



Regulatory and Strategic Planning Proposals for the Water Sector

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1 Purpose and summary

1.1 Purpose of this submission

This submission covers the regulatory, funding, and strategic planning challenges to the UK water sector. It is informed by Portsmouth Water's unique position as a high-performing water-only company (WoC) and provides insights that are often overlooked in discussions dominated by the much larger Water and Sewerage Companies (WaSCs).

The UK water sector is at a critical juncture, facing mounting challenges and, given the state of policy and regulation, lacking the ability to respond to them. The challenges are well rehearsed but no less important for that.

Portsmouth Water believes that the sector can only respond effectively if the regulatory and planning frameworks recognise the strength and adaptability of local providers. Our experience demonstrates that smaller, agile companies can deliver strategic infrastructure, lead environmental innovation, and maintain customer trust - if regulation supports rather than constrains them.

The top five issues and the actions needed to deal with them are as follows¹.

- **Assets**
Declining health of the assets on which the services depend – requiring sustained investment and local stewardship models to restore the health of the assets built, natural and human.
- **Climate consequences**
The consequences of climate change for supply security and the resilience of the assets and services – requiring change in how we plan for and manage water availability and flood resilience to make decisions smarter and regionally informed.
- **Demand**
Failure to keep pace with increased demand for the services – leading to the need for more capacity, better utilisation of the capacity we have and the ability to stimulate demand side response. Requiring better customer insights and engagement and local innovation.
- **Whole system.**
Increased dependence on water and wastewater services and their interconnection with other essential services - leading to the need for policy and regulation that recognises the interactions in managing the essential services and systems on which society and the economy depend. Requiring coordination with other sectors, such as energy and housing, led by trusted local actors.

¹ To avoid repetition, the issues listed here are referred to at various points in the submission as the issues or the challenges facing the sector.

- **Reputation and trust**

The low level to which the reputation of the sector and the trust of the public and customers have fallen - and the need for policy and regulation to support a sector wide effort to restore them. Rebuilding public trust requiring companies that are transparent, embedded in place and close to customers.

Reform is needed across the board to enable long-term resilience, environmental sustainability and a fairer distribution of the costs. This submission proposes a set of changes to allow the sector to get out of the mess it is in and keep the benefits of efficient, customer-focused local companies.

1.2 Summary of proposals

1.2.1 Risk-based regulation

- The regulatory model is too rigid and does not allow for variations in risk, geography, the nature of the assets – built and natural - and regional challenges.
- A shift towards a risk-based supervisory model, similar to that found in financial services and some versions of energy regulation, would allow proportionate oversight based on company performance, risk and scale.
- This would mean that well-managed, financially sound companies that had good relationships with their customers would face lighter-touch regulation, enabling them to focus on service improvement, investment and innovation.

1.2.2 Water planning and coordination

- Water planning is inconsistent and uncoordinated across England leading to inefficient investment and the misallocation of resources regionally and nationally.
- Existing groups such as Water Resources South East (WRSE, which covers Portsmouth Water's supply area) and RAPID and parts of the Environment Agency (EA) should combine to provide effective coordination.
- This would enhance the sector's ability to plan and deliver major cross boundary infrastructure efficiently without unnecessary bureaucracy and without jeopardising established responsibilities for keeping the taps running and the lavatories flushing.

1.2.3 Funding for large investments

- Infrastructure investments funded by a narrow customer base, risk creating affordability concerns and potential financial instability.
- The case of South West Water demonstrates the issues associated with localised funding of major investments that have wider beneficiaries – underinvestment and a disproportionate burden on some groups of customers.
- We should adopt an approach to funding large investments that distributes the costs across the customers and communities that will benefit. This would not entail increased support from taxpayers.

1.2.4 Diversity of business models

- Dominance of the sector and its regulation by large monopolies causes inefficiency and cultural issues that are not in the interests of customers and stakeholders.
- Regulation should recognise and reward the advantages that come from diverse business models, including the WoC model, that often outperform in terms of customer service and operational efficiency.
- A one-size-fits-all regulatory model burdens smaller companies with disproportionate reporting and compliance costs and constrains the benefits of diversity, innovation and competition.

1.2.5 A local company for local people – a model worth promoting

Portsmouth Water's scale and structure allow us to remain close to our customers, employees, contractors and communities. Stakeholder feedback consistently highlights our openness, responsiveness and collaborative culture.

We are not arguing for special treatment; we are offering a model that already works. A regulatory and funding system that supports diversity, responsiveness and performance would not only protect companies like Portsmouth Water, it would also raise standards across the sector.

1.3 Conclusion

Portsmouth Water is delivering what the sector needs more of: trust, service excellence, environmental innovation and collaborative decisions.

We urge the Commission to consider the needs and potential of WoCs, not as an afterthought, but as a central component of a better system.

Portsmouth Water stands ready to support the Commission further as it develops its recommendations.

2 Introduction

2.1 Background to this submission

Portsmouth Water has been an independent company supplying water to Portsmouth and the surrounding area for over 150 years. In 1857 the Borough of Portsmouth Waterworks Company was formed to supply Portsmouth, then a city with a population of about 70,000. The area we supply extends through South East Hampshire and West Sussex from the River Meon in the West, to the river Arun in the East, encompassing 868 square kilometres. We provide high quality water to a domestic population exceeding 700,000, as well as many important industries, large defence establishments and varied commercial businesses.

We have a long tradition of providing safe drinking water of the highest quality from the springs, wells, boreholes, and surface water sources that we are lucky enough to have in our area.

Customers are at the heart of what we do. We are proud of our reputation for maintaining high standards of customer service and the lowest water supply charges in England and Wales at the same time as delivering strategic infrastructure in the form of the Havant Thicket Reservoir, the first new reservoir in the UK in over 30 years.

The regulatory framework that accompanied privatisation was designed for the large regional WaSCs. Almost as an afterthought, the legislation said that the same form of regulation should apply also to the WoCs, such as Portsmouth Water. The regime was designed to focus on productive efficiency in formerly state-owned companies.

Unfortunately, as time has passed and the issues have changed, the approach has not. As a result, well-performing WoCs like Portsmouth Water are increasingly burdened by disproportionate requirements that drain resources and limit our ability to innovate, and the sector has been unable to respond to mounting challenges. The 2027 Water Framework Directive deadline looms with a significant shortfall of environmental outcomes. The current position lacks a pathway for funding and delivering the necessary changes. Portsmouth Water believes changes are needed to align regulatory incentives with long-term objectives for the environment and customer service objectives.

2.2 Purpose and scope of the submission

The Cunliffe Commission is a once in a generation opportunity to improve how the water system performs. Our purpose in making this submission is to draw the Commission's attention to the WoCs and their business model and the contribution they can make to the "transformative change" that the Commission's Terms of Reference say is needed. Portsmouth Water stands ready to help shape and deliver a more effective, place-based approach. We offer not just analysis, but evidence that smaller companies can deliver big outcomes.

Portsmouth Water provides a unique perspective as a WoC that has maintained high levels of service while navigating regulatory complexities and constructing the first major reservoir since privatisation. The submission focuses on a small number of reforms and highlight how they will benefit customers, stakeholders and the environment. It highlights reforms that will ensure the sector remains sustainable, resilient, and efficient.

3 Risk-based regulation

3.1 Problem statement

The current approach to economic regulation assumes that one-size-fits-all. This is inefficient and inhibits innovation. Notwithstanding their smaller scale, complexity and risk the WoCs face the same regulatory information and process burdens as the much larger WaSCs. Regulatory requirements designed for larger, vertically integrated companies impose unnecessary burdens on WoCs, and divert scarce resources away from service provision. Other consequences are a focus by the regulator on short-term financial targets rather than long-term sustainability and a regime that is not responsive to local conditions and needs.

3.2 Portsmouth Water perspective

A risk-based supervisory model would enable companies with strong governance and performance to benefit from a regulatory burden.

Risk-based regulation is well-established in financial services and energy, where controls are tailored to the riskiness of the regulated entities. This allows well-run firms to operate more flexibly while ensuring that riskier entities are given proportionate scrutiny.

In the water context, a risk-based supervisory model would focus on forward-looking risk assessment to anticipate and address issues before they arise. This would be similar to the financial services model, but without the focus on conduct, which would be less relevant in water. This model would allow for regulatory action to be focused on poorer performing companies, rather than all companies, and would provide for an early intervention and recovery regime for companies that exhibit high financial risk.

3.2.1 Examples of risk-based regulation in financial services

UK Prudential Regulation Authority (PRA) – Proportional supervision of banks and insurers

The PRA (part of the Bank of England) applies a risk-based approach to regulating banks, insurers, and large investment firms. Institutions that pose greater systemic risk, such as large, complex banks are subject to more intensive oversight and stricter capital requirements. Smaller, well-run firms benefit from proportional regulation with reduced compliance costs.

Financial Conduct Authority (FCA) – Principles-based and outcome focused regulation

The FCA tailors regulatory oversight to the risk profile of financial institutions, shifting focus to firms with the highest consumer and market risks. Instead of rigid compliance rules, the FCA emphasises principles-based regulation, allowing well-run firms to adopt innovative business models subject to the maintenance of good governance. An example is the Regulatory Sandbox, where FinTech companies try out new products in a controlled environment with reduced regulatory barriers.

Basel III and Stress Testing – Differentiated capital requirements

Global banking regulations require banks to hold capital reserves based on their risk exposure. Riskier institutions face higher capital requirements, while well-managed banks with strong internal risk controls enjoy lower capital buffers, freeing up capital for lending and investment. An example is the US Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) stress tests, which impose stricter oversight on banks deemed systemically important.

3.2.2 Examples of proportionate oversight of energy investment

Ofgem's RIIO (Revenue = Incentives + Innovation + Outputs)

RIIO is a performance-based regulatory model, incentivising energy networks to focus on long-term investment and innovation. Instead of micromanaging operational decisions, Ofgem allows well-run firms to earn higher returns by meeting efficiency and sustainability targets. This approach has encouraged investment in renewables, grid modernisation and low-carbon infrastructure without overburdening well-managed operators.

Federal Energy Regulatory Commission (FERC) – Light touch regulation for competitive markets

In the US, FERC applies lighter regulation to well-functioning, competitive electricity markets, focusing enforcement on entities that manipulate prices or pose systemic risks. This market-based approach allows power generators and transmission companies to innovate and invest in long-term infrastructure with less regulatory interference.

Australia's Risk-Based Energy Market Oversight

The Australian Energy Regulator (AER) adopts a tiered oversight approach, reducing compliance burdens for well-performing energy retailers and network operators. This allows firms with strong track records to focus on investment in grid resilience and renewable integration without excessive hurdles.

These examples illustrate some beneficial aspects of proportionate regulation.

- Differential oversight can be applied with stronger regulation of riskier entities (e.g. system important banks, volatile energy providers).
- Lower compliance burden for well-managed firms can free capital for investment.
- Outcome- and principle-based regulation can focus on broad goals rather than rigid rules.
- Regulatory sandboxes and incentives can encourage responsible innovation while maintaining consumer protection.

3.2.3 Relevance to the WoCs

WoCs like Portsmouth Water have demonstrated strong performance and financial resilience, justifying lighter regulatory oversight.

Over-regulation of the WoCs weakens their ability to invest in infrastructure and customer service. As an example, the PR24 process imposed disproportionate costs on smaller companies. Portsmouth Water estimates that PR24 cost it over £5million (more than 10% of our annual turnover) in internal and external resources, representing a disproportionate burden relative to that on a WaSC.

A risk-based supervisory regime would enable the regulator to both differentiate between larger and smaller entities (such as between WoCs and WaSCs) as well as reflecting the strong operational and financial performance which many WoCs demonstrate.

3.2.3.1 Inappropriate regulation applied to the WoCs

Regulation applied to WoCs fails to recognise their operational differences, smaller scale, and their more limited influence over key environmental and infrastructure challenges.

- EA regulations place unrealistic obligations on WoCs for catchment management and biodiversity, given their limited land ownership and wastewater influence.
- Ofwat's efficiency benchmarking and ODIs fail to recognise the different cost structure of WoCs with higher proportions of fixed costs.
- Long-term water resource planning and resilience requirements are unduly complex, imposing a disproportionate burden on WoCs, while failing to address cross-sectoral challenges.
- Security and compliance regulations impose high costs on smaller companies, despite their simpler operational structures.

3.2.3.2 Performance of WoCs

Portsmouth Water's focus on local management and customer engagement delivers better outcomes for customers, the environment and public health.

- **Customer satisfaction:** Portsmouth Water ranks first in Ofwat's Customer Measure of Experience (C-Mex). We have held this position for two of the four years that C-Mex has been used and been in the top three in all years. A strong local focus and customer-first approach deliver a responsive and transparent service. In 2023 we were the first in the sector to licence the tech platform Kraken. This sector leading innovation will empower our customer-facing team to continue to deliver the best service in the industry.
- **Supply interruptions:** Portsmouth Water has outperformed larger companies in reducing supply interruptions, leveraging local knowledge, efficient operational management, and proactive maintenance strategies to deliver the lowest level of interruptions in the sector.
- **Innovation:** Portsmouth Water maintains close engagement with local authorities, environment groups and stakeholders to implement targeted and sustainable water management solutions. This is demonstrated by the successful approach to the Havant Thicket Reservoir, the first new reservoir to be built in the UK since the 1980s.
- **Collaboration:** Portsmouth Water covers five local authorities (Portsmouth CC, Havant BC, East Hants DC, Chichester DC and Fareham BC). This means we can develop and maintain good relationships with them. By contrast Southern Water has to relate to 5 County Councils and 39 local authorities.

To reward good operational and financial performance and preserve the benefits for customers of the efficient smaller companies, the regulatory regime should be more proportionate and recognise the value of WoCs, and support their continued existence. Instead, the one-size-fits-all regulation penalises smaller companies with excessive reporting and compliance costs. This has reduced diversity and competition in the sector.

3.3 Proposals

3.3.1 Sector-wide

Adopting a risk-based approach where high-performing, financially stable companies are subject to proportionate oversight would free resources for service improvements and investment in sustainable infrastructure. We propose that the Commission should

- consider the introduction of a tiered regulatory framework where companies with strong financial and operational performance and lower risk have less intrusive regulation
- reduce reporting burdens on smaller, well-managed companies to ensure resources are directed toward service delivery rather than regulatory processes
- embed in-period flexibility in regulatory processes to allow adaptation to emerging changes.

In this context, we also support a regulatory culture that promotes learning and improvement, not just compliance. Portsmouth Water supports the Commission's call for a more flexible, improvement-oriented approach from the Environment Agency and other regulators. We believe the regulatory system should distinguish between wilful neglect and honest underperformance, allowing well-intentioned companies to recover through transparent action plans and community engagement. A redemption pathway, similar to enforcement undertakings or improvement notices in other sectors, would build trust, encourage continuous improvement, and avoid unnecessarily punitive outcomes. This is particularly important for smaller companies where reputational damage or prolonged interventions can have disproportionate consequences.

3.3.2 Portsmouth Water specific

Portsmouth Water offers a clear example of how proportionate regulation can deliver better outcomes. We consistently rank among the top performers in Ofwat's Customer Measure of Experience (C-Mex), have pioneered customer service innovation through the adoption of the Kraken platform, and maintain the lowest levels of service interruptions in the sector.

Crucially, we deliver these outcomes while having the lowest average water bills in England and Wales. This combination of low cost and high performance represents good value for customers' money. There is no regulatory metric that recognises or rewards this. Introducing a measure of overall 'value', linking price to service quality, would highlight the benefits of efficient, customer-focused business models and encourage others to follow suit.

Our track record of strong governance, financial resilience, and trusted customer relationships makes Portsmouth Water an ideal candidate to pilot a new approach to risk-based, proportionate regulation. Such a model would support innovation, reduce unnecessary costs, and demonstrate how smarter oversight can protect customers and the environment while improving delivery.

A clearer and more consistent understanding of asset condition is also essential to underpin long-term resilience and planning. Portsmouth Water supports calls for improved data collection, standardised reporting, and greater transparency around the health of both built and natural assets. While we have maintained high performance through disciplined asset stewardship, we recognise that sector-wide approaches to renewal are too often based on accounting proxies rather than physical condition. We would welcome reforms that promote robust asset health data—proportionate to company scale and risk—to better target investment and support early intervention where needed.

Our small scale is a strategic strength. A clearly defined geography, embedded local relationships, and operational agility allow us to respond quickly to challenges and work collaboratively with stakeholders. In the context of growing momentum around devolution and place-based infrastructure planning, this locally rooted model is more relevant than ever.

Examples of what this enables in practice include:

- Close collaboration with five local authorities, enabling trusted partnerships and the successful delivery of strategic projects like Havant Thicket.
- Rapid operational response due to our proximity to assets and customers.
- Simple, effective governance structures that allow fast and informed decision-making.

We urge the Commission to consider how a more flexible regulatory approach, starting with a pilot scheme involving companies like Portsmouth Water, could unlock greater efficiency, accountability, and long-term value across the sector.

4 National water planning and coordination

4.1 Problem statement

The approach to water resource planning in England is fragmented, leading to inefficiency, inconsistent decisions and delays in critical investment. A lack of coordination results in regional disparities in resource planning, creating risks to supply resilience and sustainability.

Key failings are as follows:

- **Absence of a cohesive national strategy:** Current frameworks do not provide a long-term vision for water resource management, and there are gaps in coordination between national objectives and regional implementation.
- **Fragmented regulation:** The regulatory landscape has multiple agencies operating in silos. This results in inconsistencies in policy application, investment priorities and regulatory decision-making across different regions.
- **Misaligned priorities:** Infrastructure projects are often delayed due to conflicting priorities at local, regional, and national levels. Without clear leadership, projects that could enhance resilience and sustainability are subject to lengthy delays and inefficiencies.
- **Underutilisation of water transfer and storage solutions:** While water scarcity is a growing concern, the absence of coordination hinders the development of strategic solutions such as inter-regional transfers and shared storage.

4.2 Portsmouth Water perspective

As a company committed to delivering sustainable and resilient water supplies, Portsmouth Water advocates a more integrated approach to water resource planning that balances national coordination with regional expertise. Our perspectives are as follows.

- Effective water resource planning should be catchment-based, recognising the hydrological and environmental uniqueness of each region subject to national policy guidelines.
- Regional variations must be acknowledged. England has diverse water resource challenges - some regions face persistent shortages, while others have a surplus, and the sources of water vary.
- National coordination is needed to ensure efficient allocation and transfers to meet public water supply requirements for a growing population and economy. A national body should identify and promote strategic investments. It would reduce duplication and ensure the timely delivery of projects. This would improve resilience, optimise investment, and provide a clear direction for the industry.

- An important manifestation of the need for coordination across sector boundaries concerns water supply for major energy and other projects. Prospectively, these will include nuclear, hydrogen and power for data centres. There is a similar issue with water supplies for substantial urban developments. Planning for large incremental requirements so that sustainable water resources are available is primitive or non-existent. This will cause problems in the near future and impose limits on such projects and on economic growth.
- Long-term sustainability must drive decisions. National infrastructure planning must be informed by projections of climate change, population growth and demand patterns, ensuring today's decisions support future resilience.

4.3 Proposals

4.3.1 Sector-wide

The objective is to ensure that all parts of the country have efficient, resilient and sustainable access to water.

- Combine the work of WRSE and the other regional bodies with RAPID and parts of the EA to form a national coordinator of water resource planning and investment that would issue guidelines for regional and catchment levels and expedite critical projects.
- Echo these arrangements in cross sector contexts to deal with water resources for major energy and urban development schemes in a whole system framework.
- Keep regional and catchment level planning with licensees who retain responsibility for keeping the taps running and the lavatories flushing.
- Devise regulatory arrangements to provide for:
 - cross-regional collaboration to optimise transfers, storage, and resource sharing
 - a fair way of funding efficient strategic schemes
 - cross sector regulation to ensure lowest system costs.

4.3.2 Portsmouth Water specific

Portsmouth Water believes that national water planning should be based on three principles: strategic coherence, regional variation, and local delivery.

A single national coordination body should provide clear guidance, identify cross-boundary priorities, and enable major projects. But delivery must remain with those who know their region best. We have the local knowledge, strong relationships with five local authorities, and a track record of collaborative planning that underpin effective execution.

We propose Portsmouth Water as a pilot for coordinated planning between sectors, especially energy and housing, at the catchment level, building on our experience with the Havant Thicket Reservoir.

From the Solent to the South Downs, our supply area reflects a rich mix of urban growth, strategic infrastructure and environmentally sensitive landscapes. This diversity, combined with our deep

local engagement, makes us ideally placed to contribute to a more integrated, place-based approach to water resource planning. National strategy must be enabled by local insight.

5 Funding for large infrastructure projects

5.1 Problem Statement

The current funding model for large-scale water infrastructure projects is inequitable and inefficient. The burden can fall disproportionately on customers in a single company's operating area, creating affordability challenges and potential resistance to necessary investments.

The funding issues include the following.

- Disproportionate financial burdens on some customer groups. Large infrastructure projects—such as new reservoirs, strategic water transfers, or desalination plants—deliver region-wide benefits but the costs are often focused on a small group of customers. This can place an unfair burden on customers of a specific company despite benefiting consumers more widely.
- There is no regulatory arrangement for allocating costs to those across the wider region that benefits directly or indirectly. This can discourage joint investment and cost-sharing between water companies, leading to inefficiency and missed opportunities for strategic developments.
- The opportunities for unconventional private and project finance are limited to the highly regulated DPC model for exceptionally large schemes.

These points apply with respect to public water supply projects, including DPC projects, and to major projects involving other sectors, principally energy and major urban developments with substantial water resource requirements. There are no cross-sector regulatory arrangements to deal with how the water related costs of these major schemes should be funded.

5.2 Portsmouth Water perspective

Portsmouth Water supports a reformed funding model that ensures large-scale infrastructure investments are equitably funded. Drawing from past experiences, Portsmouth Water believes the following principles should guide reform.

- Lessons from South West Water (SWW): The case of SWW illustrates the risks of placing the funding of major investments on a small customer base. SWW's customers have had significantly higher bills for environmental improvements, such as The Clean Sweep Programme in AMP1 and AMP2, highlighting the need for a more equitable model.
- A hybrid funding approach is necessary: Large infrastructure projects should not be solely funded through company-specific customer charges. Instead, a mix of national or regional, inter-company cost-sharing, should be used to ensure a fairer distribution of financial responsibility.

- Beneficiaries should contribute proportionally: Customers and water companies that benefit from a project—whether through improved supply resilience, water transfers, or reduced drought risk—should contribute to its costs. This principle supports a more sustainable funding system. However, the funding approach should also recognise indirect benefits. For example, the Havant Thicket Reservoir is being built to protect nationally significant chalk streams, and its broader environmental benefits should be reflected in a wider funding base. Cost-sharing mechanisms become more feasible when projects are developed and operated by third parties under Direct Procurement for Customers (DPC) or similar arrangements.
- Direct Procurement for Customers (DPC) should be refined: While DPC offers a way to bring private capital into major projects, its implementation should be fairer and more transparent to ensure that the costs do not disproportionately affect certain groups.
- Regulatory reform is needed: Ofwat and government bodies should establish clearer guidelines for funding mechanisms that balance investment needs with affordability and fairness across regions.

5.3 Proposals

5.3.1 Sector-wide

- Establish a national funding mechanism that ensures costs of delivering regional or nationally significant projects are distributed across multiple water companies and customer bases, preventing disproportionate financial impacts on too narrow a customer base, as has occurred in the South West.
- Introduce a fair cost-sharing model where water companies benefiting from new infrastructure projects contribute appropriately, sharing the costs equitably across companies and their customer base.
- Echo these funding arrangements for cross sector projects for energy and urban development.
- Enhance transparency in DPC, ensuring that funding allocations are fair and competitive while still delivering value for money.
- Encourage private investment and alternative funding models to supplement traditional regulatory funding mechanisms and reduce the burden on customers.
- Strengthen regulatory oversight to ensure funding models are equitable, transparent, and aligned with long-term national infrastructure planning goals.

By implementing these reforms, the UK water sector can create a more sustainable, fair, and efficient funding model that supports vital infrastructure development, including that to meet large multi-sector requirements, without disproportionately impacting individual regions or customer groups.

5.3.2 Portsmouth Water specific

The Havant Thicket Reservoir shows how a small company can deliver nationally significant infrastructure when there is scope for fair funding and cross-company collaboration. Yet the costs of such projects often fall unevenly on local customers, discouraging investment.

Portsmouth Water believes funding should reflect the distribution of benefits, not just the operating area of the licensee. We propose a framework to support cross-sector projects, particularly for water-hungry sectors like energy and major urban developments, using transparent cost-sharing models. WoCs can play a role in delivering strategic infrastructure, but only if supported by modernised funding mechanisms.

6 Summary of proposals

The UK water sector is at a pivotal moment, requiring bold reforms to ensure sustainable, resilient, and equitable water management. The current regulatory framework, funding mechanisms, and infrastructure planning approaches are not fully equipped to address the growing challenges posed by climate change, population growth, and regional disparities in water availability.

For the sector to deliver long-term value to customers, the environment, and the economy, a fundamental shift is needed. This submission highlights four areas where Portsmouth Water see reform as essential: regulatory oversight, national coordination, funding structures and diversity of business models.

6.1.1 Risk based regulation

Regulatory reform is essential to ensure fair and proportionate regulation and funding of water companies.

- The regulatory framework has not responded to the changing circumstances of the sector.
- It is applied too rigidly as one-size-fits-all, in the interest of comparability.
- The search for comparability on all matters is inimical to innovation, which requires a more flexible and adaptive regulatory approach.
- A risk-based and proportionate regulatory model is needed, reducing unnecessary burdens and improving standards of service, resilience, and environmental protection.
- Specifically, the regime It is not responsive to the differences between the WoCs and the vertically integrated WASCs.

6.1.2 Water planning and co-ordination

Better coordination is required to align infrastructure investment with national and regional needs.

- The current fragmented approach to water resource planning leads to misaligned investment priorities, inefficiency and delays.
- Catchment-based management should remain central to decision-making, with national oversight ensuring a cohesive strategy that addresses regional disparities in water supply and demand.
- Cross-regional collaboration must be strengthened to optimise water transfers, storage capacity, and shared resilience strategies.
- A single national coordinating body should oversee strategic infrastructure investments, ensuring alignment between local, regional, and national priorities. This requires an overhaul of the existing bodies responsible.
- It should be formed by combining existing groups such as WRE and RAPID and parts of the Environment Agency (EA) should combine to provide effective coordination.

6.1.3 Funding for large investments

The funding model should provide for a fair allocation to the beneficiaries of the costs of large water projects.

- The funding for large infrastructure projects, including cross sector projects such as those connected with energy and urban development schemes, should reflect the distribution of benefits including across sectors.
- A hybrid funding approach - combining national contributions, inter-company cost-sharing, and private investment - would create a fairer and more sustainable financial framework.
- Greater transparency is needed in Direct Procurement for Customers (DPC) to ensure that infrastructure funding is allocated equitably and efficiently.
- The regulatory system should incentivise collaborative funding approaches that spread costs fairly across the industry while protecting affordability for customers.
- Opportunities for unconventional private and project finance should be extended beyond the current scope of DPC projects, with proportionate regulatory arrangements.

6.1.4 Diversity of business models

- Dominance of the sector and its regulation by large monopolies causes efficiency and cultural issues that are not in the interests of customers and stakeholders.
- Regulation should recognise and reward the advantages that come from diverse businesses, including the WoC business model that often outperforms in customer service and operational efficiency.
- A one-size-fits-all regulatory model burdens smaller companies with disproportionate reporting and compliance costs and constrains the benefits of diversity, innovation and competition.

6.2 The Commission's call for action

The water sector can do a lot to fix itself, but only if there is a clear vision from government of what is required and a set of policies and a regulatory regime that is aligned with this. The scope of the policies and regulation should include whole system considerations. For some time, none of these conditions has been present.

The companies have much to do to improve their governance and performance. They have a record of being responsive to the incentives set for them. Unfortunately, these have not been well aligned and so for the last decade or more the sector has been moving off track. Better involvement of customers and stakeholders will be essential and collaborative approaches will have a big part to play.

Statements about the Independent Review from Sir Jon Cunliffe demonstrate that the Commission has understood the situation.

We hope that the call for evidence will produce constructive responses on the many aspects of the sector that need attention and that the Commission will make sense of these and pull them together into a coherent framework which will encourage the changes needed.

Portsmouth Water believes that adopting the proposals in this submission would significantly improve the performance and effectiveness of the sector. We would welcome further interactions with the Commission and look forward to its report, so we can get on with it.

Appendix - supporting evidence

Havant Thicket Reservoir: an example of sustainable water management and cross-company collaboration

The Havant Thicket Reservoir is a groundbreaking initiative in UK water resource management. Unlike traditional reservoirs that depend on river abstraction, this is the first large-scale raw water storage scheme in the South East that is designed to capture and store winter surplus water from natural springs. This innovative, nature-based solution mitigates over-abstraction from sensitive chalk streams including the Rivers Test and Itchen, which support rare wildlife and play a crucial role in biodiversity. By proactively managing water in this way, Portsmouth Water is leading the way in sustainable, climate-resilient water management that balances environmental protection with long-term water security.

The project incorporates wetland habitats, woodlands, and recreational spaces. Beyond ensuring a sustainable water supply, it will deliver multiple benefits, including enhanced biodiversity, carbon sequestration, economic activity and improved community well-being., creating value beyond water storage.

It exemplifies best practice in collaboration. Portsmouth Water has worked alongside Southern Water, regulators, and local stakeholders to deliver a solution that benefits the region. Through smart water management, conservation-driven design, and regional cooperation, Havant Thicket represents a modern, adaptive approach to addressing water scarcity while maximising environmental and social benefits.

Havant Thicket is not only a model of sustainable infrastructure; it is a demonstration of how a small, agile company can deliver nationally significant outcomes through cross-sector collaboration, community engagement, and environmental leadership. Portsmouth Water believes this model, infrastructure with multiple benefits, delivered locally with regional significance, should be replicated across the sector.

Comparative regulatory burdens: reporting costs for WoCs and WaSCs

The cost of regulatory reporting

Regulatory reporting places a significant financial burden on Portsmouth Water. The cost of producing the Annual Performance Report alone exceeds £200,000, covering third-party assurance (both financial and technical), non-financial reporting coordination, the production of Regulatory Accounts, provision of technical data, subject matter expert assurance, and executive and board-level review. A more proportionate and risk-based approach would be preferable, rather than a one-size-fits-all model that applies the same reporting requirements regardless of a company's size or complexity.

The PR24 price review has been the costliest to date, estimated at £5million for Portsmouth Water. This includes internal resources, consultancy support, and audit and assurance work. For a small company, this represents a disproportionate amount. If this cost were scaled using total expenditure (totex) as a benchmark, the equivalent cost for Thames Water would have been £200 million.

Increasing complexity

The price review process has become significantly more complex from PR04 (2004) to PR24 (2024). Key areas include increased data granularity and benchmarking, greater emphasis on environmental and resilience planning, more detailed performance incentives, shorter and more prescriptive timelines, and increasingly iterative review processes. Even companies with high levels of expertise have found it challenging to analyse PR24 final determinations, particularly when considering whether to seek referral to the CMA for redetermination, a process that itself introduces additional complexity.

For smaller companies, the threshold for referral is particularly high due to the cost and complexity of the appeal process. At PR19, Bristol Water was the only water-only company to appeal to the CMA, incurring external costs of £3.5 million, excluding internal costs and delays to the AMP7 programme. Such expenses are disproportionate for smaller companies, potentially forcing them to accept sub-optimal determinations rather than bear the financial risk of an appeal. A more targeted and proportionate price review process, with appeals focused on specific key issues, could help address this imbalance.

A local company for local people

At Portsmouth Water, we take great pride in our strong culture of collaboration, customer focus, and operational excellence. Feedback from our stakeholders testifies to our commitment to providing a high-quality service while maintaining a close connection with the communities we serve. As a water-only company, we benefit from an agile and responsive approach, enabling us to adapt quickly to challenges and opportunities. Our dedication to continuous improvement ensures that we balance innovation with stability, particularly in areas like technology adoption and smart metering, all while keeping customer experience at the heart of our decision-making.

We are proud of the strong partnerships we have built with our contractors, suppliers, and local stakeholders. Our approach prioritises fairness, transparency, and long-term collaboration over short-term gains. Stakeholders have recognised our leadership team's accessibility and commitment to engagement, ensuring that their voices are heard and their insights shape our strategy. As we continue to grow, we remain focused on maintaining the values that have made us successful, fostering meaningful relationships, supporting our employees, and ensuring excellent service delivery for our customers.

Good governance and investor alignment are critical to delivering public value over the long term. As a privately owned company with a long-term investment horizon, Portsmouth Water has benefited from engaged shareholders who support a sustainable, customer-first approach. We note the Commission's interest in the motivations of investor directors and their role in promoting ESG outcomes. Our board includes experienced individuals with a focus on public value and long-term resilience, and our recent investments, in biodiversity, smart metering, and the pioneering Kraken customer platform, reflect that ethos. While we understand the importance of return on regulatory capital, we believe the sector must also reward responsible investment, stable stewardship, and long-term delivery for customers and the environment.

The positive feedback we have received highlights the impact of our approach. One stakeholder noted, *"Employees tend to have a sense of ownership and responsibility, unlike larger utilities where bureaucracy can be overwhelming."* Another described our contractor relationships as *"the most collaborative contract I have worked on in 29 years."* Transparency and openness have also been recognised, with one stakeholder stating, *"Portsmouth Water has been highly accessible and responsive to the scrutiny panel, supporting open dialogue and constructive challenges."* We are grateful for this feedback and remain committed to upholding these values as we look to the future.

Supporting evidence from the Dan Corry Review

The review by Dan Corry, *'Delivering economic growth and nature recovery: an independent review of Defra's regulatory landscape'*² commissioned by Defra, offers a timely and valuable set of recommendations to improve the effectiveness of regulation in the UK. Its findings align closely with Portsmouth Water's submission to the Cunliffe Review, particularly in relation to outcome-based regulation, proportionate oversight, innovation, and infrastructure delivery.

This annex highlights key elements of the Corry Review that reinforce Portsmouth Water's position.

Focus on Outcomes

The Corry Review recommends a shift in regulatory focus from adherence to process towards the delivery of specific, measurable outcomes. This supports Portsmouth Water's call for a regulatory model based on trust and performance, rather than uniform procedures. For high-performing, customer-focused companies like Portsmouth Water, outcome-based regulation would enable greater flexibility and innovation without compromising accountability.

Proportionate Regulation for Trusted Partners

Corry identifies the value of giving trusted organisations greater autonomy to innovate while maintaining high standards of compliance. This principle underpins Portsmouth Water's proposal to pilot a proportionate regulatory model for companies with a proven track record. Our consistent top-tier performance and customer satisfaction justify a shift away from one-size-fits-all oversight.

² [Delivering economic growth and nature recovery: an independent review of Defra's regulatory landscape - GOV.UK](#)
Published 2 April 2025

Streamlining ‘Green Tape’

The review highlights the need to simplify and streamline environmental regulations, often referred to as ‘green tape’. Portsmouth Water’s experience with disproportionate environmental obligations, especially given our limited influence over wastewater and landholdings, mirrors this concern. Aligning with the Corry Review’s recommendations would reduce unnecessary regulatory burdens while still ensuring environmental standards are met.

Infrastructure and Lead Regulation

Corry calls for the establishment of a single lead regulator to oversee major infrastructure projects, helping to avoid duplication and delay. This is particularly relevant to Portsmouth Water’s experience delivering the Havant Thicket Reservoir, where multi-agency oversight added complexity. A lead regulatory body could streamline delivery for future projects of regional or national significance.

Digital Innovation and Smarter Oversight:

The Corry Review advocates the use of digital tools and real-time data to enhance regulatory responsiveness. Portsmouth Water’s early adoption of the Kraken platform shows how smaller, agile companies can lead digital transformation in the sector. A more adaptive and digitally informed regulatory framework would support such innovation across the industry.

Conclusion

The findings of the Dan Corry Review provide important validation for Portsmouth Water’s proposals. Together, they point to a future regulatory model that is more flexible, proportionate, and outcomes-driven, and better suited to the needs of a modern, resilient, and customer-focused water sector.