seeks is a water system that uses resources wisely, supports innovation, and reflects the values of our communities. It must be able to respond to climate change, support economic development, and protect the environment for future generations. This chapter of reform is about building a system that is not only technically sound, but socially and environmentally just.

5.5 Strengthening Customer Experience and Advocacy in Wales

Commission recommendation 41

The regulator should strengthen the C-Mex incentive to better reflect customer experience and move to a supervisory approach to the monitoring of the customer-focused licence condition.

Commission recommendation 42

The UK Government should consult on the introduction of a national social tariffs with consistent eligibility criteria and levels of support.

Commission recommendation 43

The Welsh Government should review existing social tariff schemes provided by the 2 companies in Wales and consider reforms to ensure they are providing equitable outcomes.

Commission recommendation 44

The UK and Welsh governments should consider whether to convert the Consumer Council for Water into a new mandatory Water Ombudsman.

Commission recommendation 45

The government should consider transferring the advocacy functions of CCW to Citizens Advice, providing a stronger voice for customers, that the water regulator is required to respond to.

A key test of water sector reform is in how well the system serves the people of Wales, and their perceptions of it. The Commission's recommendations on customer experience and advocacy reflect the need to ensure that consumers are heard, supported, and protected, particularly those facing affordability pressures or service challenges.

Customer experience and service culture

Improving customer experience begins with the way water companies engage with the public. The Commission recommends strengthening the C-Mex incentive to better reflect customer experience and moving towards a supervisory approach to monitoring the customer-focused licence condition.

In Wales, we support this direction of travel and broadly speaking Welsh water companies perform better on these measures, so we are starting from a good platform. For example, in the most recent Ofwat report, Dŵr Cymru Welsh Water met or exceeded performance commitment levels for customer satisfaction, unplanned outage and sewer collapses. Hafren Dyfrdwy has demonstrated consistently strong performance across multiple areas over the assessment period, including pollution incidents and drinking water quality compliance. In relation to pollution incidents, it is the only company that has met its performance commitment level in every year of the period. However, we believe that customer satisfaction must be more than a metric, it must be embedded in the culture and accountability of service providers. This means ensuring companies are not only responsive to complaints, but proactive in understanding and meeting the needs of diverse communities.

As an example of existing good practice in this area, Dŵr Cymru Welsh Water has a Water Resilient Communities Project that focuses on a targeted, integrated, and hands-on, approach that involves the community. The aim is to work with, and not just for, the community on projects ranging from providing water efficiency support, to helping with customer debt, to delivering education sessions to supporting jobseekers.

Affordability and social tariffs

Affordability remains a central concern. The Commission calls for the UK Government to consult on a national social tariff with consistent eligibility criteria and levels of support.

The Commission recognises that in Wales our context is different and provides a separate recommendation for Wales to review existing social tariffs. The Dŵr Cymru Welsh Water social tariff is now among the best. We accept this recommendation and will work with Dŵr Cymru Welsh Water and Hafren Dyfrdwy to consider their existing social tariff schemes, with a view to reforming them if appropriate to ensure equitable outcomes. We will consider how tariffs are structured, how eligibility is determined, and how support is communicated and accessed. It will also explore how social tariffs can be aligned with broader anti-poverty strategies and the principles of fairness and dignity. Our priority is maximum affordability, and we will consider the best options to achieve that.

Consumer advocacy and representation

The Commission has proposed significant changes to consumer advocacy in the water sector, including converting the Consumer Council for Water into a mandatory Water Ombudsman and transferring its advocacy functions to Citizens Advice. These proposals raise important questions about independence, accountability, and the visibility of consumer representation.

In Wales, we recognise consumer advocacy is a vital part of a fair and responsive water system. The UK Government's White Paper signifies an intent to create a new independent Water Ombudsman and use the upcoming UK Government Water Bill to provide a stronger voice for customers, building on the Consumer Council for Water's advocacy role. Given the current joint nature of the consumer advocacy and representation arrangements, we need to consider the implications of that for Wales. Our preference, subject to further consideration and engagement, is to establish distinctive Welsh arrangements and recognise this may require enabling legislation by the UK Government.

In the meantime, we will consider ways in which the current model could be strengthened as well as exploring scenarios of possible future change. In all cases our priority is to ensure consumer representation remains strong, visible, and capable of influencing regulatory decisions, and can work effectively into a future operating with two separate economic regulation regimes.

Our priority is to ensure our future approach to consumer advocacy in Wales is robust, independent, and capable of delivering meaningful outcomes for consumers. This work will be grounded in engagement with communities, service users, and those who support vulnerable groups. It will also be informed by evidence on how well current arrangements are working and where improvements may be needed.

Next Steps

The process of strengthening customer experience and advocacy in Wales will be iterative, evidence-led, and grounded in engagement. It will begin with consideration of existing arrangements, including social tariffs, customer service incentives, and consumer representation structures. This review will involve close collaboration with water companies, regulators, the Consumer Council for Water, and consumer groups including Citizens Advice, as well as engagement with communities and those supporting vulnerable consumers. The aim is to identify where improvements are needed and how reforms can be designed to reflect the values and priorities of Welsh society.

Chapter 6: Ensuring Strong, Responsible Water Company Governance in Wales

Company structures, governance, and financial resilience are the foundations of a water sector that delivers for Wales. Our approach is guided by the Well-being of Future Generations Act and the principle that water services must be sustainable, transparent, and rooted in public value. While many recommendations from the Commission are directed at regulators, we will lead policy development during the transition to ensure these principles are embedded.

The Welsh water sector is distinct, with two incumbent companies, Dŵr Cymru Welsh Water and Hafren Dyfrdwy, alongside NAVs and retailers. Our priority is a sector that is financially resilient, well-governed, and aligned with the values of Welsh communities.

6.1 Company Structures and Ownership

Commission recommendation 46

The regulator in England and Wales should adopt an evidence-based process to consider, on a case-by-case basis, whether it would be appropriate for a water company to transition to an alternative ownership model where they request to do so or following a SAR.

Commission recommendation 47

The regulator in England and Wales should have the power to block material changes in control of water companies.

Commission recommendation 48

The regulator in England and Wales should be provided with powers to direct parent companies and ultimate controllers.

Commission recommendation 49

The regulator in England and Wales should mirror elements of the Articles of Association in licence conditions to strengthen accountability.

Welsh Government will work with Ofwat, the new regulator for Wales (when established) and water companies in Wales to consider these recommendations. In the meantime, we welcome stakeholders' views.

6.2 Governance and Accountability

Commission recommendation 50

The regulator in England and Wales should continue current plans to strengthen governance standards and bring its principles into line with the UK Corporate Governance Code. Rules should apply to all water companies, listed and unlisted, and create a level playing field in governance and transparency across all companies.

Commission recommendation 51

A new regime for senior accountability should be established by the UK and Welsh Government. The proposed regime should be subject to public consultation before implementation.

Commission recommendation 52

The UK and Welsh Government should include a target relating to the stability of the regulatory model as an objective in its strategic guidance.

Commission recommendation 53

UK Government should use the opportunity of this review and its decisions on the implementation of the Commission's recommendations to reset its approach to strategic communications regarding the water industry. Its object should be to set justifiable criticism within the context of reform and to show support for the industry as performance improves. The Government should also set the sector's environmental performance in the broader context of the contributions of other sectors to achieving environmental objectives, especially where remedial action for past failures is underway.

Commission recommendation 54

The regulators in England and Wales should conclude long-running investigations and enforcement cases as soon as possible as part of a reset of the sector.

Strong governance is essential to building trust and ensuring water companies act in the public interest. In Wales, this means encouraging the development of frameworks that reflect UK best practice while embedding principles from the Well-being of Future Generations Act: transparency, diversity, and long-term thinking. Boards should have the right expertise to deliver environmental and social outcomes, and governance standards should apply proportionately across all providers, including NAVs.

The Commission's recommendations set out a clear direction for reform. Aligning governance standards with the UK Corporate Governance Code would create consistency and strengthen accountability across the sector. We support this approach and will work with the future regulator and water companies in Wales with a view to embedding these principles in licence conditions. Ahead of this exercise, we will encourage companies operating in Wales to follow the example set by Glas Cymru and adopt these standards voluntarily, recognising that strong governance benefits both customers and the environment.

Clearer accountability for senior leaders is also critical. We agree that a new regime for senior accountability should be developed and subject to consultation. This will include consideration of scope, enforcement mechanisms, and how the regime can reflect Welsh priorities such as fairness, transparency, and long-term resilience.

The Commission also highlights the importance of clarity and stability in the regulatory model. We recognise regulatory certainty underpins investor confidence and effective planning. We will reflect this principle in our Strategic Policy Statement and future guidance, ensuring reforms are sequenced and communicated clearly to avoid unnecessary disruption.

Other recommendations, such as resetting strategic communications (recommendation 53) and concluding enforcement cases (recommendation 54), are directed at UK Government and regulators. Nevertheless, we consider that recommendation 53 is also relevant to Wales and will liaise with the UK Government on work to improve strategic communications. Equally, we support recommendation 54 and will work with regulators in Wales to support efforts to conclude long-running enforcement cases.

6.3 Financial Resilience

Commission recommendation 55

The regulator in England and Wales should consider how best to promote the use of environmental bonds.

Commission recommendation 56

A financial supervision framework should be embedded as part of a broader supervisory model. Within this framework, the regulator in England and Wales should publish a range of risk factors that inform their judgement of a company's financial risk profile

Commission recommendation 57

The regulator in England and Wales should have the power to set minimum capital levels for water companies.

Commission recommendation 58

A formal turnaround regime should be established for the regulator in England and Wales to support turnaround of poorly performing companies. This should enable both an enhanced power of direction as well as regulatory forbearance.

Commission recommendation 59

The regulator in England and Wales should develop and consult on a framework for ensuring companies are prepared for SAR.

Commission recommendation 60

UK Government should conduct a full post implementation review of the BRM. The Welsh Government may also wish to consider a postimplementation review of the BRM, although the Commission recognises policy towards the BRM is different in Wales than England.

Financial resilience underpins the sector's ability to deliver safe, sustainable services. The success of new arrangements for the water system in Wales will depend on its ability to attract private investment through the bond markets. This cannot be considered in isolation from environmental and social objectives. Companies must have the financial capacity to invest in resilience, climate adaptation, and pollution prevention, while maintaining affordability for customers.

The Commission recommends measures such as limits on gearing, dividend restrictions, ring-fencing arrangements, and turnaround regimes for companies in distress. We welcome the views of stakeholders on these recommendations.

There is also an opportunity to build on existing mechanisms to link financial resilience with environmental performance. Mechanisms such as environmental bonds incentivise investment in nature-based solutions and infrastructure resilience, while ring-fencing arrangements protect customers in the event of financial distress. We will seek views on embedding these principles in the Strategic Policy Statement and regulatory guidance.

We will also consider whether a review of the Business Retail Market (BRM) policy in Wales is appropriate, recognising differences from England.

6.4 Transparency and Public Accountability

Commission recommendation 61

The government and regulator in England and Wales should explore short-term measures to improve the functioning of the BRM.

Commission recommendation 62

The framework for regulating NAV applications in England should be made more proportionate to support housing growth. The Commission recognises that given different views on the benefits of NAVs, the Welsh Government may decide not to pursue these reforms.

Commission recommendation 63

The Commission sees a strong case for dropping the requirement for NAVs to produce WRMPs and Drainage and Wastewater Management Plans (DWMPs) given the view of the EA and for changes to the requirements upon them in relation to drinking water testing.

Public trust depends on transparency and proportionate regulation. We will explore short-term measures to improve BRM functioning in Wales and consult on whether NAV requirements should be adjusted, balancing housing growth with environmental and public health protections.

The Commission recommends reforms to NAV obligations in England, including removing requirements for Water Resources Management Plans and Drainage and Wastewater Management Plans. Welsh Government will review these recommendations and consult on whether adjustments are appropriate for Wales.

Alongside these specific measures, we will improve clarity and accessibility of reporting through simplified financial summaries, standardised performance metrics, and public dashboards. These improvements will be designed for adoption by the future regulator but encouraged voluntarily in the short term.

6.5 Embedding the Public Interest and Exploring Alternative Models

Commission recommendation 64

The Commission believes the UK government should monitor NAV market size and risk of fragmentation.

Commission recommendation 65

The regulator in England should continue the essential steps that Ofwat is taking to address issues with DPC and SIPR. A full evaluation of both schemes should be undertaken in 5 years when a broader evidence base has been accumulated. The

Commission recognises that given different views on the benefits of DPC and SIPR, the Welsh Government may decide not to pursue these reforms

The Commission highlights the importance of monitoring market developments to avoid fragmentation and ensure that competition delivers benefits for customers. While this recommendation is directed at the UK Government, Welsh Government will consider whether similar monitoring is needed in Wales, particularly as we review the role of NAVs and other alternative models in supporting housing growth and resilience. We want to embed public interest principles in the duties of water companies and reflect these in future regulatory frameworks. This includes considering how these principles might be applied in the interim through guidance and policy statements. We will lead engagement and research to explore how this may be achieved.

Alongside this, we will examine the potential for alternative ownership models, including mutual, cooperative, and community-based approaches, and assess what enabling frameworks might be needed to support their development in the Welsh context. This work will be informed by evidence and stakeholder input, ensuring that any changes promote transparency, accountability, and public value.

Next Steps

The reform of company structures, governance, and financial resilience is a vital part of building a water sector that is resilient, transparent, and aligned with the values of Welsh communities. While the establishment of a new Welsh economic regulator will be a key milestone, this is a longer-term ambition. In the meantime, Welsh Government will lead on shaping the direction of reform and preparing the ground for future regulatory arrangements.

Our immediate focus will be on mapping the current landscape of ownership, governance, and financial practices across all companies operating in Wales, including NAVs and retailers, and identifying where improvements are needed to strengthen resilience and public value.

This work will inform consultation on embedding these principles in the Strategic Policy Statement and future regulatory guidance. Throughout this process, we will maintain a strong emphasis on collaboration, transparency, and adaptability, ensuring that reforms are proportionate, practical, and capable of delivering long-term benefits for customers and the environment.

Chapter 7: Building Resilient Infrastructure and Healthy Assets for Wales

This Chapter sets out the Welsh Government's response to the Commission's recommendations in relation to infrastructure and asset health in the water industry.

The recommendations are designed to initiate a step change in how infrastructure in the water industry is managed, monitored and delivered.

Delivering safe drinking water and effective wastewater management depends on resilient infrastructure and robust supply chains. As climate change, population growth and other demands, and rising environmental standards intensify pressures on the sector, maintaining the health of water industry assets becomes increasingly important.

Asset health, by which we mean the capacity of infrastructure to perform its intended functions and deliver financial, societal, and environmental benefits, is fundamental to overall system resilience. However, resilience goes beyond the condition of individual assets. It encompasses the ability of the water system to anticipate, prevent, withstand, and recover from a range of disruptions, whether these arise from operational failures, extreme weather, or other external shocks. Achieving genuine resilience requires water companies not only to monitor, maintain, and renew their assets, but also to understand and manage risks proactively, invest in long-term planning, and collaborate effectively with partners across the resilience landscape.

Some of the regulatory framework that applies to water company assets requires maintenance and improvement of the asset to achieve environmental objectives. An example is maintaining and checking structural integrity as part of the relevant permits issued for Anaerobic Digestion of sewage sludge. We will consider whether bringing water treatment and wastewater treatment process activities into the Environmental Permitting Regulations could help ensure asset integrity is treated as a continuous investment process.

Water companies have a key role in this. The priority they afford asset maintenance, effective operation and replacement has a fundamental effective on what is delivered. However, regulators play a key role in overseeing infrastructure performance, setting legal duties, inspecting assets, and influencing investment through performance metrics and price reviews. In particular, the balance Ofwat, and future economic regulators, strike between funding for maintenance, replacement and enhancement has a profound effective on what is prioritised and sets the broader tone which water companies respond to. The most recent price review did see some rebalancing but there is more to do on this.

Recent calls for industry-wide resilience standards, including forward-looking asset health indicators, reflect growing recognition of the need for consistent, long-term planning across the sector.

The National Infrastructure Commission for Wales (NICW) is currently reviewing water infrastructure needs for Wales, and the Commission's recommendations recognise that decisions on infrastructure and asset health should be taken forward by the Welsh Government with consideration to NICW's findings, which we will do. This work concludes in Autumn 2026.

We agree that robust infrastructure and a renewed focus on asset health are essential for safeguarding the provision of water and wastewater management for future generations and is consistent with the principles set out in the Well-being of Future Generations Act, particularly on prevention and looking to the long-term.

While Wales operates within a distinct legislative and policy framework, we will work constructively with stakeholders and counterparts in England to support the development of approaches and standards, ensuring alignment with Wales's sustainable development principles. Also, where appropriate, undertakers in Wales should work with counterparts in England and adopt approaches that are working there.

7.1: Resilience and asset health

We agree that ensuring resilient infrastructure and asset health is critical to the long-term sustainability of the water industry. The Commission highlights the importance of robust asset management, effective supply chains, and forward-looking resilience standards to meet future challenges such as climate change, population growth, and rising environmental expectations.

The Commission's Report also calls for clearer, consistent standards across the sector, including metrics that go beyond asset condition to encompass redundancy, recovery capability, and critical points of failure. It also recognises the role of regulators in driving improvements through legal duties, inspections, and performance-based incentives.

We agree with the thrust of these findings and acknowledge the importance of strengthening resilience and asset health across the water sector for the benefit of consumers and the environment and will consider how best to embed this work into the reform programme. This will include ensuring that the National Water Strategy for Wales and future System Planner have access to transparent data from companies to support effective planning and investment decisions.

Commission recommendation 66

Statutory resilience standards, covering system, infrastructure and supply chains, should be developed and adopted for the water industry in England and Wales.

We accept the principle of recommendation 66 and the need for statutory resilience standards, covering system, infrastructure and supply chains to be adopted for the water industry in Wales. We agree with the view of the Commission that there is benefit in specifying outcome-based resilience standards at the system level, rather than prescriptive requirements for individual assets, as this would provide flexibility for the different conditions in which companies operate.

However, input is required from a variety of sources, including the water industry, when considering and developing these standards and we welcome the views of consultees as this will help shape our developing policy in this area.

Commission recommendation 67

The UK and Welsh governments should strengthen the requirements on companies to map and assess the health of their assets, and the regulators should ensure metrics for asset health are sufficiently forward-looking.

We agree in principle with recommendation 67, which asks Welsh Government to strengthen the requirements on companies to map and assess the health of their assets and ensure the metrics for health are forward looking. This would undoubtedly result in benefits in terms of asset resilience. However, further work needs to be undertaken to assess the cost/benefit of this approach and to assess the case for removing or changing current exemptions to mapping.

The Report also recommends the duty to enforce mapping requirements should be delegated to the new regulator rather than remain with the Secretary of State. Again, the Welsh Government recognises the merits of enforcement activity of this nature being delegated, as regulators commonly exercise enforcement functions of this nature.

Commission recommendation 68

The regulator's oversight of infrastructure resilience and asset health should be strengthened, under its supervisory approach. This should include the appointment of a Chief Engineer on the board of the regulator in England and Wales, respectively.

Commission recommendation 69

The regulator should conduct a sector-wide risk assessment of critical supply chain dependencies in England and Wales.

Recommendations 68 and 69 require strengthened arrangements for the regulator's oversight of infrastructure and asset health. Again, we agree with the intent behind the recommendations. Engineering expertise at board level would provide expert advice and input at the very top of the organisation which would strengthen decision making and expert input into strategic decision making. Although we recognise there will be other means by which this might be achieved, for example, appointing an expert adviser or panel of advisors. We would not wish to rule out other means to achieve the same end.

We also agree the water industry must be resilient to operational supply chain disruption. A sector-wide risk assessment would aim to identify interdependencies or cross-sector risks that individual companies miss. This is particularly important for areas of greatest vulnerability, to ensure secure access to critical materials.

We agree it is critical that companies continue to undertake their own supply chain risk assessments alongside this sector-wide perspective to ensure appropriate mitigations and contingency plans are in place at a local level. Working with UK Government, we will support the water industry to further embed risk assessment of critical supply chain dependencies into the broader reform programme, ensuring views of stakeholder's shape decision making on how best to achieve this.

This is an area where there is already extensive cooperation across the sector and in which Welsh water companies have historically played a very active role. We are keen to establish what steps would make a practical difference in this regard and will engage with water companies and wider stakeholders and experts.

7.2: Infrastructure security

Water is a vital part of the UK's critical national infrastructure. In addition to ensuring resilience, it must be protected against hostile threats, including cyber threats, which pose risks to public health and environmental safety.

We are aware of a range of incidents, including cyber-attacks, impacting on the water industry. While not all incidents result in operational disruption, there is the potential for severe attacks to impact drinking water and wastewater services. We recognise these vulnerabilities and will work with partners to strengthen the security of water infrastructure across Wales.

Water companies are currently subject to two sets of infrastructure security requirements, regulated by the DWI: the Security and Emergency Measures Direction 2022 (as amended) (SEMD), which applies to all water and sewerage undertakers and supports national security and civil emergency preparedness; and the [Network and Information Systems Regulations 2018](#) (NIS), which impose specific cyber resilience obligations on large water companies.

However, from the findings of the Report, we recognise stakeholders have identified significant gaps in the legislative framework. For example, NIS applies only to drinking water and excludes wastewater, while SEMD does not extend to third-party operators. Regulators have also raised concerns that Strategic Policy Statements have not given sufficient prominence to cyber security, and that the DWI lacks adequate enforcement powers to act as a deterrent.

We support the Commission's recommendations to strengthen legislation relating to security arrangements and enforcement powers. These changes will be considered as part of the wider water law reform programme and will need to take into account any changes to the law since the Commission's Report was published (such as the Cyber Security and Resilience (Network and Information Systems) Bill that was introduced to Parliament on 12 November 2025 and which proposes changes to the NIS). We will also explore voluntary measures to address gaps ahead of statutory change. Intergovernmental protocols will be reviewed to ensure clear arrangements for coordination of national security and emergency protocols across borders, including mechanisms for mutual aid between England and Wales to ensure resilience and rapid response to incidents affecting water infrastructure.

Commission recommendation 70

The UK and Welsh government should strengthen legislation relating to security arrangements for the water industry to ensure it keeps pace with a changing industry.

Commission recommendation 71

The regulator should be provided with strengthened powers for the enforcement of existing security regulations in England and Wales.

In light of the increasing frequency of cyber incidents, we support the Commission's recommendations to strengthen infrastructure security. We will review the relevant legislation as part of the wider review of water legislation that we will undertake as part of our response to recommendation 8. We are also keen to identify practical steps which can be taken to address issues and plug gaps voluntarily, ahead of legislative change.

A more resilient and secure water infrastructure is necessary to continue to safeguard public health and environmental integrity. These are issues of national security and we value working on these issues with UK Government, the DWI and other expert agencies. We are committed to continue working collaboratively with UK counterparts, regulators, and industry stakeholders to ensure that water

infrastructure in Wales is resilient, secure, and fit for the future. In conjunction with partners, consideration will be given in relation to how best to take these recommendations forward.

This will include a review of Intergovernmental Protocols to ensure clear arrangements for coordination of national security and emergency protocols across borders, including mechanisms for mutual aid between England and Wales to ensure direction

7.3: Infrastructure delivery

Timely delivery of water infrastructure is crucial for replacing aging assets and supporting sustainable economic growth, including housing and emerging industries like hydrogen and artificial intelligence (AI) data centres.

There are no major water supply projects planned for Wales in the PR 2024. However, we acknowledge future development and climate change will impact the supply and availability of water and wastewater services. Our Future Plan for Wales prioritises development in existing built-up areas to reduce the need for significant new water sources. This approach is designed to minimise environmental impact and ensure sustainable water resource management.

The Commission recommends improvements in four key areas:

1. **Planning** – Better coordination between local planning authorities and water companies.
2. **Regulatory Processes** – Streamlined decision-making for new projects.
3. **Government and Regulator Coordination** – Aligning regulatory support with government priorities.
4. **Standardised Practices** – Sharing best practices across the water industry to boost efficiency.

We agree with these principles and will work with planning authorities, regulators, and industry to embed improvements that support sustainable growth and resilience.

Planning

The Commission has noted that, in England, there is a need for better integration of the water industry into the planning framework.

Commission recommendation 72

The role of water companies in the planning process in England should be strengthened to ensure they have sufficient sight and influence over upcoming developments. The 'right to connect' should be reviewed.

This is an England only recommendation. There are some fundamental differences in the planning processes in England and Wales. In Wales Local Development Plans are used to set out how land should be used and where development should take place over a specified time period. Unlike in England, Welsh Water companies are already statutory consultees for planning applications, covering both single applications and large housing developments. This has been the case since 2016.

The Commission notes at paragraph 9.35 of the Report, that it understands there is adequate engagement with water companies during the development of Local

Development plans, but suggests Welsh Government considers whether companies' role in the process could be strengthened.

We will engage on this point with the relevant water companies and local authorities as part of the wider reform programme.

Regulatory Processes

The Commission has indicated that there is a need to ensure the planning process does not slow down water industry infrastructure delivery.

We agree with the sentiments expressed by the Commission in the Report. In Wales, action has already been taken, as set out below, to help ensure planning processes support infrastructure delivery.

Commission recommendation 73

Planning processes in England should be updated to support the timely delivery of water industry infrastructure.

In England, the Nationally Significant Infrastructure Projects (NSIP) framework supports the delivery of new water infrastructure. Under NSIP, infrastructure projects meeting a certain threshold obtain consent through a Development Consent Order rather than from local planning authorities. NSIPs are assessed in line with the government policy laid out within National Policy Statements for both wastewater and for water resources. The Commission indicates in its Report that the National Policy Statements for water resources and wastewater should be reviewed and updated in England.

We are committed to accelerating decision-making for large-scale infrastructure projects, whilst also ensuring our communities have opportunities to fully engage in the process and our environment is protected. Recommendation 73 does not apply in relation to Wales, and we have already made legislation to streamline and speed up the consenting process for significant infrastructure in Wales, including water industry projects.

This process started with the [Infrastructure \(Wales\) Act 2024](#) which establishes a new process for consenting for significant infrastructure projects in Wales, including energy, waste, water and transport projects. The new system went live on 15 December. The package of secondary legislation made under that Act is designed to work together to ensure the new infrastructure consenting process meets the needs of all stakeholders in Wales.

Commission recommendation 74

Permitted Development Rights (PDRs) for water companies in England and Wales should be updated to reduce the scale of delivery requiring full planning permission.

The Report notes that the current planning process means there are long waits for simple infrastructure projects to be approved. A number of examples are given including water quality monitoring units or small pumping stations.

The Commission indicates that updating Permitted Development Rights could avoid larger projects needing planning permission for small elements of the project, and that reducing the number of elements of projects that need planning permission allows companies to focus effort and resourcing into the bigger and more complex project delivery.

As exemplified by our recent legislation to streamline and accelerate planning decisions on major infrastructure projects (outlined above), Welsh Ministers are sympathetic to recommendations that streamline planning processes.

Earlier this year, we consulted on proposed changes to Permitted Development Rights. The consultation focused on air source heat pumps, off-street electric vehicle charging units, temporary camp sites, reverse vending machines, development by statutory undertakers (electricity), and emergency affordable housing and meanwhile uses. It also sought views on amending the definition of “major development” in the Town and Country Planning (Development Management Procedure) Order 2012.

The consultation closed in July 2025, and officials are currently analysing responses to inform next steps. Any legislative changes will be considered alongside wider planning reforms later this year and will align with Welsh planning law and devolved powers. We welcome evidence on what further changes to Permitted Development Rights for water infrastructure should be considered and on safeguards needed to balance faster delivery with environmental protection and community engagement as part of any future reform of Permitted Development Rights.

Government and regulator co-ordination

Commission recommendation 75

RAPID, in England and Wales, should be expanded and strengthened to support strategic infrastructure delivery.

The Regulators’ Alliance for Progression of Infrastructure Development (RAPID) aims to speed up project development.

The Commission stated, RAPID currently provides oversight of water resource projects, using a gated process, and provides momentum towards securing consents and permits that are needed prior to beginning construction. RAPID also facilitates early conversations around optioneering. The Commission recommends expanding RAPID’s remit to include wastewater and other strategically important projects, even if they don’t meet current thresholds. It also supports continuing RAPID’s role in coordinating major infrastructure delivery and helping projects secure necessary permits.

Given the focus of RAPID’s remit so far, there has been limited scope for it to develop options for Welsh water companies or, which benefit Wales more broadly – as the Commission itself recognised. It is not clear that expansion would change this position so are interested in the views of stakeholders on whether this would be desirable.

RAPID is made up of Ofwat, the Environment Agency and the DWI. NRW and Natural England act as advisors to RAPID, but NRW is not a formal member and does not sit on the RAPID Board. NRW staff have, however, been seconded into the RAPID programme.

These are important considerations when assessing whether RAPID’s remit should be widened in Wales. Any decision on RAPID expansion will be subject to Welsh Government’s assessment of proportionality and alignment with devolved responsibilities. We invite views on whether RAPID expansion would deliver benefits for Wales, and if so, what safeguards would be needed.

The Commission, at paragraph 947 of its Report, notes that engagement between NRW and the current RAPID programme has been limited and recommends greater coordination with Welsh regulators to ensure benefits of the programme are realised. While NRW is involved in a small number of strategic resource options that affect Wales, RAPID's remit is primarily focused on English interests. Looking ahead, it will be important to establish clear arrangements for Wales if future proposals seek to utilise Welsh resources to support projects in England. We welcome views on how future arrangements could provide proportionate engagement and safeguard Welsh interests if more strategic resource options affecting Wales come forward.

Standardised practices

The Commission has indicated that water companies could benefit from a more joined up approach across the industry. As some water companies may not be well placed to deliver major infrastructure projects, there is a need to facilitate a more joined up approach to ensure expertise and best practice are shared. We support the idea that standardised practices can bring efficiency savings to the water sector.

Commission recommendation 76

NISTA should consider how the water industry in England and Wales could move towards standardised practices and further recommend how this could be advanced.

NISTA (National Infrastructure and Service Transformation Authority) is a joint UK Government unit that reports to HM Treasury and the Cabinet Office. Its role is to provide oversight and assurance for major infrastructure projects, promote best practice, and support efficiency and resilience across sectors. In the context of water reform, NISTA would examine opportunities for standardisation and advise on how this could be implemented effectively.

We appreciate that a move towards standardisation of design could increase the efficiency with which water infrastructure projects are delivered. In other areas, we have supported such approaches, for example *Tai ar y Cyd*, a standard pattern book for social housing in Wales, developed in partnership with the sector. However, we also recognise the complexity and site-specific nature of water industry assets and would wish to see any standardisation coupled with an appreciation of the need for flexibility to respond to the specifics of a site, and to the needs of communities.

We will explore whether a Wales-specific framework for standardisation is needed alongside UK-level work. We welcome views on which areas of water infrastructure design could benefit most from standardisation in Wales.

7.4: Monitoring and assurance of infrastructure delivery

Effective monitoring of water infrastructure delivery is vital to ensure public confidence in how bills are spent. For PR 2024, Ofwat introduced two monitoring and assurance frameworks for delivery of water infrastructure. The Delivery Monitoring Framework covers the Water Industry National Environment Programme (England), and the National Environment Plan (Wales) spend. The Delivery Plan Framework aims to track progress annually that companies make towards achieving their delivery programmes. Ofwat also requires water company board-level assurance on the deliverability of each company's business plan. It also uses Price Control Deliverables to incentivise timely delivery and return funds to customers if projects fail.

However, the Commission has identified several concerns:

- Insufficient routine inspections and weak mechanisms for early intervention.
- Complex and fragmented frameworks that burden companies and obscure overall delivery progress.
- Limited coverage of base capital maintenance, reducing assurance on asset renewal.
- Price Control Deliverables may not adequately protect customer funds and restrict innovation.

The Report makes three recommendations to improve accountability and effectiveness:

Commission recommendation 77

The delivery assurance frameworks (Delivery Plans and Delivery Monitoring Framework) that cover infrastructure capital spending across England and Wales should be reviewed during AMP8 and rationalised.

Commission recommendation 78

A review of the current PCD framework in England and Wales should be completed before the end of AMP8, to inform a more robust and flexible framework, broadly set at programme level spending.

Commission recommendation 79

Under the supervisory approach, the regulator in England and Wales should provide assurance on how a company is delivering infrastructure spend.

We agree effective monitoring and assurance of infrastructure delivery is needed for the public to be confident their bills are being used to improve the water environment and services. However, we are concerned the current approach may not always be proportionate or reflect Welsh policy priorities. As we move through transition, it will be important to differentiate what matters most for Wales and, where appropriate, how it is measured.

We support plans to review the current frameworks but would want any outputs to reflect Wales's needs and direction of travel on reform. This may require a more clearly differentiated system from England. We welcome views on how this could be achieved in a way that creates the right incentives for delivery and provides regulatory certainty.

7.5: Supply chain and labour force capacity

Reliable supply chains and a skilled workforce are essential for delivering water and wastewater infrastructure. The water industry depends heavily on the construction sector, but concerns have been raised about an ageing workforce and competition for resources from other industries. A lack of clarity in long-term infrastructure planning is also discouraging supply chain investment beyond the current Price Review cycle.

Some water companies have questioned whether current spending in the water industry may exceed supply chain capacity. Consequently, the Commission has emphasised the need for companies to demonstrate they have the workforce and supply chain capability to meet future infrastructure demands.

In response to these concerns, the Commission is making three recommendations focused on improving supply chain capacity:

Commission recommendation 80

The regulators and systems planners, in England and Wales, should jointly undertake a water industry infrastructure delivery needs assessment against an assessment of supply chain capacity.

The Report recommends that the national coordinator of regional system planners in England, should publish a national dashboard outlining supply chain requirements every five years, in line with their regional plans and alongside a similar approach from the national system planner in Wales. Additionally, the UK and Welsh National Water Strategies should set out a high-level, 25-year vision for the water sector's priorities. It indicates this long-term outlook would help reduce uncertainty and encourage investment in the skills and capacity needed across the supply chain to support infrastructure delivery.

We recognise the importance of mapping infrastructure needs against supply chain capacity and agree, in principle, with the recommendation. Currently, the water industry lacks a single mechanism that sets out long-term infrastructure needs and assesses whether demands on the supply chain are deliverable. We see this recommendation being led separately in England and Wales but supported by appropriate engagement, rather than working towards a single, shared assessment. We welcome views on this and any appropriate interim arrangements.

In addition, we believe that strengthening supply chain capacity should also contribute to growth and the creation of sustainable, well-paid jobs embedded within communities across Wales, supporting local prosperity and resilience.

Commission recommendation 81

Water companies, through Water UK, should share best practice on supplier contracts and procurement strategies to help improve water company relationships with the supply chain in England and Wales.

We agree with this recommendation. It is clear from the Report that there is evidence of good practice in this area which should be shared. We will engage with water companies in Wales to encourage participation in any arrangements that may be put in place by Water UK.

Commission recommendation 82

The regulator, under its supervisory function, should gain further assurance from companies in England and Wales on workforce and supply chains to ensure companies can sufficiently deliver.

As part of its work, Ofwat does scrutinise workforce planning and capacity, but the Report indicates its scrutiny is often seen as light touch by water companies. Going forward, we agree that the regulator should continue to require water companies to assure delivery plans, including the workforce and supply chains. Information gained by the regulator in relation to workforce planning should be shared with the Welsh Government to improve our skills and training pipeline. It should also be shared with other relevant organisations such as the Commission for Tertiary Education and Research (Medr).

It is also agreed, in principle, that the regulator should adopt a risk-based approach, seeking further information and providing additional scrutiny where companies have previously experienced challenges in this area. This is a proportionate approach which will drive improvement as companies will be required to demonstrate they are considering both current and future workforce needs and whether they are able to deliver on both business-as-usual activities and future infrastructure needs. We welcome views on this recommendation.

7.6: Innovation and technology

As indicated in the Report, innovation is vital for improving productivity in the water industry, enhancing service quality, and reducing customer bills. However, according to the Commission's assessment, since 2008 productivity growth has slowed significantly, and despite efforts by Ofwat, government, and water companies, innovation remains limited due to several key challenges:

- Risk aversion and regulatory constraints hinder experimentation and novel approaches.
- Limited funding, with concerns that Ofwat's Innovation Fund is too small and may favour larger companies.
- Lack of collaboration, partly due to competitive benchmarking discouraging knowledge sharing.
- Short-term planning cycles, which reduce incentives for long-term, innovative solutions.

The Commission believes that addressing these barriers, particularly around risk, funding, and collaboration, is essential. The Report also supports measures such as outcome-based regulation and increased use of technology to encourage innovation in the sector.

Reflecting our commitment to innovation, we support efforts to foster collaboration, unlock funding, and encourage long-term thinking across the water sector to ensure resilient and forward-looking infrastructure. Innovation in the water industry is also critical for growth in productivity and has potential to lower customer bills and facilitate better quality outcomes. However, we are keen to identify the practical steps which can support this while working towards the approach to water sector governance outlined earlier in the report.

The Report makes three recommendations:

Commission recommendation 83

The UK and Welsh governments should introduce structured regulatory sandboxes to support innovation uptake.

Regulatory sandboxes are controlled environments that allow companies to test new technologies, processes or approaches under a modified regulatory framework, without being subject to the full regulatory burden. They provide flexibility for innovation while maintaining safeguards for public health and the environment.

We support the principle behind the use of regulatory sandboxes to enable water companies to test new concepts and innovative approaches and note this is an approach that has been effective in other sectors. It is agreed they have the potential to enable exploration of new technologies or new ways of working without being

subject to the full regulatory burden. NRW already has experimental powers, and it will be important to address this not just through legislative change but by ensuring clarity of purpose and agreement on scope and ambition.

There is already some evidence of this happening in Wales. For example, NRW issued a regulatory decision to allow the use of tertiary treated final effluent in emergency fire response where nearby water resources were depleted. This was agreed with support from Public Health Wales, illustrating how innovation can be enabled safely under controlled conditions.

We will work with the UK Government, Ofwat and water companies in Wales to discuss what might work for Wales. However, as suggested in the Report, work will need to be undertaken to determine whether amendments to the existing legislative framework would be required to support greater use of regulatory sandboxes to take place or whether operating within constrained discretion would afford sufficient flexibility.

Commission recommendation 84

The regulator in England and Wales should consider whether innovative funding mechanisms for the water industry are sufficient and effective.

The Report indicates the regulator should undertake a full review of the efficacy of the Ofwat Innovation Fund to ensure the Fund works effectively alongside other innovation recommendations. We have noted that some water companies have raised the need for greater funding for innovation and that the competitive nature of the Fund may advantage larger, higher performing companies. It is significant that the Report records (at paragraph 1007) that in the last three years between 78% and 87% of the funding has been awarded to the same five water companies.

We would be interested in the outcomes of Ofwat's review and then to have the opportunity to consider what would be the best mechanism to support innovation in the future and how that should operate within a separate Welsh economic regulation system. We also consider that any future approach should include stronger technical oversight to ensure proposals deliver value for money. Better information on proof of concept already exists from innovation undertaken in other sectors and internationally, and this should inform decisions on funding and prioritisation. We welcome views on how these principles could be applied in Wales.

Given Medr's role in relation to innovation, we will also explore what role it could play, particularly in relation to approaches to skills development.

Commission recommendation 85

Water companies should work with Water UK to disseminate innovation learnings across the water industry in England and Wales.

It is recognised that the current regulatory model, with comparative benchmarking, can discourage water companies from sharing knowledge and best practice, including for innovation. However, there are existing examples of good practice in this sphere that can be built on.

We agree this recommendation, which is a positive step. There are clear benefits to consolidating and sharing best practice which will support the identification of emerging challenges and promote the development of shared solutions. We welcome views on how this can be achieved effectively.

Chapter 8: Making Change Happen – Transition and Implementation for Wales

The Report outlines a transformative, once-in-a-generation reform programme for the water sector, aimed at delivering fair services, environmental outcomes, and long-term sustainability. The scale of change envisaged should not be underestimated, it spans policy, planning, regulation and delivery, and has implications across the wider water system and related sectors.

We have already started a programme of work to take this forward, working with UK Government, regulators, water companies and now, through the Green Paper engaging directly with broader stakeholders. Successful implementation will require careful planning, sustained commitment from all stakeholders, and a clear, coordinated framework to manage the transition effectively.

A key challenge is ensuring progress can be made without creating unnecessary uncertainty or instability for customers, companies, investors or regulators. The period before changes take full effect must therefore be managed deliberately, with continuity of regulatory oversight maintained and existing statutory responsibilities and protections continuing to apply. Joint transition planning and interim direction will play an important role in supporting delivery through the next price review period, while providing clarity and confidence during transition.

This chapter sets out how change to future arrangements for water in Wales could be managed and sequenced over time. It focuses on the practical considerations of transition, recognising the need for stability, coordination and transparency, and acknowledging that timelines and arrangements in Wales and England differ. Transition in Wales must therefore reflect its distinct context, priorities and legislative framework.

Recognising these challenges, the Commission makes a small number of further recommendations focused specifically on transition and implementation. These recommendations are intended to support effective delivery, maintain confidence during periods of change, and ensure that long-term improvements can be made without undermining stability. The Welsh Government is seeking views on these recommendations and on how transition and implementation should be managed in practice.

Commission recommendation 86

The UK and Welsh governments should respectively outline transition plans for regulators, water industry and investors as part of their response to this report.

A transition plan is essential to maintaining public confidence and investor trust during a time of flux. The Welsh Government and UK Government are working together to produce a shared transition plan. However, as the Welsh water sector operates within a different context, the transition plan will be clear where distinctive approaches will be applied.

In developing and implementing the plan, we will take a collaborative approach with industry, regulators and stakeholders to designing and implementing any reforms or interim policies, including an interim Strategic Policy Statement, ensuring time and space to deliver a system which is fit for purpose.

It is important to recognise that the timelines for change in Wales and in England are different. In Wales we envisage this taking place over three phases:

- Phase 1 Legislative change: 2026 to around 2028 / 2029.
- Phase 2 Establishing new Welsh economic regulator and system planning function for water: 2028 – early 2030s.
- Phase 3 Economic regulator for water established and undertaking role: mid 2030s onwards.

This means, in Wales, it is anticipated that within the three phases of change outlined above, there will be **two transition periods to navigate** and we will provide clear direction and set expectations through both of these periods, preparing the way for reform and ensuring that core functions continue to be delivered by all regulators and regulatory certainty for Wales is provided throughout.

The two transition periods are likely to be:

- Firstly, the period from 2026 where Ofwat is considering and responding to the joint UK Government and Welsh Government Transition Plan and supporting the establishment of a new, integrated regulator, primarily for England. To ensure there is no gap in regulatory oversight for water companies in Wales, Ofwat, and any subsequent integrated regulator, must continue to provide economic regulation functions for Wales, including undertaking the price review determined in 2029. It is envisaged that this period will continue until legislation to create a Welsh regulator is made.
- Secondly, the period from when Senedd legislation to establish a new Welsh economic regulator for water is passed (likely to be late 2020s) and when the new Welsh economic Regulator for water is established, becomes operational and takes responsibility for the functions Ofwat currently carries out in Wales (estimated to be mid 2030s).

In addition to the Joint UK Government and Welsh Government Transition Plan which will guide the approach in Phase 1, Welsh Government intends to issue a Strategic Policy Statement to Ofwat to inform their approach to PR29 in Wales. This is likely to be supplemented by further guidance as reform progresses.

The transition plan will be published in 2026.

Commission recommendation 87

To ensure effective collaboration during implementation, the UK and Welsh governments should establish an implementation advisory group for England and Wales.

We accept this recommendation in principle. Our intention is to build on the current Concordat and establish frameworks for cross-border working as we move ahead on transition.

As is evident from the rest of the document, major schemes of work are required in each of the areas outlined in the Report. Suitable governance and advisory mechanisms will be put in place as we deliver the required workstreams. We are designing governance and advisory mechanisms to support delivery of major workstreams, ideally within the next 12 months. The scope of these workstreams will be informed by feedback from this consultation.

Commission recommendation 88

An independent review of the follow up to the Commission's report should be carried out in 2 years' time

We accept this recommendation in principle. Rather than a formal review, our intention is to be transparent about the action we are taking as part of our water reform programme, with a strong emphasis on stakeholder engagement and consultation. We will publish strategic documents such as transition plans, summaries of responses to this Green Paper, and consult on a White Paper that will outline legislative proposals in more detail. We welcome views on whether additional independent oversight would add value during this period.

Glossary

Abbreviation	Definition
2016 Directions	the Shellfish Water Protected Areas (England and Wales) Directions 2016
AI	Artificial Intelligence
BAT	Best Available Techniques - The most effective and advanced methods for preventing or reducing emissions and environmental impacts from industrial activities. BAT covers both the technology used and the way an installation is designed, built, operated, and maintained. “Available” means techniques developed on a scale that allows practical implementation under economically and technically viable conditions. “Best” means achieving a high level of environmental protection overall. BAT forms the legal basis for setting permit conditions and emission limits under the Environmental Permitting Regulations and the Industrial Emissions Directive.
BRM	Business Retail Market, the competitive water retail market open for businesses, charities and public sector organisations in England.
Competition and Markets Authority	an independent non-ministerial UK Government department which works on competition and consumer protection.
the Commission	Independent Water Commission
Defra	Department for Environment, Food and Rural Affairs
Drainage and Wastewater Management Plans	collaborative long term strategic plans highlighting the known and expected risks for water and sewerage companies.
DWI	Drinking Water Inspectorate, formed in 1990 to provide independent assurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers.
Environment Principles Bill	Environment (Principles, Governance and Biodiversity Targets) (Wales) Bill
Good Ecological Status	the default objective for all water bodies which is set by the WFD, defined as a slight variation from undisturbed conditions.
HRA	Habitats Regulations Assessment
Medr	Commission for Tertiary Education and Research
MSWIP	Ministerial Statement of Water Industry Priorities

NAVs	New Appointments and Variations, (NAVs) are limited companies which provide a water and/or sewerage service to customers in an area which was previously provided by the incumbent monopoly provider.
NICW	National Infrastructure Commission for Wales, an independent advisory body that provides recommendations on the infrastructure needs of Wales, focusing on long-term planning and climate resilience.
NIS	Network and Information Systems Regulations 2018, which provide legal measures to boost the level of security (both cyber & physical resilience) of network and information systems for the provision of essential services and digital services.
NISTA	National Infrastructure and Service Transformation Authority, the successor to the National Infrastructure Commission, is a public agency advising the UK Government on infrastructure delivery and improvement.
NRW	Natural Resources Wales, a Welsh Government sponsored body which ensures the environment and natural resources of Wales are sustainably maintained and used, now and in the future.
NSIP	Nationally Significant Infrastructure Projects
Outcome Delivery Incentives	provide financial payments to water companies from customers for performing beyond their committed levels of service and also provide payments from companies to customers for performing below their commitments.
Ofwat	the Water Services Regulation Authority, a non-ministerial government department established in 1989 when the water and sewerage industry in England and Wales was privatised.
OTC	Operational Technical Agreement
PFAS	per-and polyfluoroalkyl substances, group of human made chemicals often referred to as “forever chemicals”.
Price Review	the process through which water companies set out their plans at the start of every Asset Management Period for what they will deliver and how much they will charge customers.
PR24	Price Review 2024
PR29	Price Review 2029
PR34	Price Review 2034
QAA	Quality Ambition Assessment
RAPID	Regulators’ Alliance for Progression of Infrastructure Development, a partnership made up of the 3 water regulators – Ofwat, the EA and the DWI.
The Report	Independent Water Commission, Final Report, 21 July 2025
River Basin Management Plans	Set out the locally specific enforcement environmental objectives underpinning water regulation and planning activities.
River Basin	the area of land from which all surface water run-off flows through a sequence of streams, rivers and lakes into the sea at a single river mouth or estuary.
Special Area of	A network of conservation sites which UK and Welsh ministers designate under the Conservation of Habitats and Species Regulations

Conservation	2017, which will make a significant contribution to conserving key habitats and species.
SAR	Special Administration Regime
SEMD	Security and Emergency Measures Direction 2024, a Ministerial direction to water and sewerage undertakers and water supply licensees in England and Wales.
Strategic Policy Statement	Published by the UK and Welsh Governments once per Price Review period to guide Ofwat on its strategic priorities and objectives when carrying out its relevant functions in relation to the water industry.
SUIAR	Sludge (Use in Agriculture) Regulations 1989
UWWTR 1994	The Urban Waste Water Treatment Regulations 1994
WACC	Weighted Average Cost of Capital, is a company's average after-tax cost of capital from all sources, including common stock, preferred stock, bonds, and other forms of debt.
WFD	Water Framework Directive, which introduced the RBMP framework to help protect and improve the ecological health of our rivers, lakes, estuaries and coastal and groundwaters.
WFD Regulations	the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017
Well-being of Future Generations Act	Well-Being of Future Generations (Wales) Act 2015
Water Resources Management Plans	set out how water companies intend to achieve a secure supply of water and a protected and enhanced environment.

Consultation Response Form

Your name:

Organisation (if applicable):

email / telephone number:

Your address:

Responses to the consultation may be published. Your response will be anonymous.

However, if you would like your name to be published alongside your response, please tick the box.

☐ I agree to my name being published alongside my response to this consultation.

Chapter 1: Our Strategic Direction for Water in Wales

Question 1: What factors or priority areas should Welsh Government consider when setting the strategic direction for the water system in Wales?

Question 2: How can the Price Review Forum and a potential Ministerial Statement of Water Industry Priorities (MSWIP) best support transparency and effective delivery? If introduced, what priorities should MSWIP include?

Question 3: What milestones or review mechanisms should be built into the strategic direction to ensure accountability and alignment with Welsh priorities?

Chapter 2: Planning Together for a Resilient Welsh Water System

Question 4: Do you support establishing a National System Planning Function for the water sector in Wales? Where should it sit, within the new economic regulator, as an independent body, or integrated into another Welsh Government or arms length body functions?

Question 5: How should water industry investment planning cycles (e.g. 5, 10, and 25 years) balance affordability, resilience, and environmental priorities?

Question 6: What do you see as the added value a system planning approach could bring? What would your priorities be for implementing it in Wales?

Question 7: How should cross-border relationships with England be managed?

Chapter 3: Modernising our Legislative Framework in Wales

Question 8: Do you agree the current water legislative framework for Wales requires amendment? Which areas should be prioritised for review, and why?

Question 9: Should public health outcomes and nature-based solutions be incorporated into future water legislation?

Question 10: What innovations or enforcement approaches could strengthen compliance for wastewater and drainage?

Chapter 4: Strengthening Welsh Water Regulation and Accountability

Question 11: Subject to enabling powers being provided to Welsh Government, do you agree with the proposal to establish a new, stand-alone economic regulator for water in Wales?

Question 12: What governance principles should underpin the design of a Welsh economic regulator, and how should its supervisory approach balance oversight with flexibility for innovation?

Question 13: If enabling powers were not conferred by the UK Government, what changes to the plans proposed by UK Government would be required?

Chapter 5: Delivering Better Outcomes- Reforming Regulation in Wales

Question 14: Which changes to performance commitments and outcome delivery incentives should be prioritised?

Question 15: How can digital enforcement and monitoring be implemented affordably for Welsh customers, and what steps could strengthen operator self-monitoring while maintaining confidence in compliance?

Question 16: How should civil sanctions and enforcement powers be applied proportionately?

Question 17: Do you agree that tighter regulatory control on the application of sewage and septic tank sludge to land in Wales is required?

- **Yes** - Why do you think tightening regulatory oversight is required? Please provide evidence if possible
- **No** - Why do you think tightening regulatory oversight is not required?

If yes, which option do you consider most appropriate? (Select ONE):

- Option 1: Apply full EPR control
- Option 2: Voluntary approach adapting Biosolids Assurance Scheme and Code of Practice
- Option 3: EPR control with earned recognition adaptation
- Option 4: Amend Sludge Use in Agriculture Regulations and underpin with regulator-approved Biosolids Assurance Scheme
- Option 5: Do Nothing

Why did you select this option? What are its advantages and disadvantages? Please feel free to suggest any counter proposals, submitting evidence where possible.

Question 18: Should crop fed anaerobic digestion be subject to regulation and its output controlled? Is action needed to strengthen existing regulation of anaerobic digestion fed from other feed sources or to improve compliance and if so, how might this best be delivered?

Question 19: Do you think having a waste exemption for anaerobic digestion is correct based on the risks of the process?

Question 20: Are there better ways to valorise digestate for beneficial application to land, what are these and what is the evidence that shows this could lower the overall environmental risk of current digestate application to land.

Chapter 6: Ensuring Strong, Responsible Water Company Governance in Wales

Question 21: What measures would strengthen governance standards and senior accountability in Welsh water companies?

Question 22: How can financial resilience requirements (e.g., minimum capital levels, environmental bonds) support sustainability, and what principles should guide decisions on alternative ownership models?

Chapter 7: Building Resilient Water Infrastructure and Healthy Water Assets for Wales

Question 23: What outcome-based resilience standards would be most appropriate for Wales, and how can asset health mapping and forward-looking metrics be strengthened without disproportionate costs?

Question 24: What steps should improve supply chain and workforce capacity for future infrastructure delivery?

Chapter 8: Making Change Happen - Transition and Implementation for Wales

Question 25: What should be the key priorities in the Welsh Government's transition plan for water sector reform to provide clarity and stability?

Question 26: How can governance and advisory mechanisms ensure effective stakeholder engagement during the transition period, and would independent oversight add value? If so, what form should it take?

Mandatory Welsh Language Impact Questions

Question 27: What, in your opinion, would be the likely effects of the proposals in this Green Paper on the Welsh language? We are particularly interested in any likely

effects on opportunities to use the Welsh language and on not treating the Welsh language less favourably than English.

Do you think that there are opportunities to promote any positive effects?

Do you think that there are opportunities to mitigate any adverse effects?

Question 28: In your opinion, could the proposals in this Green Paper be formulated or changed so as to:

- have positive effects or more positive effects on using the Welsh language and on not treating the Welsh language less favourably than English; or
- mitigate any negative effects on using the Welsh language and on not treating the Welsh language less favourably than English?

Question 29: We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use this space to report them:

Please enter here

