

# Joint Submission to the Independent Water Commission

<b>Executive Summary</b>	<b>1</b>
<b>Who We Are</b>	<b>3</b>
River Action	3
Surfers Against Sewage	4
<b>Public Mandate for Reform</b>	<b>5</b>
<b>Principles of a New System</b>	<b>5</b>
<b>Problem: The Water System is Failing</b>	<b>7</b>
Environmental failings and illegal behaviour	7
Public health impact	8
An impact on real people	9
Failure to deliver projects	10
<b>A Flawed Financial Model</b>	<b>11</b>
Failure of shareholders to invest	13
Why is this happening?	14
<b>Alternative Water Company Models</b>	<b>15</b>
Model 1: Public Ownership	20
Model 2: Municipalities	23
Model 3: Regional Water Authorities	24
Model 4: Not-for-profit	27
Model 5: Public Benefit Company/Community Interest Company	31
Other forms of ownership	32
<b>Alternative Financing Options</b>	<b>32</b>
Green/Blue bonds	32
Outcome-based financing	33
Long-term infrastructure financing	33
<b>Elements of System to take forward: A New Vision for Water</b>	<b>34</b>
Public and environment benefit	34
Municipal oversight	34
Value for customer money	34
Tough independent regulator	34
Democratic representation	35
Transparent	35
<b>Means to Reaching a New System</b>	<b>35</b>
Special administration for breach of environmental and other obligations	36
Prohibition on bail-out of water company shareholders and creditors	38

Water Company licenses to be given expiry dates	38
Better regulation	38
Enforce existing laws	39
Strengthening environmental permitting	39
Environmental duty for regulators to deliver clean water	40
Regulators should be better financed	41
<b>Nature Based Solutions: Successful Case Studies</b>	<b>41</b>
<b>Commission Scope</b>	<b>42</b>
<b>A Second Water Bill</b>	<b>43</b>

## Executive Summary

River Action and Surfers Against Sewage welcome the Independent Water Commission as a timely and essential review into a much beleaguered water sector. This significant opportunity to deliver systemic reform has the potential to drive meaningful change and position the UK as a leader in water stewardship.

The public appetite for change is unquestionable. Water pollution emerged as a defining issue in the 2024 General Election, with many MPs elected on the promise to save our rivers and seas, backed up by cross party commitments in the 2024 General Election manifestos. Now is the time for the Government to deliver on these promises and take decisive action. A root and branch reform of the water sector is necessary to fulfill such promises and create a system that catalyses Labour's growth economy by providing a huge opportunity for growth through new investment in infrastructure and nature based solutions.

We believe that the current model of privatisation has failed. This is evidenced by the polluted state of our rivers - the lifeblood of our economy - with risks to human health caused by weak regulatory oversight and exploitative ownership, while water companies face dire financial situations. However, international examples demonstrate approaches to finance and governance where the planning, investment and operations of water companies is carried out for public benefit (rather than in the interests of private investors), particularly when paired with municipal oversight and some form of public ownership.

This submission will explore the public benefit models that are available for the UK to learn from and adopt in place of the current failed privatised model. **We don't prescribe a one-size-fits-all approach but instead set out five key principles that should be incorporated into the new system:**

- 1. Priority to Protect Public and Environmental Health**
- 2. Democratic Decision Making**
- 3. Tough Independent Regulators**

- 4. Operating for Public Benefit**
- 5. Transparency**

We make a clear case for strong municipal oversight and call for a shift toward a public benefit model, with examples outlined below:

- 1. Not-for-profit model**
- 2. Public benefit company/Community interest company**
- 3. Public ownership**
- 4. Municipalities/Regional Water bodies**

Since a landmark hearing in 2012 where the European Commission ruled that the UK was failing to deliver its legal obligations to treat sewage effectively, there have been [multiple attempts](#) to reform the privatised system to deliver results. Despite countless changes to the direction and powers given to the regulators, and flagship legislation brought forward by both this and the last government through the Environment Act 2021 and the Water (Special Measures) Act 2025, there have been no large-scale changes in the amount of sewage pollution entering our waters and water users have been forced to continue to surf and swim in sewage.

Interventions have been well meaning, but have failed to tackle the systemic features of our water sector that drives poor water company decision making. We urge the Government to adopt a new, ambitious model, drawing on proven practices from international examples. The new model should entail a restructuring of water companies with public benefit financing, operational and governance models that are overseen by local, regional, and national municipal bodies throughout planning, financing and operations and attract long term and sustainable investment. Regulators should be overhauled to be stronger entities capable of enforcing law, using Special Administration Regime (SAR) measures, and with duties to the environment and public health. Crucially, the new system should address the full spectrum of the causes of water pollution, from agricultural run-off to sewage dumping. The system must ensure that water quality, public health, thriving nature, and fair pricing are the top priorities.

While we recognise the need for investment, we strongly argue that it has to be the right type of investment and the right terms of investment within the right ownership structures. The Government must recognise that the current model of privatisation has failed and the best way to attract the right investment is with new finance and governance structures such as those used in Europe, with investment coming through publicly owned, not-for-profit and other models as detailed in this submission. This will ensure sufficient investment, on the right terms from people and organisations that prioritise water quality, customers and nature ahead of financial returns. With government oversight and operating for public benefit, the risks to investors become lower, and so do the costs of debt interest, leading to more money in the system to invest in cleaning up water company infrastructure.

The financialization of the water industry - where the role of financial motives has grown significantly - is plain to see in boardrooms across the UK, dominated by executives whose decisions are driven by shareholder interests and not what will protect the environment, improve service or meet customer needs. Where water companies were once led by experts in hydrology and infrastructure, today's leadership is far more likely to come from a background in finance.

We strongly believe that the health of our waters and economic growth are two sides of the same coin. As Prime Minister Keir Starmer confirmed, this Commission has been launched to “[attract investment and speed up infrastructure delivery](#)”. We believe that the systemic and transformational reforms put forward in this proposal will enable the water sector to be a key player in Labour's growth ambitions.

**We are therefore calling on the Water Commission to deliver bold recommendations that champion greater municipal oversight, stronger regulation and a clear shift to public benefit models, drawing on international examples to show the way. We need transformational reform to end pollution for profit and build a fair, transparent system that protects public health, delivers value for money for customers, and restores our rivers, lakes and seas.**

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## Who We Are

### River Action

Launched in 2021, [River Action](#) is a UK charity on a mission to rescue Britain's rivers by raising awareness of river pollution and applying pressure on industrial and agricultural producers, water companies and other polluters. River Action campaigns firstly for polluters and their supply chains to take greater responsibility for remedying the adverse environmental impact they are having on the health of our rivers, and secondly for environmental regulators to improve their historic poor performance in enforcing regulations and bringing polluters to account.

The prime focus of River Action is to target food production companies whose supply chains are complicit in the increasing volume of river pollution caused by the run-off of nutrient-rich agricultural waste. However, wherever our precious rivers are being abused by polluters, River Action will be campaigning to raise awareness and seek remedies, with a major emphasis on ending sewage pollution, working closely with Surfers Against Sewage and community groups.

Since its launch, River Action has led a number of high-profile campaigns which have materially increased public awareness of the pollution crisis facing our rivers, and the failure of Government funded environmental agencies to address this. The public demand for change

was demonstrated clearly last November, where 15,000 people and 141 organisations from across the UK, collectively representing over 10 million people, marched through central London to send a clear and simple message to the Government. Stop poisoning Britain's Rivers.

The River Action Advisory Board brings a combined resource of hugely relevant experience and capabilities to develop our campaigns. With backgrounds in government, business, media, angling, science, agriculture, communications and conservation, our advisory board provides strategic guidance and expert insights to amplify our impact, ensuring our campaigns are effective, innovative, and grounded in real-world solutions.

River Action receives its funding from a group of foundations including Oak Foundation, Esmée Fairbairn Foundation, Ecological Restoration Trust and Aim Foundation. We do not take money from the government or polluters such as water companies to ensure we are entirely independent. We engage constructively with politicians, polluting organisations and regulators to influence urgent change, and hold them to account in the courts of law and public opinion as necessary.

## Surfers Against Sewage

[Surfers Against Sewage](#) is a grassroots environmental charity that campaigns to protect the ocean and all it makes possible. It was created in 1990 by a group of Cornish surfers, fighting to clean up the sea that was making them sick. Now, Surfers Against Sewage campaigns on all that threatens the ocean - plastic, chemical pollution, and sewage pollution – by taking action on the ground that triggers change from the top. In order for water users and lovers to access and enjoy the places they love, Surfers Against Sewage are campaigning for an end to sewage pollution into the places we swim, surf and play.

We are more than just an ocean charity, we are a movement, building and connecting communities calling for change, supporting them and gathering evidence to hold leaders and polluters to account. Last year we supported 179 community leaders across the UK campaign on water quality and 15 successful applications to gain bathing water designation. Ahead of the general election we coordinated 34 Paddle Out Protests last year, where 5,500 people got into the water calling on all political parties to commit to clean up waterways and following the general election, 8,904 of our supporters emailed their local MPs to demand transformational reform of the water sector. We provide real time sewage alerts to 389,632 active water users through our Safer Seas and Rivers Service App. We have almost 500,000 digital supporters, over 8,000 members and mobilise over 100,000 volunteers annually.

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# Public Mandate for Reform

There is unprecedented public demand for action to end sewage pollution. Since 2020 Surfers Against Sewage alone have received hundreds of thousands of signatures calling for an end to sewage pollution and to stop pollution being profitable. There has also been a huge growth in grass root community groups coming together to fight for better protections for their local rivers, lakes and seas.

This public pressure came to the fore at the general election where an overwhelming majority, [82% of the British public](#), supported the Government setting up an independent public inquiry into the discharge of raw sewage into rivers and seas. Appetite for an independent public inquiry was highest among Labour voters, with 92% calling for the new Government to set up an inquiry into the discharge of raw sewage into UK rivers and seas, followed by 88% of Liberal Democrat voters and 82% of Conservative voters.

High profile events and media coverage on water pollution has increased, including the [2024 Oxbridge Boat Race](#) where last year River Action's water quality testing [found](#) alarmingly high levels of dangerous E.coli bacteria. More than [1,000 people](#) have joined a claim alleging that sewage pollution from South West Water in the Exmouth area has negatively impacted residents and businesses. These are just some examples of the mounting public outrage at this crisis.

It's little surprise therefore that all parties committed to take action to tackle sewage pollution as key promises in their manifesto to attract voters. This public demand for action has not gone away since the election. In November 2024, over 15,000 people and 141 organisations joined the March for Clean Water with a clear message: stop poisoning Britain's rivers, lakes and seas.

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## Principles of a New System

Currently, the governance of the water sector in England and Wales provides few incentives to act according to public interest. **As such, we suggest the following driving governance principles for water companies and regulators, drawing on examples from European models where appropriate.**

**There are five key principles a new system must include to end water pollution:**

1. **Priority to Protect Public and Environmental Health**
  - a. The water companies delivering a vital public service priority must be to protect and improve public and environmental health.
  - b. This means prioritising action to protect the health of the thousands of people who use the water and restoring natural environments over making profit or returns for shareholders.

- c. Permits to operate must ensure treated effluent is at a sufficient quality that reflects the use of the local waterways they discharge into, with permits requiring tertiary or quaternary treatment in areas where water user health may be at risk. All permits to operate must be reviewed as a matter of urgency by the regulator.

## **2. Democratic Decision Making**

- a. Decisions about how water is planned, funded and managed should be taken on a regional and local level with the input of local stakeholders including water users, customers, local authorities, environmental groups and engineers.
- b. These stakeholders crucially must have real decision-making power enabled through participating in the governance structures of water companies (i.e. operating entities providing sewage treatment and water supply services) combined with municipal oversight.
- c. Decisions at a local and regional level must align with and enable the delivery of a national strategy for planning, financing, governing and regulating sewage treatment, water quality and supply to ensure a joined-up approach to securing water and clean rivers, lakes and seas.

## **3. Tough Independent Regulators**

- a. Regulators must enforce the law and hold polluters to account. In particular, preventing illegal discharges occurring outside of exceptional circumstances.
- b. They must end pollution for profit by stopping all forms of financial reward for water companies, shareholders and creditors who break the law and deliver consistently poor environmental performance.
- c. Regulators must be independent and sufficiently resourced to carry out the monitoring, enforcement and prosecution that will ensure full legal compliance and dramatic environmental improvement.
- d. All regulators must have a legal duty to protect public health and the environment and fulfill their duty to use the Special Administration Regime when a water company fails to meet its financial, services and environmental obligations.

## **4. Operating for Public Benefit**

- a. Financial and governance structures of Water Companies should no longer be privatised without assurance that public benefits and democratic municipal oversight is embedded into the ownership, investment, governance and operating structure. They should be modelled on successful public benefit systems in Europe including wholly publicly owned, not-for-profit and regional water authorities.
- b. Customers must get what they paid for. A new system must be regulated to attract much-needed investment in upgrading and maintaining sewerage infrastructure from long term low risk lenders investing over time.
- c. Investment should be prioritised for the use of innovative and effective catchment scale solutions - including nature-based solutions - to help tackle the causes of



sewage pollution and deliver cost effective co-benefits for biodiversity and climate.

- d. Regulators must ensure finances are used efficiently and debt managed sustainably and at minimum cost, with financial penalties ring-fenced for investment in sewage infrastructure and nature-based solutions.

## 5. Transparency

- a. Water Companies must reveal the truth about their operations across the business including pollution monitoring, impacts on the environment and financial performance.
  - b. Water Companies must provide the public with consistent and easily understandable information and data to protect water users' health.
  - c. Data must be shared openly between government agencies and regulatory bodies so that effective monitoring and enforcement is possible.
  - d. There should be complete transparency around the funding and rewards paid out by water companies to ensure no one associated with the business can profit from pollution.
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# Problem: The Water System is Failing

## Environmental failings and illegal behaviour

Currently, only [14% of rivers](#) in England achieve good ecological status, and none meet good chemical status. This stagnation highlights a failure to progress towards the objectives set by the Water Framework Directive (WFD), which aims for all water bodies to reach good status. The Office for Environmental Protection (OEP) has expressed [deep concern](#) over this lack of advancement, noting that efforts have stalled over the past decade.

The ecological decline is evident in several key water bodies. Lake Windermere faces potential ecological collapse [due to algal blooms](#) linked to sewage pollution. Similarly, the River Wye's health [status has been downgraded](#) following assessments revealing significant wildlife deterioration, largely attributed to nutrient pollution from agricultural runoff. Coastal areas are also under threat, with reports indicating that sewage was discharged for [almost a million hours](#) into English and Welsh coastal waters in 2022, undermining previous improvements achieved through enhanced treatment processes.

Water companies discharged untreated sewage into waterways across England and Wales 568,674 times in 2024. These discharges should only ever occur in [“exceptional circumstances”](#) such as during unusually heavy rainfall. Despite this requirement, water companies are discharging sewage during unequivocally average levels of precipitation and even when there



has been no rainfall. In 2022, SAS uncovered [143 dry spills](#) into popular surf and swim spots between 1st October 2021 and 30th September 2022. A subsequent wider piece of [research by the BBC](#) found 6,000 'potentially illegal' dry spills in 2022.

Water companies have also been shown to illegally attempt to cover up this pollution through downgrading pollution incidents. With BBC Panorama exposing United Utilities for wrongly downgraded dozens of pollution events, including into Lake Windermere and exposing the Environment Agency for signing off all the downgrades without attending any of the incidents.

The Environment Agency and Ofwat are in the process of [investigating all water companies in England and Wales](#) for potential illegal behaviour in failing to treat sewage effectively. As a product of decades of self-monitoring by the industry the initial investigation only looked at a few water companies and was only extended when several water companies admitted that they might not be treating as much sewage at their wastewater treatment works as they should be. This points to a failure by the water companies but also [by the regulators](#) who are supposed to hold the polluters to account.

As a result of these illegal discharges coupled by the inaction by government and the regulators, the [Office for Environmental Protection](#) found that Ofwat, the Environment Agency and Defra were all failing to comply with environmental law in relation to regulatory oversight of untreated sewage discharges.

Further to this, court delays in prosecuting water companies for environmental offences highlight serious problems with the way we enforce regulation. In 2024, [Southern Water was fined £330,000](#) after a sewage spill killed over 2,000 fish, an incident that took place in 2019. In 2023, [Thames Water was fined £3.3 million](#) by Lewes Crown Court for polluting the River Mole, a spill that occurred six years before in 2017 killing 1,400 fish. These significant delays undermine the deterrent of fines for environmental breaches and failings and point to an overstretched and overly slow justice system. Therefore, water companies can damage the environment without facing immediate consequences and continue to profit with impunity.

## Public health impact

Discharges are not just impacting the environment but also causing a public health crisis. Water usage since the COVID pandemic [has risen dramatically](#), and the numbers as well as types of water sports people take part in continue to grow. In 2023, 11.6 million people took part in some form of outdoor water sport - of these, well over half (7.2 million) took part in non-swimming water sports like rowing, sailing and canoeing.

As a result of widespread pollution into our fresh and coastal waters, water users are being placed at risk of getting ill from exposure to sewage pollution. This reflects the fact that many more people are entering the water to enjoy the physical and mental health benefits (7 million paddle sports; 17 million recreational use of wild waters).

Hospital admissions due to waterborne diseases [have increased by 60%](#) since 2010. Since 2020, Surfers Against Sewage have received over 6,053 reports of people getting sick from sewage pollution, from over 1,000 different locations. [1,853 cases were reported](#) to Surfers Against Sewage in 2024 alone.

Despite legal protections, designated bathing waters (used most often by recreational water users) are also being routinely polluted by water companies, putting the health of water users at risk. Between October 2022 and September 2023, Surfers Against Sewage's [‘Safer Seas and Rivers Service’ reported 2,046 sewage pollution alerts](#) into bathing waters.

## An impact on real people

**Suzi Finlayson**, a 42-year-old mother of two and avid sea swimmer from Bognor Regis became critically ill after developing a blood infection, leading to life-threatening infective endocarditis that was diagnosed in early 2024. She required open-heart surgery and was forced to close her business, facing a long recovery where for six months, she was unable to drive, walk her dogs or manage day-to-day household tasks.

**Suzi said:** *“I became critically ill and spent six weeks in hospital care. This experience has completely changed my life. I’ve faced a long recovery, ongoing health challenges. This has impacted my family, and the financial strain of closing my business and being unable to fully return to work.”*

*“At the time of my infection, a sewage overflow from three pipes at Aldwick Beach lasted 343 hours (14 days), as reported by Southern Water. I was regularly sea swimming two to three times a week and was advised that my infection could have entered through a cut, my skin, or my mouth.”*

*“In all honesty I don’t trust the water industry. Lives and the environment are at risk and there is a complete lack of transparency, accountability and urgency when it comes to public health and environmental impact.”*

In September 2023, 28-year-old **Charlie Clarke** swam at a popular swimming spot, Clevedon Marine Lake, just outside of Bristol whilst training for an Ironman race. The following day, whilst going for a light jog, he collapsed and was rushed to hospital for ECGs and blood tests. Over the following four months, multiple tests built up a picture of the damage and concluded that a virus caught whilst swimming had lowered his blood pressure and caused a minor episode in his heart.

**Charlie said:** *“This experience and diagnosis set me back in a number of ways. My everyday life was impacted, as I was unable to raise my heart rate whilst in recovery. Everyday tasks became a barrier to a normal life - for example commuting by bike was no longer an option. My main social outlet is sport, which was put on hold for several months. This impacted my*

*confidence further and left me particularly isolated from football and cycling teams. It took me around a year to become confident enough to raise my heart rate to its maximum.”*

## Oxbridge Boat Race

Ahead of the historic Oxbridge Boat Race on the River Thames, [River Action's water quality testing](#) found alarmingly high levels of dangerous E.coli bacteria. Between 28th February and 26th March 2024, River Action, in collaboration with the Fulham Reach Boat Club, conducted regular testing on the Thames. Using a Fluidion analyser verified by the World Health Organization, the tests detected E.coli levels up to 10 times higher than the threshold deemed acceptable by the Environment Agency for bathing waters graded as 'poor,' the lowest of four categories. When water is classified as 'poor,' the Government advises against bathing. The testing results indicate that the pollution likely originates from sewage discharges by Thames Water into the river and its tributaries.

In response, British Rowing, River Action, and The Rivers Trust collaborated to create some guidelines on rowing when water quality is poor, designed to reduce the risk of illness from exposure to polluted waterways. The guidelines include practical advice, such as covering cuts and blisters with waterproof dressings and thoroughly cleaning equipment after use, to name a few. The need to issue health guidance to elite athletes ahead of a historic race on the River Thames highlights the consequences of decades of inadequate regulation and neglect by Thames Water. Despite our warnings, members of the Oxford Men's Eight rowing team became sick. The most likely cause was river pollution from sewage in the River Thames.

## 16 waterborne illnesses found in Devon

Last year, sixteen cases of a diarrhoea-related illness known as cryptosporidium were [confirmed in Devon](#), according to the UK Health Security Agency. The agency stated that cryptosporidiosis is "mainly a waterborne disease," typically spread through drinking contaminated water or accidentally swallowing it while swimming in pools or natural streams.

Approximately 70 people in Brixham were thought to be unwell, according to comments on social media. Locals described feeling sick for several days and spoke about how it was disrupting their daily lives.

## Failure to deliver projects

Water Companies have also been failing to deliver the investment that they have been funded by the customer to deliver.

Between [2020 and 2022, eight water companies spent](#) their budget for improving their wastewater network. Yorkshire Water spent just 20% of the budget set aside for improvements to sewage works and South West Water only [spent 39%](#). This meant critical improvements that these companies had promised to deliver to improve sewage treatment works, growing storm

tank capacity and reducing spill frequency where all either delayed or worse yet were simply not delivered.

At the end of the 2021-2022 financial year Yorkshire Water's CEO took home a £1.4 million bonus and shareholders got £50 million. Southwest Water's CEO took home £800,000 and shareholders received £45 million.

This behaviour also continues to happen today. Thames Water for example, set aside £474 million for 812 environmental improvements back in Price Review 2019. But five years later, they're now being [investigated](#) for not being able to deliver more than 100 of these schemes. Further to this, River Action is [taking legal action](#) on the basis that Ofwat acted unlawfully by using recent, significant bill hikes to cover past infrastructure failures - forcing customers, rather than investors, to foot the bill for decades of neglect. This is despite Ofwat having committed to put in steps to prevent customers paying twice. Instead of funding essential new water and sewage projects, these price rises—approved in last year's Ofwat price review - could be being misused to fix long-standing issues that should have been addressed years ago.

Without radical reform there is no doubt that this behaviour will continue. Water companies will continue to fail customers and regulators will continue to resubmit plans for projects in the next 5 years that they had already been funded to deliver in the last 5 years. Such behaviours have led to a significant trust deficit in the industry.

At the root of these failures is a governance and financial system that prioritises shareholder returns above environmental protection and public service. Irresponsible decision-making, driven by short-term profit motives, has led to the chronic under delivery of promised infrastructure upgrades. Ongoing maintenance budgets are squeezed beyond limits and capital projects are deprioritised or delayed. The systemic failure is not just a consequence of poor corporate practice, but a reflection of an incentive structure that rewards it.

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## A Flawed Financial Model

The aim of privatisation was to stimulate much needed investment. Despite this, over the past 30 years, the water industry has fundamentally failed to invest in critical infrastructure. River Action and Surfers Against Sewage argue that the environmental and public health failings caused in England are the direct result of their ownership and financing model.

The water companies were debt free at privatisation in 1989, in fact were given £5bn at [privatisation](#) for environmental improvements, and now have [accumulated £64.4 bn debt](#). A staggering [£85.2bn has been taken out by investors](#) and shareholders from water and sewage companies in England and Wales since privatisation 30 years ago. In the 2023-24 financial year,

[11% of English water companies'](#) revenue was spent on dividends, rewarding often illegal pollution and giving the impression to profit-hungry investors that the market is unregulated.

England is a global outlier in terms of its level of privatisation of the sector. By contrast, most European water systems operate under hybrid models that blend public ownership and municipal oversight with limited private involvement, ensuring strong accountability and reinvestment. For instance, Sweden has prohibited full privatisation and profit-driven operations under its Water Services Act (2007), allowing private involvement only in maintenance and operations under strict municipal oversight.

Evidence has shown that this underinvestment has led to a range of issues in addition to systemic pollution of rivers, lakes and seas. The UK is currently losing [3 billion litres of drinking water](#) each day through leaky pipes and insufficient storage capacity. Instead, they have prioritised maximising returns to shareholders at the cost of the UK's rivers and seas.

The [Companies Act 2006](#) includes a provision that requires company boards and directors to 'promote the success of the company for the benefit of its members as a whole'. Additionally, Ofwat's principle duty is to ensure water companies make a reasonable return, with no environmental obligation. This has been interpreted by water companies as an obligation to maximise profits for their shareholders. As a result of this interpretation, water companies have opted to prioritise the payment of dividends rather than critical improvements to infrastructure. Whilst the financial regulator of the companies operate with a principle duty to ensure water companies make a "reasonable return".

Crucially, the companies were borrowing against assets and secure customer income streams, to fund dividend payments. We are now in a position where [35p in every £1](#) of customer money funds debt interest and dividend payments.

During the period of privatisation, investment in water companies has shifted from safe, base-load utility style investment, to higher risk and higher reward - due to complex financial engineering. But this has now tipped the industry over the edge, so that Moody's rating agency is now downgrading water company debt and we witness the phenomenal problems of Thames Water, resulting in another £3 billion bail out costing 9.75% interest, with an estimated £800 million being used to service debt and pay for professional fees. This is not good value for money - especially for an ostensibly low risk public service utility with a geographic monopoly and guaranteed income streams - and sends the wrong message to investors and Water Company owners.

Pension funds and private, household investors, were replaced in some cases by private equity and profit maximising investors, and we are now seeing [hedge funds](#) move in from New York. Like any system focused around profit maximisation, over time it has become driven by it and we see management behaviours, skills and expertise being aligned with this rather than the delivery of clean water, restoration of the environment, protection of public health, and value for customer money.

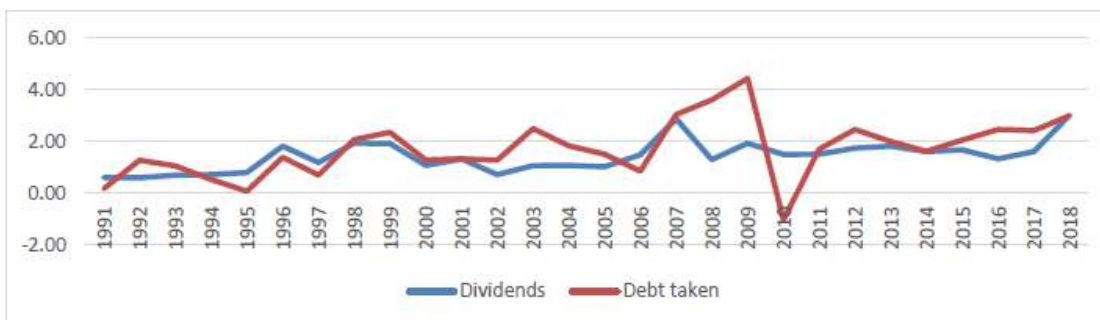
It has only been in very recent history that Ofwat has taken any form of action to stop this. In December, [Ofwat served Thames Water with a £18.3m](#) penalty for breaching dividend rules.

## Failure of shareholders to invest

Recent research by Unison and the Public Services International Research Unit at the University of Greenwich has shown that not only have shareholders extracted huge dividends from the water companies, they have also failed to invest the capital needed to maintain and improve infrastructure. When the Water Industry was privatised, new shareholders injected £3.6 billion in 1989-90 (£8.2 billion in 2023 prices). However, in March 2023 shareholder equity and premium in the Water companies was £3.4billion. In real terms this means the shareholders have withdrawn the equivalent of £4.8billion, almost [60% of the original shareholder capital](#).

To fund what little investment has been made into the industry water companies have relied upon customer bills. Detailed analysis by the [University of Greenwich](#) found that in almost every year since privatisation, consumers' bills directly covered the capital expenditure of the water companies, as well as the day-to-day operational expenditure.

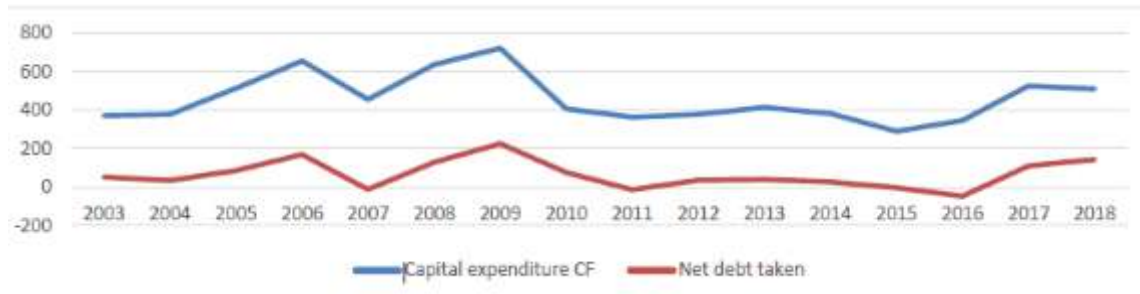
Despite this, companies borrowed money, year after year, building up a total debt of £64.4bn in 2023. Taking on these debts was not the result of increasing or even excessively high investments and costs but rather the number of debts mirrored the amount being taken out in dividends (see Figure 1). This has led [numerous studies](#) to conclude that debt taking is driven by the 'investors' demand for dividends.



**Figure 1 –Annual aggregate dividend payments vs debt taken in English water companies 1991-2018**

In comparison studies have shown that in Scotland where no dividends are taken by the publicly owned company the amount taken on in debt directly reflects the amount spent on capital expenditure (See Figure 2).





**Figure 2 –Scottish Water capital expenditure vs debt taken in a given year (million)**

Customers are being given the impression that investors pay for water company infrastructure maintenance and improvement. However, in reality, customer's bills cover the costs - investors only cash flow investment - and customers then cover the costs of returns to investors through dividends and debt interest. This means that investors take out substantially more than they put in and at a hyper-inflated cost, leaving customers to always foot the bill.

## Why is this happening?

The positioning of water companies as critical national infrastructure, their predictable income stream from a captive market in geographic monopolies with large assets should make them a relatively stable investment. However, over time as a result of ineffectual regulation from Ofwat and successive governments turning a blind eye there has been an increase in short term high-risk investors flooding the water industry.

Unlike long term investors like pension companies who are looking for steady returns these new investors have been motivated by the short-term extraction of profits. Rather than invest in the infrastructure to ensure long term sustainability they have borrowed money against the assets and as shown above used these borrowings to fund shareholder payouts. For example, in five out of the 10 years that Australian firm Macquarie was Thames Water's largest shareholder, dividends exceeded the amount of profit the company was making – and debt [quadrupled from £2.5bn to more than £10bn](#). But rather than triggering the Government and Ofwat to rethink who is profiting from our water, Macquarie were allowed to simply move on and become a majority owner in Southern Water.

Research from the [University of Edinburgh](#) has found that this demand for dividends (and the debt to finance them) cannot be explained by any mainstream dividend theories such as tax motives but are the result of strong demand for dividends from investors.

This financialisation of the water industry can also be seen on water company boards where senior management teams and boards know more about money than water. Decisions are therefore made based on whether actions will affect the stock price rather than reflect the needs of delivery, the environment or customers. Unlike the early years following privatisation, senior



management are now more likely to be drawn from finance or business than from hydrology or water management.

In addition, there have been very few incentives for water companies to prioritise legal compliance. Up until recently water company fines had been capped at 10% of operating profits, meaning companies have incorporated enforcement action into the costs of doing business and do nothing to change behaviour. For example, Ofwat presented Yorkshire Water with a fine of £47m in August 2024 after finding that 45% of its storm overflows associated with its wastewater treatment works were found to be in [breach of Environmental law](#). But in the first 6 months of 2024 they still paid out £37.5m to their parent company.

Whilst steps have been made by the last and this government such as the Water (Special Measures) Act to create unlimited and automatic fines, it remains unclear whether regulators are well enough equipped to enforce these fines. For now, as shareholders and water company owners continue to pull the strings, it will remain profitable to pollute.

## Alternative Water Company Models

It is important to note that England and Wales are the [outliers in Europe](#), where the ownership of water infrastructure remains mostly public. Looking to Europe and beyond, there are a range of alternative financing and governance models that center around public benefit. We have outlined five such models and, in turn, considered their ability to align with our five principles and deliver positive outcomes. We have also considered their ability to drive investment.

For all public benefit models, it is essential that a national strategy for sewage treatment, water quality, supply and regulation is developed and implemented to align sewage and water services at a local, regional and national level facilitated through democratic municipal oversight.

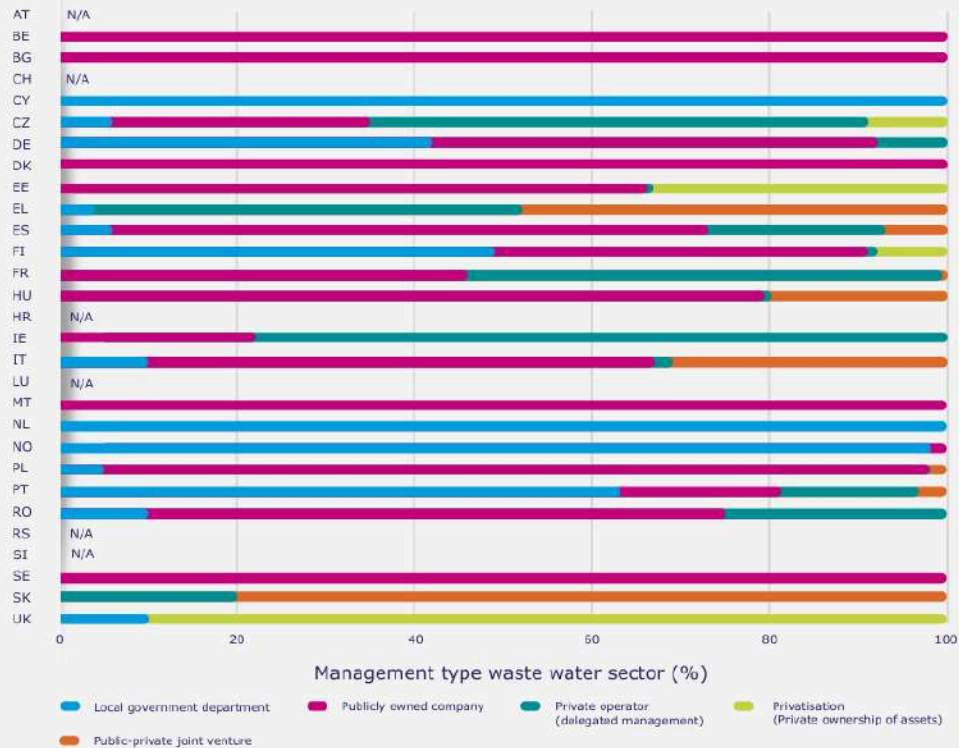
The models are an attempt to lay out alternative options, although it is worth noting that across Europe the trend is towards greater public ownership, given the success such approaches have seen. The models presented below could vary significantly in their delivery and could overlap with one another depending on their delivery.

The below image from EurEau, the European Federation of National Associations of Water Services demonstrates the variety of management approaches across Europe. The graph shows the percentage of the population served by waste water services for different management types in European countries

Source: EurEau 2021, [‘Europe’s Water in Figures’](#)

**Figure 9**

Percentage of the population served by waste water services for different management types



**River Action and Surfers Against Sewage has been advised by Professor Ewan McCaughey (King's College London) and Professor David Hall (University of Greenwich), and guided by information in reports such as EurEau.**

## Model 1: Public Ownership

### What is Public Ownership?

The most dominant form of water organisation in Europe is public ownership. Public ownership is when infrastructure and operations of water supply and wastewater services are [owned and managed by local, regional or national government entities](#), ensuring that the revenues are reinvested and not given to shareholders or banks, while governance structures have greater public oversight and transparency, with members of boards often being from service users groups and environmental organisations.

Until the late 1980s, water and sewerage services for most customers in the United Kingdom were provided by publicly owned regional water authorities. [Across Europe](#), public authorities

are generally responsible for approving tariffs, determining service quality and establishing and enforcing environmental and health standards.

Water services in Europe are managed through a [variety of systems](#). However, historically across Europe, including in the UK, water services were provided by local government departments. One or two places still continue to do so, but the overwhelming practice now is for public authorities to run service through wholly arms-length companies, which may be consulted under various legal forms.

[In 2011](#), Italy held a nationwide referendum in which citizens voted overwhelmingly to repeal laws that allowed the privatisation of water services, with approximately 94.6% to 96.1% of voters supporting the repeal of the privatisation laws. In 2010, [Paris ended its contracts](#) with private water companies Veolia and Suez and brought water management back under public control. [In 2013](#), Veolia also announced that it had reached an agreement with authorities in Berlin to sell back its stake in Berlinwasser, the city's water service.

The water and sewerage industries in Scotland and Northern Ireland have [remained wholly in public ownership](#). In Scotland, most services are provided by a public corporation, while in Northern Ireland, services are managed by a central government body.

## Strengths of Public Ownership

### 1. Democratic

Publicly owned companies are highly democratic as they are ultimately accountable to local and regional authorities, who in turn are accountable to the public.

Switzerland's wastewater management is [highly decentralized](#). Municipalities and cantons are responsible for constructing and operating sewerage systems and treatment stations, allowing for strong local accountability and citizen participation.

[In Finland](#), most water services are still run through direct public management by municipalities, though around 30% now operate as municipally owned companies. Over 1,000 small consumer-run cooperatives also provide services, particularly in rural areas, reflecting a minor role for direct private management. The system in Finland features strong public participation at the municipal level and includes consumer-run cooperatives, giving both local authorities and citizens a more direct role in governance and service delivery.

Eau de Paris has a board of directors with 13 from councillors, 2 staff, 3 consumer/environment groups (and 2 non-voting city-appointed experts). In 2023, it launched the first [participatory budget](#) by a water operator in France, allowing citizens to propose and vote on projects related to drinking water, thereby enhancing transparency and public engagement. Berlinwasser has a 16 person supervisory board with 8 chosen by the Berlin council, and 8 elected by staff. These governance structures ensure strong public oversight and employee involvement, highlighting strong democratic control over water management. These governance models in Paris and

Berlin highlight the effectiveness of integrating democratic principles into public utility management, fostering transparency, accountability, and community engagement.

Democratised systems are capable of effective planning and mobilising public participation to deal with major problems. In South Africa, Cape Town successfully navigated a historic drought by cutting total water consumption by 55% - without enforcing supply cuts - through the use of accurate data and clear, transparent communication. In Porto Alegre, Brazil, participatory budgeting enabled residents to engage in decision-making, helping to build trust and secure public backing for tariff increases exceeding 25% to fund new sewage treatment facilities.

Scottish Water for example is a public corporation accountable to Scottish Ministers and the Scottish Parliament. Its performance is subject to scrutiny by the Parliament and the Auditor General. The Scottish Water Governance Directions set out by the Scottish Government provide the principles by which Scottish Water should conduct its business over a 6-year period.

## 2. Value for customer money

As publicly owned companies have no shareholders and therefore do not pay out any dividends. Any profits are invested back into the company to fund operations or further capital investment.

Eau de Paris has consistently reported high customer satisfaction levels. In 2021, [91% of users](#) expressed satisfaction with the drinking water service. As of [January 2025](#), the total price for water in Paris, managed by Eau de Paris, is €4.09 per cubic meter (m<sup>3</sup>), including VAT.

In Austria, water services are organised through direct and delegated public management models. [86% of Austrians](#) think that the price of water is acceptable or even low. Customers benefit from affordable and reliable services, with clear pricing and transparency in how funds are spent on maintenance and improvements.

## 3. Lower borrowing costs

Publicly owned water companies can access financing through government-backed bonds, which typically carry lower interest rates compared to private sector borrowing. For instance, government 10-year debt currently trades at yields around 4%, whereas private companies like Thames Water have faced borrowing costs as high as [9.75% plus additional fees](#).

Dutch publicly owned water utilities benefit from [low government bond yields](#), with 10-year bonds averaging around 1.76% over recent years. This low cost of borrowing supports sustainable investment in water infrastructure.

## 4. Reduced debt servicing costs

The lower interest rates available to public utilities translate into reduced debt servicing costs. For example, Scottish Water, a publicly owned entity, [allocated only 10%](#) of its revenue to debt

servicing in 2023. In contrast, private water companies in England, such as Thames Water, Southern Water, and South East Water, spent over 25% of their revenue on debt payments. Government bonds are highly attractive to national and international investors because they offer a relatively secure return - typically between [4-5% in the current climate](#) - reflecting strong demand for low-risk, stable-income investments.

Eau de Paris has historically maintained low debt levels, relying minimally on external financing. A study by the Municipal Services Project notes that the utility has "[eschewed reliance on debt financing](#)," which has limited the role of public banks in its operations. This approach has allowed Eau de Paris to maintain financial autonomy and avoid the high-interest obligations often associated with private sector borrowing.

The low borrowing costs for [Dutch public water utilities](#) result in manageable debt servicing expenses, allowing for greater investment in infrastructure and services. This financial efficiency helps maintain high water quality and environmental standards, while also keeping customer tariffs relatively stable.

## 5. Opportunities for infrastructure investment

Public sector utilities can borrow money at lower interest rates than private companies because they can receive state backed guarantees. These savings on interest payments could be reinvested into the system.

For example, Switzerland has a particularly robust commitment to maintaining and upgrading its wastewater infrastructure. Switzerland invests in innovative wastewater technologies, such as advanced treatment processes and [resource recovery](#), which help recover valuable resources such as nutrients and energy from wastewater, promoting a circular economy.

The city of Stockholm has gained a low interest £273 Million pound loan from the Nordic investment bank to double the capacity of the Hendrikstahl sewage treatment plant, making it the [largest in Europe](#). While the specific interest rates for these loans are not publicly disclosed, NIB typically offers [long-term financing on favourable terms](#) to public sector projects, benefiting from the bank's AAA credit rating. This allows municipalities like Stockholm to access capital at lower costs compared to private entities, which often face higher interest rates due to greater perceived risk.

[Eau du Ponant](#), a local public company serving the Breast Métropole area, secured an €80 million loan from the EIB to modernise its water and wastewater infrastructure. This financing is part of a broader €210 million investment plan aimed at reducing pollution and improving water conservation.

## Weaknesses of Public Ownership

### 1. Lack of funding

Whilst tackling sewage pollution has become a primary political issue, this has not always been the case, which can lead to a chronic lack of funding.

For example, Northern Ireland Water (NI Water) has been [persistently underfunded](#) in recent years. In November 2024, NI Water officials confirmed they are expecting a [funding shortfall of up to £1 billion](#) from the NI Executive between now and 2027. This comes on top of a £700 million shortfall between 2015 and 2021. This lack of funding has led to an aging and overburdened sewage infrastructure, which in turn has led to the widespread pollution of Lough Neagh, Belfast Lough and across [Northern Ireland's beaches](#).

Unlike other countries in the UK, Northern Ireland [relies on general taxation](#) instead of imposing domestic water charges. This severely limits NI Water's ability to raise revenue and capacity to invest in critical infrastructure, and therefore should not be seen as typical of a public ownership model.

We see the majority of public ownership models being successful in Europe with the essential combination of effective municipal oversight and the support of governments to back plans to modernise and invest.

### 2. Competition for funding

A commonly held view of public ownership is that water would have to compete with other departments for Government funding. However, by using low risk Government backed bonds to finance investment, which are highly attractive to national and international investors, such competition could be nullified.

As shown in Europe, and recently with the major investment in Switzerland's quaternary treatment plants using activated carbon, [publicly owned water companies successfully secure funding on much better terms](#) than England's private debt model, while bringing economic advantages and health to the nation. Not only do profits stay in the system for reinvestment, but the costs of debt are low and the public is willing to pay their part through taxation - because the system is transparent and they are seeing demonstrable improvements to water quality.

37 plants have been upgraded out of 140 in the pipeline, with a government commitment to removing micropollutants across Switzerland. As a result, having been some of the most polluted waters in Europe in the 1960's only 5 out of 196 inland bathing sites are rated poor now. Regular [water quality tests in Zurich water treatment works include SARS-CoV-2 virus](#), and even determine covid variant and load in the population.

## Recommendation

Whilst the Government has ruled out widespread nationalisation, we recommend that the Commission must look at the experiences of publicly owned water companies in Europe,



Northern Ireland and Scotland to learn from the strengths and weaknesses of the approaches. Such an assessment is essential to understanding how water services can be delivered in the public interest, particularly when structured with meaningful municipal oversight and underpinned by some form of public ownership.

We can learn from publicly owned models in cities like Paris, Berlin, and across Switzerland, Austria and the Netherlands, that illustrate the benefits of strong civic participation and transparency. Publicly owned utilities benefit from lower borrowing costs, accessing government-backed finance at interest rates significantly below those faced by private companies.

These models are not without challenges - some countries face issues with underfunding, as in Northern Ireland.

## Model 2: Municipalities

### What is the municipal model?

Across Europe and the USA, municipalities are responsible for the democratic planning and delivery of water services, finances, governance and operations in each region, and are aligned towards achieving a national strategy for sewage treatment, water quality and supply. This can come in numerous forms. In the Netherlands local authorities maintain a 'golden share' in water companies to ensure they retain overall control of the water company and ensure it continues to deliver benefits for its customers. When first privatised in the UK the Government retained a golden share for this purpose. Other municipalities have outright control of water but outsourced the delivery of services to private companies, for example under concession to operate.

Over 180 cities and communities in 35 countries, including Buenos Aires, Johannesburg, Paris, Accra, Berlin, La Paz, Maputo and Kuala Lumpur, [all turned to remunicipalisation](#) for their water ownership from private to municipality between 2000 and 2014.

Customers and local stakeholders must be embedded into the governance, decision making and regulation of the industry. Considering the local factors at play in differing regions, it is important that democratic representation takes place at a local/regional level.

### Strengths of the municipal model

#### 1. Improved access and quality of water services

Research by the [Transnational Institute](#) has found that 'by eliminating the profit maximisation imperative of the private sector, water municipalisation often leads to enhanced access and quality of services.' Examples of this can be seen around the globe from Paris (France), Arenys de Munt (Spain), to Almaty (Kazakhstan). In Arenys de Munt (Spain), the local government and



the new public operator restructured the tariff system to guarantee access to water for low-income households.

## 2. Reduced costs and environmental benefits

A prime example of the success of remunicipalisation of water can be shown in Paris. Following the move, the city saved around 35 million Euros in the first year and reduced the water tariff by 8%, reversing a trend that had seen a [260% rise in prices](#) between 1985 and 2008.

A clear example of the success of the remunicipalisation of Paris water was shown at the 2024 Olympic Games where the Seine hosted numerous swimming and triathlon events. Whilst much work is still needed to ensure that water users can swim safely in the Seine, the estimated total injection of [1.4 billion euros](#) was a huge achievement and is a testament to the collaboration of many sectors [working together](#) behind a shared vision. By the end of the Olympic Games, bacteriological pollution was [reduced by 75%](#).

## 3. Opportunities for infrastructure investment

In some cases, the new public operators also dramatically increased investments in the water systems. For example, the municipal operator Régie des Eaux de Grenoble (REG) has increased investments in maintenance and infrastructure renewal threefold as compared to the previous private operator, while keeping tariffs at a lower and more stable level.

Various forms of investment are available to municipalities including private investment mechanisms such as bonds, where they can generally borrow money at a lower rate than private companies if they are not-for-profit. There are also options to seek investment from the central government, including government-backed bonds which command a much lower interest rate than private debt.

## 4. Democratic and transparent

In Paris and Grenoble (France) civil society representatives sit on the Board of Directors together with local government representatives and ensure operations are responsive to the interests of local communities. In addition citizen [observatories have been set up](#) to allow citizens to engage in strategic decisions on investment, technology options and tariff setting. These mechanisms allow the water companies to operate without political interference whilst remaining publicly accountable.

Austria has a robust tradition of transparency in water data, providing free public access through its Water Information System Austria (WISA) and maintaining extensive monitoring, including 2,016 groundwater sites per 40 km<sup>2</sup>. Permit-based operations are required to conduct self-monitoring under the Environmental Code.

[In Sweden](#), a voluntary system called "Coordinated Recipient Monitoring" focuses on discharges into rivers and coastal areas, with participation organised through Water Conservation Associations that include local councils and industry representatives.

## Weaknesses of the municipal model

In the scenario that municipalisation mixes public oversight and private delivery, there could be the creation of tensions and complications were the aims of public and private owners' conflict.

## Recommendation

Municipalisation is not a one size fits all model and there are various iterations used across the globe. However, the democratic accountability and the proven track record of municipalisation to deliver results and efficiencies represent a clear opportunity for change.

In the UK this could be taken forward in the form of Regional Water Authorities, as per the following section.

## Model 3: Regional Water Authorities

Following on from Model 4, Regional Water Authorities could be a good way to ensure democratic representation in the water sector. These bodies could transform an otherwise opaque system by putting forth a democratic representative for citizens. Regional Public Water Authorities could be re-established in the UK bringing together local councils, water industry experts, community groups, environmental organisations and representatives. These regions would also reflect catchment areas.

Customers and local stakeholders must be embedded into the governance, decision making and regulation of the industry. Considering the local factors at play in differing regions, it is important that democratic representation takes place at a regional level.

In Austria, Sweden, and Denmark, sewage systems are not only publicly owned but also locally managed, granting communities significant decision-making powers. [Austria's](#) "Water Sanctuary" concept exemplifies the cultural and legal integration of environmental stewardship at a local level, while [Sweden and Denmark](#) similarly empower municipalities to manage wastewater effectively.

By contrast, UK water companies are largely foreign-owned and regionally centralised, limiting community involvement and accountability. Decentralised management, as seen in Europe, offers a blueprint for empowering communities and fostering long-term environmental stewardship.

Regional Public Water Authorities would be given responsibility for the democratic planning of the service, finances, governance and operations in each region. Private, or hybridised, water companies could then be subject to implementing these plans at a regional level. These Water Companies would be required to bid for contracts with Company licenses terminatable for poor performance and awarded on shorter term licenses to ensure delivery.

## Strengths of Regional Water Authorities

Following from the strengths of municipalisation, Regional Public Water Authorities would embed customers, and local stakeholders into the governance, decision making and regulation of the industry. By doing this at a regional level local factors can be much taken into account.

## Recommendation

The creation of Regional Public Water Authorities would restore public trust and improve accountability in our water sector. These democratic bodies would embed customers and local stakeholders into the financing, governance, decision-making, and regulation of the water industry, with a structure that reflects the specific environmental and social needs of each catchment area, within a national strategy to ensure clean waterways and abundant water.

Drawing on successful European models in Austria, Sweden, and Denmark, where sewage and water systems are publicly owned and locally managed, this approach would ensure that local communities have meaningful input and oversight. In practice, these regional authorities would lead the strategic planning of water services, with private, or hybridised, operators bidding to deliver services under short-term, performance-based licenses. This model would bring greater transparency, regional responsiveness, and accountability, while maintaining the potential to draw on private sector expertise and investment within frameworks that prioritise customers, the public and environment.

## Model 4: Not-for-profit

### What is a not-for-profit?

A not-for-profit organisation is a business that aims to do something other than to make profit for the owners, such as providing a public service or helping people. It needs to make enough money to cover its costs, but any surplus is reinvested into the business or used in other ways to further the objectives of the organisation and its beneficiaries. There are several ways these organisations can be established and run.

In Wales, Welsh Water(Dŵr Cymru) is owned by Glas Cymru, a single purpose company formed in 2001 to own, finance and manage Welsh Water. It is limited by guarantee and because of this has no shareholders. Like privatised companies, not-for-profits can raise their capital for investment on [private money markets](#). Welsh Water is not regarded as a successful example of

the not-for-profit model, mainly due to the government's failure to regulate organisational finances and governance, resulting in high levels of pollution.

Not-for-profits have worked well in other parts of the world, including the US. [Austin Energy](#), for example, is an electric utility in the City of Austin that operates as a community-owned, not-for-profit enterprise. The utility generates revenue through the sale of electricity, but any surplus funds are reinvested into further renewable energy initiatives, and long-term infrastructure development.

In the UK, the not-for-profit model has been tested on a smaller scale. For example, [Brixton Energy](#) is a group of not-for-profit cooperatives based in south London who install solar panels on social housing.

## Strengths of not-for-profits

### 1. Value for money

The not-for-profit model enables investment in critical infrastructure that can bring about lower customer bills over time. For example, residential electric bills from Austin Energy tend to be lower when [compared to other utilities](#) in Texas. Austin Energy is able to sell surplus energy generation onto the Texas grid and use the profit to invest in future energy efficiency measures. With a requirement to reinvest surpluses, not-for-profits have more resources to expedite urgent infrastructure maintenance and improvement.

### 2. Democratic

One feature of Welsh Water is that the members appointed to the board serve as an important source of expertise and support the company in [fostering strong relationships with local communities](#). This is a model of having members, customer boards or having environmental groups elected onto water company boards are all parts a new democratic system should take forward to ensure that directors and executives are making decisions that improve public health and the environment.

By comparison, Austin Energy is led by a '[Utility Oversight Committee](#)', formed from elected council members, with a democratic responsibility to the residents of Austin City, Texas, USA.

### 3. Culture

After interviewing former non-executive directives at Glas Cymru, Said Business School at Oxford University found that decisions and deliberations made by the board were far more customer centric and concerned with the long-term performance of the company compared to their [experience at shareholder owned businesses](#).

This culture seems to be welcomed by customers who when consulted in 2016 about whether a financial surplus should be returned to customers or be reinvested to deliver an efficient and

reliable service in the long-term, together with targeting help for those struggling with payments showed a strong preference for reinvestment. This result was [not replicated in similar surveys](#) by other water companies.

Furthermore, in instances where companies invest profits into a community fund, the injection of social value can lessen pressure on the delivery of other public services. For example, Austin Energy last year [invested around \\$124 million US dollars](#) into Austin's general fund, which paid for parks and libraries.

## Weaknesses of not-for-profits

### 1. High debt servicing burden

Glas Cymru's founding bond issue was one of the [largest in corporate history](#) at the time. Since then, Welsh Water has [continued to finance itself through bond issues](#), some of which are traded on the Belgian Bourse. These bonds carry significant obligations.

While there are no shareholders in Welsh Water, it has over £5 billion in bondholders. In 2024, Welsh customers were paying 25% of their bills to these bondholders. In 2023, the percentage was over 40% due to higher inflation, as many of the bonds yielded a return of 4.4% plus RPI.

Studies by the [University of Greenwich](#) have shown that approximately 41% of Welsh Water's revenue goes to servicing debt, a higher proportion than in both privatised water companies (35%) and publicly owned Scottish Water (8%). This limits the availability of capital for direct environmental investment or infrastructure upgrades.

The limitations and failing of the Welsh not-for-profit model - particularly with managing finances and debts and poor environmental performance - are deemed to be as a direct result of lacking regulation by NRW and Ofwat. The not-for-profit model can be seen to work elsewhere in nations with effective regulation.

### 2. Opaque governance

While the absence of shareholders is designed to create public interest oversight, the financial and corporate structure of Glas Cymru is a key concern. The trading of bonds on foreign exchanges may reduce transparency, and key decision-makers within the organisation may have more concentrated authority than directors of PLCs, with just two operational directors in the organisation who have more decision making power than the boards of a PLC.

Glas Cymru's self-selecting governance model are members, who are appointed by Glas Cymru's board to ensure that the Board and senior management act in the best interest of the company. Therefore, as a Not for Profit private limited company they bypass public scrutiny.

Both of these concerns can be allayed with the right governance model for a not-for-profit to ensure equitable and democratic governance, for example through the election of board members and clear rules for decision-making and investment.

### 3. Performance and poor environmental outcomes

Welsh Water was responsible for 105,943 spills in 2023 and has been proven to be in breach of its permits [on numerous occasions](#). It is also under investigation by Ofwat and the Environment Agency for potential illegal discharges just like every company in England. Ofwat currently rates the company as [“lagging behind”](#) across key metrics and performance is “poorer than target” on 7 of 12 regulatory indicators, including pollution, drinking water quality, and leakage.

In 2023, Welsh Water was [fined £40 million](#) for providing misleading data and failing on governance over a five-year period. Therefore, whilst Welsh Water have not had to pay out to shareholders it still performs poorly on environmental grounds. The [Drinking Water Inspectorate](#) rated Wales as the worst performer on water quality in 2023.

As stated above, these concerns do not reflect inherent problems with not-for-profit models but the lack of regulatory oversight and poor governance. Strong financial and environmental performance can be achieved through the right constitution framework, transparent planning and democratic governance of a not-for-profit.

## Recommendation

The not-for-profit model allows a water company to remain in the private sector but to realign a water company’s principles and objectives in the interests of people and the planet. However, the experience in Wales shows this does not deliver results without appropriate governance and regulation.

This points to the need that all water companies, however they are owned, still need tough holistic regulation to ensure they are compliant with the law. This can only be achieved with a well-funded, empowered and independent regulator which is accountable to the public and parliament. This should be in combination with municipal oversight of the planning, funding and operations of a water company at local and national levels as we see across Europe.

The Commission must therefore take a holistic look at both ownership, governance and enforcement when considering the opportunity for wholly or hybrid not-for-profit models.

## Model 5: Public Benefit Company/Community Interest Company

### What is a Public Benefit Company?

A Public Benefit Company (PBC) is a type of corporation that aims to create a positive impact on society or the environment, in addition to generating financial returns for itself or shareholders. Whilst a PBC can operate as a business seeking profit, they also have legally defined social or environmental mission with equal or greater weighting [than the profit motive](#). Another fundamental feature is the asset lock, which prevents the transfer or sale of assets.

PBCs originated in the United States, with individual states passing laws which allow their creation as distinct legal entities. In the UK there is no specific legislation for the establishment of a Public Benefit Company. The closest equivalent in the United Kingdom are Community Interest Companies (CIC) which [have been used](#) for nearly two decades for major projects such as renewable energy asset portfolios for the development and operation of wind and solar projects.

A prime example of such a company is Italy's [Eni Plenitude](#), which became a [Benefit Corporation](#) ("Società Benefit") in 2021. Italy's introduction of the Benefit Corporation model into its legal framework was inspired by the American concept, where profit remains essential for business survival, but is complemented by the necessity for '[common benefit](#)'. Furthermore, in France, several prominent utility companies (including [EDF](#) and RWE) have adopted the "Entreprise à Mission" status. This is a French legal framework in which businesses pursue a set social and environmental purpose with specific sustainability goals.

### Key characteristics of a Public Benefit Company include:

1. **Dual Purpose:** It must balance profit-making with achieving one or more public benefits, such as promoting sustainability, public health, or environmental improvement.
2. **Legal Requirements:** PBCs are required to include a specific statement in their formation documents e.g. certificate of incorporation or articles of association outlining the public benefit they aim to promote. They must consider the impact of their decisions on a range of stakeholders, including shareholders, employees, customers, and the community.
3. **Accountability:** PBCs must report regularly on how they are fulfilling their public benefit objectives. This transparency is meant to ensure that they are meeting their social or environmental goals.
4. **Profit Distribution:** While a PBC can distribute profits to shareholders, it is not allowed to prioritise profits over its public benefit purpose.
5. **Asset lock:** A PBC can have an asset lock, which is a legal clause preventing the sale or transfer of assets (including any profits or other surpluses generated by its activities). This limits the risk of companies becoming over-leveraged as we have seen across the privatised water industry in England.



## What is a Community Interest Company?

CICs are limited companies which operate to provide a benefit to the community they serve. The purpose of a CIC is primarily one of community benefit [rather than private profit](#). CIC's also have [asset locks](#), which prevents the assets of a company being used for private gain, rather than the stated purposes of the organisation.

A CIC operates in the same way as any other company. It has all the well understood characteristics of a limited company such as a separate legal identity; the ability to enter into contracts and own assets in its own name; and flexibility in borrowing and fundraising, with the option of asset locks. According to the [UK Government guidance](#) 'CICs will become established as a brand of company that the public recognises and trusts and whose social purpose they understand.' Hence being used widely for community-level public services such as energy projects.

To be established as a CIC the company must satisfy a 'community interest test'. It must satisfy the Regulator that a reasonable person might consider that the CIC's activities are or will be carried on for the benefit of the community. A company will not satisfy the test if it carries out activities that only benefit members of a particular body, shareholders or the employees of [a particular employer](#). In short this means that the company cannot legally prioritise maximising benefits for shareholders as is currently the case.

For this to work in practice, a Water Company could be established as a CIC to benefit the community for which it provides its regional services too. A Water Company could also be established as a PBC to provide public benefit of clean water, clean environment and healthy people.

An example of this working in practice is the Bristol Energy Cooperative, a CIC that stipulates in its [constitutional documents](#) that all assets must be used to further its mission (developing and managing renewable energy projects that benefit the community). Another example is the [Edinburgh Community Solar Cooperative](#), whose Community Benefit status precludes profit distribution, establishes a capital-value asset-lock, and requires the use of its assets for the benefit of the community.

## Strengths of CIC and PBCs

### 1. Value for money

CICs are subject to a dividend cap of 35% of profits which helps strike a balance between encouraging investment and the principle that the assets and profits of a CIC should be devoted to the benefit of the community. This helps to ensure that the dividends are not disproportionate to the amount invested and the profits made by the company. This deviates from the current model where [Water Companies in England's dividends have vastly outstripped profits](#). In

2023-2024 Severn Trent paid out dividends at 215% of profits and Yorkshire water paid out dividends worth 125% of profits (SAS report to be published April 2025).

## 2. Democratic

The CIC Regulations require CICs to annually report on what they have done to benefit the community, and how it has consulted its stakeholders on its activities. Whilst there is not a legal mechanism to ensure that the community are involved in decision making this reporting ensures consultation happens. A development of this system could legally require representatives of the community, local authority, public health or environmental groups to sit on a Water Company Board.

An example of democratic involvement is clear at the Edinburgh Solar Cooperative, where [all members](#) regardless of the value of the shares they hold, have a single vote. The Board is controlled by Members through annual elections.

## 3. Transparency

As above a core legal requirement of PBCs and CIC is to provide annual reports on their delivery of their public good objectives and for the community they serve.

For CIC in the UK Water Companies would be required to set out annually how the company is delivering against the Community Interest Test. A test such as this for Water Companies would be useful to annually ensure that Water Companies are delivering for their customers, or risk having their licence revoked.

For example, Eni Plenitude of Italy and other Benefit Corporations must submit an 'Annual Benefit Report' containing a [detailed evaluation](#) of the impact of the company.

## 4. Net environmental, climate and public health benefit

As PBCs or CICs Water Companies could have the delivery of environmental, climate and public health benefits built into their articles of association and other governing documents. This would enshrine this duty to ensure that decisions about how to run the company consider these objectives over and above the creation of profit.

For example, as part of the Italian "Società Benefit" model, companies must operate, in addition to the aim of distributing profits, in a '[responsible, sustainable and transparent manner](#)' in relation to individuals, communities, the environment, cultural and social heritage.

## 5. Opportunities for infrastructure investment

As PBCs and CICs are still private companies, they allow private investment to bring in capital for infrastructure investment. Companies would still expect to pay shareholder dividends but

only when driving principles are met, meaning this is hugely incentivised for the board and executives.

Early studies from the United States have shown that PBCs have been successfully attracting investment. In Delaware alone PBCs which have received investment from venture capitalist funds amounting to over \$2.5 billion in total. This investment is coming not just from pro-social Venture Capitalists but also from [top-tier firms](#).

The Benefit Corporation's of Italy, such as Eni Plentitude have a distinctive financial structure which has attracted ample investment in recent years. For example, Eni Plentitude has an organic [project pipeline](#) of 22 GW and in November 2024 [attracted a capital increase](#) of approximately €209 million.

Socially Conscious Investors who place high importance on environmental, social, and governance (ESG) criteria, may find CICs attractive because they are legally committed to benefiting the community and reinvesting profits for social good. These investors tend to prioritise values alongside financial returns. As of the [end of 2023](#), the Socially Conscious Investors market reached £76.8 billion in assets under management (AUM), marking a £19.3 billion increase from previous estimates, and represents a 10.1% compound annual growth rate since 2021. Notably, this growth rate outpaced the broader UK asset management sector, which saw an annual growth rate between -2% and 0% over the same period.

Furthermore, the community energy model in the UK is attracting [significant investment](#). According to Community Energy England's 2024 [State of The Sector](#) report, UK community energy groups saw a turnover of £43.2 million in 2023, securing £24 million in investment. This growth in purpose-driven capital signals a growing investor appetite for models that combine long-term value and lower risk with social and environmental impact. This is an opportunity that the water sector cannot ignore.

## 6. Asset-locks

A key strength of CIC's is the asset lock mechanism that prevents the sale or transfer of assets. This limits the risk of assets becoming over-leveraged, such as sewage treatment works in England.

For example with Edinburgh Community Solar Cooperative, its grants, community shares and bonds are [all locked](#). The same applies for Bristol Energy Cooperative. If it were to be dissolved, its residual assets must be transferred to another asset-locked organisation, such as a charity or another CIC with a similar mission.

## Weaknesses of of CIC and PBCs

CICs have not been tested at scale in the UK and there is currently no legislation in place in the UK to facilitate creation of PBCs.

These companies like any sector would require stringent regulation to ensure that they remain committed to deliver public benefit.

However, despite the lack of water company-sized CIC/PBC in the UK, the principles of a public benefit company model should be considered as a highly-effective way of achieving water company goals for public and nature benefit, and in a secure environment for investors.

## Recommendation

The Commission could explore converting Water Companies to Community Interest Companies or Public Benefit Companies. This is because social and public benefit are enshrined in the driving principles and decision making of a company. Community interest tests and annual reporting require ongoing commitment to these values. Whilst these companies can attract private investment, dividends are capped and assets can be locked to ensure the company remains committed to its core values and communities they serve.

Whilst not yet tested at the scale of a regional water company the government in the UK have already instructed Water Companies to amend their articles of association to have regard for environmental and customer interests. Moving to a PBC or a CIC model would be a more effective step to reset private companies priorities.

As with all other public benefit models, appropriate democratic municipal oversight and government regulation would be essential, in line with a national strategy for sewage, water quality and supply.

## Other forms of ownership

There are further management models for water company governance and ownership across Europe which have not been directly referenced in this study, but could be considered by the Commission. Please see the above [EurEau graph](#) to demonstrate the variety of compositions.

- **State owned assets:** The assets are state or municipally owned and concessions are granted to run the services (eg parts of Spain and France)
- **Public-public partnerships (PUPs):** PUPs are public-public partnerships where municipalities or publicly owned water companies share resources and expertise, these can be within countries like in parts of the Netherlands, or between countries like Japan and Vietnam. They are mutual support partnerships and there are over 100 successful models worldwide.
- **Mixed models:** These are quite common where there is a mixture of state, municipal and private ownership and operation (e.g. USA, Spain) creating a hybridised approach to suit the needs of each city/region/catchment.

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## Alternative Financing Options

Whilst effective governance will be critical to turning around the water industry, it is also critical that the commission consider new ways to finance the desperately needed investment. These options often overlap between models and could allow investment to be linked to the delivery of the outcomes the public wants to see. We have laid out just a few options but encourage the Commission to look deeper.

### Green/Blue bonds

Green bonds are becoming an increasingly powerful tool for raising funds for environmentally beneficial water projects. Municipalities, corporations, and financial institutions can attract investors interested in sustainable development by issuing green bonds. For example, in 2019 the Nordic Investment Bank issued its first Baltic Blue Bond which will focus on projects including wastewater treatment, prevention of water pollution, and water-related climate change. The Bond is already being used to upgrade infrastructure [in Finland](#).

In addition to green bonds, [Sustainability-Linked Bonds \(SLBs\)](#) are becoming an increasingly popular option. SLBs offer a flexible structure where the interest rate is tied to the issuer's ability to achieve specific environmental, social, or governance (ESG) targets. These can be used as an effective tool for incentivising companies to meet predefined sustainability goals, such as improving water quality, while raising funds for critical water infrastructure investment. SLBs align financing with measurable environmental outcomes, creating a compelling proposition for investors seeking both financial returns and positive social impact.

Government-backed bonds would be highly attractive to investors due to their low risk and would be at a much lower interest cost - typically 4%-5% - than private debt - for example Thames Water's recent £3 billion at 9.75%. Government backed bonds issued have lower risk because the Government underwrites the bonds, and because they are asset backed too, with the added security of a regional/geographic monopoly providing a public utility - drinking water and sewage treatment - with guaranteed income from a captive market (bill payers).

The UK Government has used Government bonds in the past with success. When Railtrack came to an end, it was replaced by Network Rail, set up to be a standalone not-for-profit company. It issued bonds which had a total and unconditional guarantee from the Blair-Brown Government at the time, so the market treated them as equivalent to Government bonds. The ONS ruled that it was therefore in effect owned by the Government. Network Rail now continues to issue bonds as a formal Government-owned entity and with a Government guarantee which is ['unconditional, irrevocable and unlimited'](#).

## Outcome-based financing

Another area to explore is [Outcome-Based Financing \(OBF\)](#), which connects funding to the achievement of specific and measurable outcomes. OBF models ensure that funds are deployed in a way that drives tangible improvements in water infrastructure. As a results based financing (RBF), this approach can offer a more effective way of ensuring public money is being spent on critical infrastructure improvements that prevent sewage overflows and enhance flood resilience.

To foster outcome-based models in the water sector, the Government must take an active role in reducing risks for investors. This could include underwriting or guaranteeing investments to lower the perceived risk and, therefore, the cost of capital. By doing so, government-backed bonds and sustainability-linked financing models would become more attractive to investors.

## Long-term infrastructure financing

The work of [Anthropocene Capital](#), a pioneering initiative focused on sustainability and responsible investing, underscores the need for financing models that prioritise long-term, patient capital to support environmental and social goals. The water sector, burdened by high levels of debt, requires such long-term investment to finance infrastructure improvements without jeopardising financial stability. By attracting this type of capital, the water industry can avoid the risks associated with high-leverage structures and the short-term financial pressures that lead to underinvestment in critical infrastructure.

Innovative financing options such as green bonds, sustainability-linked bonds, and outcome-based financing offer powerful tools to secure the investment needed for long-term water infrastructure improvements. The Government must play an essential role in de-risking these investments through creating an environment where long-term, low-risk capital can flow into the sector. By aligning the needs of socially conscious investors with the goals of the water sector, there is a unique opportunity to transform the sector, ensuring that UK communities, pension holders, and the environment all benefit from sustainable, effective water management.

## Elements of System to take forward: A New Vision for Water

**Based on our extensive research looking at alternative models around the world we recommend the adoption of a water system that takes forward the following elements:**

### Public and environment benefit

Water Companies and regulators must all have a primary legal duty to deliver public and environmental benefit. The models used for planning, financing, operating and regulating water companies must use one or more of the public benefit models suggested here, ranging from



publicly owned or community interest to municipalised or regional water authorities. Assets should be protected and enhanced, not exploited. Returns should be reinvested to address the urgent pollution and water scarcity crisis.

## Municipal oversight

All water companies should have local, regional or national municipal oversight to ensure they operate for public benefit and to achieve environmental performance. From business planning and financial structures, to governance and operations, every aspect of water companies should be overseen by a municipality to ensure it is working for public and environmental benefit.

This should be aligned with a national strategy for sewage, water quality and supply to ensure all parts of the country benefit and resources are allocated to meet everyone's needs.

## Value for customer money

Short term investments in private water companies have led to widespread pollution. A new system must be regulated to ensure long term low risk investment which ties investment to achievement of outcomes.

Debt must be regulated and proportionate to investment in infrastructure and on terms that maximise delivery of water company services rather than exploitative interest rates. This would keep customer bills stable and ensure that customers are getting the service they are owed instead of paying to reward shareholders for nothing.

## Tough independent regulator

For any system to be successful there must be tough independent regulators empowered and resourced to enforce the law and hold polluters to account. The regulator must be effectively funded and tasked with ending profit from pollution. This means fully adopting the polluter pays principle and taking tough actions against those that pollute and ensuring that there is no financial reward for water companies, shareholders or creditors who break the law and deliver consistently poor environmental performance.

Water company permits should be reviewed with urgency, and updated to ensure the treated effluent standard meets the needs of the local water body and its users.

## Democratic representation

Customers and local stakeholders must be embedded into the governance, decision making and regulation of the industry. Customers and Environmental groups must have a seat on Water Company Boards with equal power to other board members whose expertise should reflect the requirements of the company, not seeing it as an investment vehicle.

Customers and local stakeholders must also have a role in strategic sewage and water planning at a local and regional municipal level. This democratic and local engagement has been shown to deliver strong outcomes across Europe and in particular in Paris.



## Transparent

The regulators need to hold the water companies to account and that means water companies being totally transparent about their operations. No more dodgy cover ups or self-monitoring. It also means providing the information the public needs to stay safe when using the water and to hold their local water companies responsible.

Monitoring and reporting must be of all sewage outflows, in real time and pollution incidents should no longer be routinely downgraded.

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## Means to Reaching a New System

To pave the way to a new system, we also need to see immediate action.

**We propose the following three financial levers as a means to moving towards a new system:**

- 1. Special Administration is used as a robust regulatory intervention**
- 2. Public bailouts for failing water companies using public money is prohibited.**
- 3. Water Company licenses are awarded with an expiry date.**

## Special administration for breach of environmental and other obligations

We believe that Special Administration is a powerful mechanism that should be utilised when water companies breach their obligations, *including* their environmental obligations. Minister Emma Hardy recognised the power of Special Administration in the Committee stage of the Water (Special Measures) Act, calling it the ‘ultimate tool in [Ofwat’s regulatory toolkit](#)’ and as such, we believe it to be an essential component of root and branch reform.

**We therefore recommend:**

- 1. Special Administration to be used as a solution to protecting customers and safeguarding vital infrastructure investment**
- 2. The conditions for putting a water company into Special Administration *include* the breach of environmental obligations.**

Special Administration is a mechanism provided under existing legislation, that enables the government to assume control of failing water companies. This regime can currently be triggered if a water company becomes insolvent or fails to carry out its statutory functions or licensed activities, including to maintain and manage sewer infrastructure appropriately, to such an extent that it is inappropriate for the water company to hold its appointment or licence.

This process is a strong disincentive, as it involves the removal of current directors and the transfer of assets to new owners. Importantly, it would empower the government to redirect funds currently allocated to shareholder dividends—sourced from customer payments—towards the urgent infrastructural improvements needed to mitigate the ongoing sewage crisis.

During the Water (Special Measures) Act debates, [Baroness Hayman explained](#) that the Act would “*modernise the existing special administration regime for the water industry, to bring it in line with special administration regimes for other regulated sectors and to ensure that taxpayer money is protected in the event of a water industry special administration regime*”.

However, despite record numbers of sewage spills, including in dry weather in clear breach of water companies’ statutory duties, the government is yet to use the Special Administration regime as the ultimate enforcement tool available. Given the clear non-compliance of water companies and the failing financial status, it is unclear why the Government has chosen not to take failing water companies into Special Administration.

The Government gives the impression that Special Administration would be expensive. However, River Action’s legal advisers confirm that the Government has the power to acquire water company equity and debt without cost, or minimal cost, and that it can reissue debt on much better and lower cost terms.

## Thames Water: A Case for Special Administration

*Source: Dr Laurence Jones, Credit Risk Research Group, Institute of European Finance [available upon request]*

Thames Water is the primary cause of pollution in the Thames and has failed in both its moral and legal duties. The company’s current financial crisis underscores the urgent need for structural intervention. If Thames Water is allowed to continue operating within its failed financial structure, it stands little chance of being able to ever raise sufficient capital to address its dire environmental performance.

With debt levels double those of many industry peers, yields exceeding 12%, and bonds trading at substantial discounts, the company is trapped in a cycle of unsustainable debt servicing. For comparison, the UK’s 10-year government bond yield is approximately 4%, highlighting the severity of Thames Water’s financial challenges. This precarious financial state has resulted in a diversion of resources away from critical infrastructure investments, jeopardizing both public service delivery and environmental protection.

Special Administration offers a robust pathway to address these challenges. Under government-backed financial restructuring, borrowing costs could be significantly reduced, enabling Thames Water to allocate resources more effectively toward infrastructure

improvements. This model could also facilitate debt restructuring and enhance the company's debt-to-equity ratio, ensuring greater financial stability and resilience. Importantly, the mechanism prioritizes consumer protection by preventing service disruption and securing investment in essential infrastructure to meet public and environmental needs.

The case for Special Administration becomes even more compelling in the context of Thames Water's broader responsibilities. As one of the UK's largest water providers, its financial instability has far-reaching implications for water quality, pollution management, and climate resilience. By resetting its financial structure under Special Administration, Thames Water would not only regain operational capacity but also set a precedent for improved governance and regulatory compliance within the water industry.

Ultimately, Special Administration provides a pragmatic solution to safeguard Thames Water's future, ensuring that vital investments in infrastructure and environmental stewardship are no longer compromised by excessive debt servicing. This approach aligns with the need for a water sector that places public and environmental priorities at its core, while delivering long-term value for consumers and stakeholders.

If Special Administration is taken forward as the powerful tool it has the potential to be, it is equally important that water companies are not bailed out by customers.

## Prohibition on bail-out of water company shareholders and creditors

Given the current unstable and unsustainable financial and environmental performance of water companies, it is crucial to consider what should occur if companies are failing or are taken into Special Administration.

If Special Administration procedures are exercised by the government, there is a mechanism for the government to recover water company operational expenditure and continuing capital expenditure from water company customers. It is unclear whether this might include the costs of servicing water company debt, or the repayment of principal sums in the event of a water company having its operating licence suspended during Special Administration.

**We therefore ask that these measures would not amount to a form of water company bailout or a bailout for water company creditors.**

As recognised in the [House of Lords debate at Report Stage](#), such a legislation would “force good companies and their blameless customers to bail out failed companies” (Lord Remnant, Conservative, 20/11/24).

## Water Company licenses to be given expiry dates

At present, Water company licences don't expire for 30 years. Consequently, for any reform to happen, water companies must fail financially.

**We therefore recommend legislative change so that water company licences can expire.**

## Better regulation

Regulators are failing the water sector. In 2024, water companies discharged untreated sewage into waterways across England and Wales for 3.6 million hours, which legally should only occur in exceptional circumstances such during unusually heavy rainfall.

Past political decisions in recent decades have reduced the budget for regulation. Over the past few decades, the Environment Agency's environmental protection budget has been [significantly reduced](#), decreasing from £170 million in 2009-10 to £76 million in 2019-20. This has resulted in the devastating impact on rivers, water quality and human health risks.

In 2022, [SAS uncovered](#) 143 dry spills in a number of popular surf and swim spots between 1st October 2021 and 30th September 2022. A [wider piece of research by the BBC](#) found 6,000 'potentially illegal' dry spills in 2022. This data makes it no surprise that [the Office for Environmental Protection found](#) there had been failures to comply with environmental law in relation to regulatory oversight of untreated sewage discharges.

**We are therefore calling for a system with regulators who enforce laws, are well financed, and have obligations to the environment.**

## Enforce existing laws

As outlined below, the Government, Ofwat and the Environment Agency have collectively failed to enforce existing legislation.

**Consequently, we recommend two key policies to help drive better enforcement:**

- 1. The Environment Agency must tighten its permits to ensure compliance with the 1994 law prohibiting untreated sewage discharges outside exceptional circumstances.**
- 2. The Government provides the Environment Agency with sufficient funding and resources to enable the effective investigation and enforcement of environmental law.**

A recent FOI by River Action revealed that in 2022, Natural Resources Wales conducted 136 inspections across Powys county, uncovered 54 offences and took zero enforcement actions. This highlights a serious failure in enforcement, allowing environmental violations to go unchecked.

The water industry in England is governed by the 1991 Water Industry Act and the 1994 Urban Wastewater Treatment Regulations. This legislation requires water companies to treat sewage “effectively” and only permit sewage discharges from storm overflows in “exceptional circumstances”.

1. However, [the government has admitted](#) sewage overflows “are being used significantly beyond their original purpose”. With investigations by [Windrush Against Sewage Pollution](#), [Surfers Against Sewage](#) and [the BBC](#) found water companies regularly discharging untreated sewage on days where there had been no rainfall at all, including at some of the nation’s favourite swim sites.
2. This illegal pollution has led the [Office for Environment Protection to conclude](#) in December 2024 that the Government as well as the Environment Agency and Ofwat have failed to comply with environmental law, including misunderstanding its enforcement duties and failing to act on its legal obligations.
3. [Outcomes from a judicial review](#) from the environmental organisation Wild Fish supported these findings by making clear that Ofwat has a duty to enforce the 1994 law, and the Environment Agency has a duty to secure compliance by tightening the terms of the permits it issues to water companies.

## Strengthening environmental permitting

Alongside storm overflows, regulation of treated effluent into waterways is critical. Environmental permitting for treated effluent, governed by the [Environmental Permitting Regulations 2016](#), ensures that water companies only discharge treated wastewater under strict conditions.

However, many treated effluent discharges are still poorly regulated, potentially impacting public health and aquatic life. Treated effluent regulation must be regulated as deeply as storm overflows regulation, with clear and enforceable limits on discharge activity, alongside improved monitoring and reporting of treated effluent discharges.

## Environmental duty for regulators to deliver clean water

An environmental duty for the water regulator has been done before and should be done again. The Water Industry Act of 1973 emphasised the need for the Government to ensure “the restoration and maintenance of the wholesomeness of rivers and other inland water” and the “use of inland water for recreation”. This clause was [removed](#) in the Water Industry Act 1991.

Although the Government introduced a clause to the Water (Special Measures) Act which places a duty on Ofwat to have ‘due regard’ to existing climate change and environmental targets, we believe this must be taken further by putting clean water at the heart of regulator duties. **We therefore propose:**

**A clean water duty that requires the regulator to ensure:**

- a. Clean drinking water
- b. Bathing waters protect public health
- c. Lakes, rivers and beaches of high ecological status
- d. The conservation of water resources, and
- e. Reasonable water bills.

These requirements would ensure that the water regulator takes an active role in achieving the government's mission of cleaning up the UK's rivers, lakes, and seas, rather than working against it by favouring profit over pollution.

The proposed duty should be included in tandem with the Government's newly introduced duty to have due regard for climate and environment targets.

By incorporating the duties, the regulator would have the power to take robust enforcement action against water companies who damage the environment, by achieving a more equal balance between economic and environmental considerations and providing a statutory justification for environmentally ambitious regulation.

It would also drive an increase in the contribution made by the water sector as a whole to the achievement of the Government's climate and nature missions and prioritise action to protect the health of the thousands of people who use the water for physical and mental health benefits.

## Regulators should be better financed

Regulators have experienced substantial budget cuts over the last decade which has led to a lack of capacity to properly monitor and enforce the law. In 2021, over [64,000 members of the public](#) signed River Action's petition to increase funding to the Environment Agency, highlighting the clear demand for better funding for regulators.

The Environment Agency has experienced sustained budget reductions, with overall funding cut [by 50% over the past decade](#). Recent Freedom of Information data also revealed that staff responded to 5,013 pollution incidents in 2018, but by 2023, the figure had dropped by 36%.

The most recent Budget saw Defra have its day-to-day spending cut in real terms next year which will inevitably impact monitoring and enforcement.

**We therefore ask that the Commission recommend a budgeted action plan, which includes increased funding for regulators.**

Increased funding for regulators will ensure they are sufficiently resourced to carry out the monitoring, enforcement and prosecution that will ensure full legal compliance and dramatic environmental improvement.



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## Nature Based Solutions: Successful Case Studies

Mainstreaming innovative, catchment-scale nature-based solutions should be a priority to tackle water pollution while delivering significant co-benefits for biodiversity, climate resilience, and local communities. Nature-based solutions, such as wetland restoration, floodplain reconnection, and riparian buffer zones, provide a cost-effective means to filter pollutants, reduce nutrient loads, and enhance water retention in river systems.

For example, the recent [reintroduction of beavers to West London](#), supported by the Mayor's Rewild London Fund, showcases how natural water engineers can help mitigate flooding, improve water quality, and restore degraded ecosystems. Beavers create wetlands that trap sediments, slow water flow, and enhance habitat complexity, benefiting a range of species, from amphibians to fish and waterfowl.

The success of the ["Love Your River Stour"](#) project further highlights the transformative impact of catchment-scale restoration efforts. Through habitat restoration, wetland creation, and community engagement, the project has improved water quality, strengthened biodiversity corridors, and enhanced ecosystem services in the River Stour catchment. In just one year, over 7 hectares of woodland and 4 hectares of grassland have been restored, alongside the planting of 400 meters of hedgerow and the creation of six wetland features. Crucially, the project has engaged over 1,300 community members, demonstrating the power of local stewardship in driving sustainable river management.

**Scaling up these nature-based approaches nationwide will be essential to tackling water pollution and ensuring the long-term health of our waterways.**

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## Commission Scope

The review is a welcome step for reform, but concerns are mounting that the Water Commission's focus on water companies ignores our rivers' biggest polluter—agriculture. As Steve Reed stated in the Commons last December, the Government will examine "all sources of pollution into water" and the Commission is an ideal opportunity to do so.

While the Government has taken measures to address sewage pollution, it has been much slower in drawing up policy on reducing agricultural pollution.

**We therefore recommend the following to ensure meaningful progress takes place in addressing this issue:**

**Publish a detailed action plan to tackle agricultural pollution in rivers, ensuring it is addressed with the same level of scrutiny and urgency currently applied to water companies.**

Britain's rivers, streams, and lakes cannot be restored without bold action to combat agricultural pollution.

- Agricultural pollution remains the largest single source of river pollution in many areas. [According to Defra](#), agriculture impacts 40% of Britain's rivers and lakes, compared to 36% affected by untreated sewage.
- According to the [Rivers Trust](#), agricultural pollution accounts for 62% of water bodies in England failing to meet both chemical and biological standards.
- According to the [think tank Onward](#), the overuse of synthetic fertilizers has led to the addition of over one million tonnes of nitrogen and phosphorus to the soil, surpassing its absorption capacity.

## **Nutrient surplus in the River Wye**

One of the worst examples of agricultural pollution is seen in the River Wye catchment. Excessive application of manure as a fertilizer in the region- containing nitrogen and phosphorus - and the spread of fertilizer during wet weather is having serious consequences for our rivers. Instead of benefitting the crops, the surplus nutrients leach into rivers, causing eutrophication.

The rapid expansion of intensive livestock and poultry farming is causing a huge strain along the River Wye, with over [20 million chickens](#) now being raised in the area. Manure waste is being spread far beyond what the land can absorb, driven by [loopholes](#) in the regulation. Alongside this, intensive farms are still [being granted planning permission](#) by local authorities, despite the catchment area having a phosphorus surplus nearly 60% higher than the national average.

Analysis by [Sustain and Friends of the Earth](#) found that a small handful of powerful agribusinesses are driving exploitative supply chains and generate nearly twice the waste produced by the UK's ten largest cities. All of these companies supply major UK retailers, yet none have implemented policies to prevent pollution from leaching into waterways.

Farmers, who are already struggling with tight profit margins, cannot bear the cost of addressing these issues alone. **Without systemic reform to tackle the root causes of agricultural pollution—exploitative supply chains, weak regulations, and inadequate support—our rivers, streams and rural communities will continue to pay the price.**

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## A Second Water Bill

River Action and Surfers Against Sewage welcomes the pace at which the new government pressed ahead with the Water (Special Measures) Act. However, we believe the Act fell significantly short of the transformational changes outlined in this proposal. That is why we welcome this Commission into the water industry and are supportive of the Government's plans for a further Water Bill.

**As such, we recommend that the Water Commission:**

**Recommends a second Water Bill in the Government's next legislative agenda that focuses on the findings of the Water Commission and the causes of water pollution holistically.**

We have seen a range of wider activity in addressing water pollution, including a very welcome [EFRA committee inquiry](#) into Reforming the Water Sector. We strongly believe that the Commission has the ingredients to recommend a second Water Bill that reforms the failures of the water sector.

A second Water Bill will not only provide an opportunity to do justice to the Commission by legislating on its findings, but to return to vital issues debated in progression of the Water (Special Measures) Act, as outlined in our submission.