August 2025

Consultation – Consumer involvement rule

About this document

This consultation invites views on our proposals to introduce a rule to require companies to have arrangements in place for involving consumers in their decisions as part of new powers to set rules about remuneration and governance under section 35B of the Water Industry Act 1991[1]. The proposals build on a consultation we launched in October 2024 which set out our initial thinking on three remuneration and governance rules required under the legislation.[2] This consultation only focuses on the rule on consumer involvement in company decision-making. The first rule on performance-related executive pay came into force in June 2025.[3] Rules on fit and proper persons, and the governance of companies more broadly, are due to be consulted on later this year.

We welcome responses to our consultation by **1 October 2025.**

[1] Inserted by section 1 of the Water (Special Measures) Act 2025.
[2] Ofwat – Consultation on new rules on remuneration and governance
[3] Ofwat – Decision on performance-related executive pay prohibition rule

Responding to this consultation

Our consultation

We welcome all responses to our consultation, and particularly comments on our proposed rule and guidance.

How to respond

Please email your response to RemunerationGovernanceRules@ofwat.gov.uk.

The closing date for this consultation is 1 October 2025.

We intend to publish responses to this consultation on our website at www.ofwat.gov.uk. Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our privacy policy explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this consultation, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

Contents

1. Background

Ofwat has been given new powers to set rules about remuneration and governance through the new Water (Special Measures) Act 2025 which amended the Water Industry Act 1991 (WIA91) to introduce new sections 35B-35D.

Under the WIA91, Ofwat may issue rules about the arrangements made by relevant undertakers for (a) the remuneration of their directors and other persons, and (b) their governance.

The WIA91 further specifies that Ofwat's rules about remuneration and governance must at a minimum achieve the following effects:

- prohibiting a relevant undertaker from giving to persons holding senior roles performance-related pay in respect of any financial year in which the undertaker has failed to meet specified standards;
- requiring a relevant undertaker— (i) to appoint persons to hold senior roles only if they meet specified standards as to fitness and propriety or in respect of other matters, and (ii) to prevent persons from continuing to hold senior roles if they fail to meet such standards; and,
- requiring a relevant undertaker to have arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.[4]

This is a consultation issued under section 35C of the WIA91.

We launched a consultation in October 2024 setting out our initial thinking on these three rules.[5] We received over 11,000 responses to our consultation from various businesses, groups and individuals. We also held a public webinar and several roundtables with key stakeholders to discuss our proposals in more detail. A summary of responses to the October 2024 consultation was published in March 2025.[6]

This consultation focuses only on the consumer involvement rule. The rule on performance-related executive pay came into force in June 2025.[7] Later this year we intend to launch further consultations on the rule on fitness and propriety, as well as on new rules relating to the governance of companies more broadly (to replace the current Board Leadership, Transparency and Governance Principles 2019).

[4] UK Parliament – Water (Special Measures) Act 2025
[5] Ofwat – Consultation on new rules on remuneration and governance provided for in the Water (Special Measures) Bill
[6] Ofwat – Rules on remuneration and governance – policy consultation response document
[7] Ofwat – Decision on performance-related executive pay prohibition rule

The standards we are proposing for the consumer involvement rule have been designed following consideration of the consultation feedback and further consideration of key policy issues. We have also conducted an impact appraisal on the rule which is included at Appendix 3. The following chapter explains the rationale behind our proposals.

We intend for this rule to apply to all companies holding an appointment as a water and / or sewerage undertaker under the WIA91 for England and Wales. Our intention is for the rule to come into force on 1 April 2026 for incumbent water companies and on 1 April 2027 for new appointees (also known as NAVs). As this is part of a new set of rules that we are introducing, we plan to conduct a review of this rule in 2027 to evaluate the impact it has had and, if necessary, consider what new or revised requirements might be needed.

Following the publication of the Independent Water Commission final report, the UK Government has set out a new direction for the water sector with the formation of a new regulator in England. This marks an opportunity to reset the sector, so it delivers better outcomes for customers and the environment.

Ofwat will now work with the government and other regulators to form this new body in England, combining Ofwat with the Drinking Water Inspectorate and including elements of the Environment Agency and Natural England. We will also continue to engage with the Welsh Government and contribute to discussions on the options for Wales.

Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment. This includes taking forward the implementation of our rules on remuneration and governance, as is required by the Water (Special Measures) Act 2025.

2. Rationale for the consumer involvement rule

2.1 Reminder of our intended outcomes

In its policy statement in relation to the Water (Special Measures) Act 2025, the UK Government explained that its aims were to restore public confidence in the water industry by better holding senior executives to account:

> "There is a lack of public trust in the industry and widespread concerns about underinvestment in infrastructure, levels of pollution, and failures to address illegal spills of sewage. In 2022 to 2023, £9.7 million was paid out in executive bonuses and benefits to water and sewage company executives in England and Wales, despite poor performance.
>
> …
>
> Collectively, the measures in the act will ensure water companies are better held to account where they have failed to deliver for the environment and customers and begin to restore trust in the industry.
>
> …
>
> The act will create a new framework for holding companies and chief executives accountable for governance and remuneration, with the aim of improving performance and restoring trust in the sector."[8]

Parliament has legislated to grant new powers to Ofwat to facilitate those aims and it is important that we progress at an appropriate pace to give effect to those intentions.

As such, in our October 2024 consultation we made it clear that a core objective of the remuneration and governance rules is to improve public trust in the water sector. To deliver this, we set out several intended outcomes we were aiming for the rules to achieve:

- The Rules deliver the legislation's intentions.
- The Rules are clear and unambiguous.
- The Rules retain company accountability.
- The Rules are proportionate.
- The Rules focus on prompting culture and behaviour change in the sector.

We continue to reflect these intended outcomes in our current proposals.

[8] UK Government – Water (Special Measures) Act: Policy statement

A core purpose of our new statutory powers, as set out by Government, is to increase accountability of water companies with the aim of driving improved performance. A requirement to involve consumers in decisions of the undertaker that are likely to have a material impact on consumer matters will aid this by:

- Ensuring that companies take decisions with a clear understanding of consumers' views and preferences;
- Creating decision-making mechanisms within companies that involve consumers at the appropriate levels; and,
- Improving companies' understanding of the impact of past decisions on consumers, which can be taken into account in future decisions.

More consumer-focused decision-making and improved accountability around decisions will help to restore public trust in water companies. Public confidence in water companies is currently low and is at risk of being further undermined if consumers do not feel that their water company listens to them and understands them. The new consumer involvement rule will help restore that trust.

In addition, we also must take account of our duties and other public law requirements as we develop our proposals, such as having regard to the principles of best regulatory practice[9] and the growth duty.[10] We have designed our consumer involvement rule with these objectives and duties in mind, while maintaining a focus on the overarching objective of improving public trust in the sector. The following sections set out our reasoning behind our proposed rule.

2.2 Developing our rule

The 1991 Act now requires Ofwat to set a rule requiring companies to have arrangements in place for involving consumers in decisions that are likely to have a material impact on consumer matters.

The foundation of our rule is that in order to involve consumers in their decision-making effectively, companies must first take steps to understand what their consumers think and experience. They must take demonstrable insights from these steps, and then incorporate those insights into the decisions that they make.

A rule that supports this process needs to be mindful of different policy considerations. In our policy consultation, we sought feedback around a number of such considerations that we would consider as we developed our rule. These were:

[9] Section 2(4) Water Industry Act 1991
[10] Section 108 Deregulation Act 2015. Note this duty applies to our functions in England only.

- How effective consumer representation could be defined, and what principles should support it;
- What decisions by companies would be in scope of the rule;
- How consumers should be defined;
- To what extent our rule should mandate certain structures or methods for involving consumers;
- What such structures or methods could or should include; and
- How compliance with our rule should be monitored.

The vast majority of respondents to our consultation supported the principle of enhancing consumer involvement in company decision-making. Many respondents to the consultation highlighted examples of where water companies have already taken steps to involve consumers in their decision-making and suggested that these efforts could be a foundation for future work in this area.

Many respondents highlighted consumer research, surveys, panels, and forums as being key methods to ensure that consumers are involved in decisions that affect them. Some argued that it was important these mechanisms be designed in a way that seeks out representative views of consumers as a whole, and that avoids 'capture' by interested parties.

Some respondents said that our rule should ensure that company boards actively take into account consumer views, though other respondents said that board arrangements should be out of scope of our rule. Some respondents highlighted the work of Independent Challenge Groups (ICGs) in holding water companies to account and raising issues of concern to consumers. Some respondents also said that our new rule should mandate companies to have ICGs.

Some respondents said that it was important that our rule work across both England and Wales, and our rule should work well across a range of different company governance models. Several respondents said that our rule should allow companies to involve elected representatives, such as MPs and local and combined authorities, to be involved in their decision-making.

We have considered all policy consultation responses carefully and sought to ensure our rule supports effective action towards our intended outcomes.

We have also conducted joint consumer research with the Consumer Council for Water (CCW) to look at how consumers expect companies to engage with them and how they want to better hold companies to account. When asked about the role of engagement and research, consumers told us:

- They are motivated to participate in research to influence change, especially where they believe their input can drive better outcomes for the public.

They want to influence decisions they see as: 1) having direct impact on their pocket – bills, how income from bills is spent, investment and the affordability of new plans; 2) affecting what they see as the core service – reliably treating and delivering clean water and managing wastewater and sewage.

- They find long-term and future plans less immediately relevant or accessible than shorter term plans.
- They see a role for experts to influence decisions and navigate complex information on complex topics such as environmental issues.
- They want to feel informed to take part in engagement effectively. They feel this will help them give meaningful views which are more likely to be implemented.

They are naturally drawn to ways to participate that are low effort. For most, this might be a short, online survey. They also see a role for consumers taking more time and effort to engage with more complex topics, through qualitative methods and, where needed, deliberative approaches which allow more opportunity for in-depth conversations, absorbing information, and listening to different perspectives.

- Consumers who need extra help are more comfortable with organisations representing their views than consumers generally. Non-household and Future & Young customers particularly want research to be time efficient, with the latter valuing interactive engagement.
- They feel that effective company communications would help reassure them that their views have been heard and acted on. [11]

When asked about arrangements for holding companies to account, consumers told us:

- Consumers are willing to intervene directly to hold water companies to account, due to dissatisfaction. In the context of low trust, perceived poor performance and rising bills, consumers see a role for the public to effect change in the water sector monopoly system by taking part in a new consumer accountability mechanism.
- Consumers believe that a new consumer accountability mechanism is important; at the heart of this is recognition of a power imbalance with water companies, who, as monopoly providers, are not seen as motivated to prioritise consumers.
- Consumers want to hold companies accountable where they perform poorly and have the greatest direct impact on the public or environment.
- Consumers focus on the 'big issues', feeling strongly about topics where companies are perceived to be cutting corners or misleading the public; including supply incidents, water quality, and storm overflows. They are interested in how revenue from bills is being used.
- There is scepticism about how consumer accountability will work in practice. In general, consumer accountability means ensuring companies keep their promises, are consumer-

[11] Ofwat and CCW – Water consumer engagement and accountability research. Part 1 – Engagement and research

centric, transparent about their operations and performance, and take responsibility for, then resolve, any mistakes.
- Most support the idea of a 'consumer group' in principle as a collective way to 'give them a voice' and direct involvement in accountability. A 'consumer group' was presented as a neutral concept to explore principles for any new mechanism.
- Consumers want any mechanism to be independent, made up of a wide range of consumers, and sufficiently empowered.
- Suggested necessary powers included: requiring senior staff to attend, provide information and answer questions; evaluating proposed solutions. Any new mechanism should be supported (but not led by) independent experts and accessible and neutral information.
- Consumers recognise experts have a key role in helping members to effectively hold companies to account on complex and unfamiliar parts of their operation.
- Consumers want evidence of the outcomes of accountability to be disseminated directly to all consumers. [12]

These findings have informed our approach to developing our new rule, as well as the development of CCW's new consumer panels. We encourage all water companies to review this research carefully and consider how this could inform their arrangements for compliance with our rule.

We have also carefully reviewed the final report of the Independent Water Commission and its recommendations for the future of the sector. As the report states, this rule aims to strengthen consumer representation by offering direct engagement with consumers.

2.3 Structure of our rule

Our proposed rule follows a structure that is intended to fit within the cycle of decision-making within water companies.

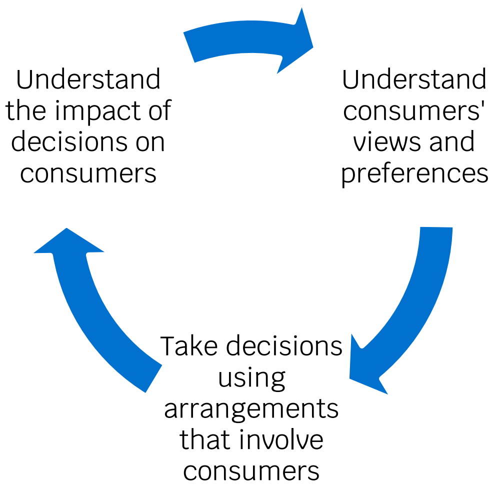
Companies will be required to meet the rule's 'core requirement', which is to have appropriate arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.

The rule then expands on three components that support the core requirement. Companies will be required to understand their consumers' views and preferences, which can help to inform companies' approaches on consumer matters. Then, when decisions that are likely to have a material impact on consumer matters are made, the company needs to have clear processes in place to ensure that consumers are involved. Finally, the company needs to understand how those decisions actually impact on consumers, including through

[12] Ofwat and CCW – Water consumer engagement and accountability research. Part 2 - Accountability

accountability mechanisms, so that this can be taken into account for future decision-making.

Figure 1 – cycle of consumer involvement



By structuring our rule around this cycle, we are seeking to ensure that involvement is meaningful and holistic. It is also intended to create positive feedback loops, whereby companies iterate their approaches to involving consumers, based on the views and input from consumers who have been involved in decision-making but also from consumers as whole.

These three components of our rule are supported by five guiding considerations which companies must have regard to in designing their arrangements to deliver all aspects of the rule: Accessibility, Independence, Timeliness, Representativeness and Transparency. These sit across all parts of our rule and will support a flexible but meaningful approach.

2.4 Arrangements to comply with our rule

We are clear that companies must comply with our rule's core requirement. They must also have regard to our rule's guiding considerations and have arrangements in place to deliver the rule's three components: understand the views and preferences of consumers; involve consumers in decisions at appropriate levels; and understand the impact of decisions on consumers.

Building on feedback received through our policy consultation, we have carefully considered the question of the extent to which we should require certain specific arrangements from companies as part of our rule. On balance, we believe that the flexible approach we proposed in our policy consultation is the best approach: there are significant opportunities for innovation in this area, as well as valid differences between companies and their operating circumstances for which mandated, prescriptive arrangements would not be able to take account of. We therefore think that at this time, a 'one size fits all' approach to our rule could lead to sub-optimal outcomes for consumers and could be counterproductive in delivering the intended outcome of our rule which is to improve consumer trust in the sector.

At the same time however, we consider it important to set certain desired outcomes in our rule, across the whole cycle of consumer involvement described above. The rule describes the types of approaches that companies must put in place to deliver its requirements. While companies will be able to take alternative approaches to delivering these outcomes, they will need to set out clearly in the relevant reporting as to why the chosen approaches will deliver them as or more effectively than the other listed approaches.

We developed the proposed lists of options through consideration of consultation responses, reviewing the findings of our joint research with CCW, and considering best practice from other sectors.

An area where we are proposing to require specific arrangements from companies is around their engagement with CCW's consumer panels. CCW are currently establishing these new panels, which will aim to provide insight on consumer views and provide a mechanism for holding companies to account. Our joint research with CCW showed that consumers were clear on their desire for any new panel arrangement to have the power to summon senior staff to ensure the new arrangements were effective. This also echoes the views of several respondents to our policy consultation. On balance, we believe that the empowering effect for consumers of being able to require companies to ensure attendance from senior representatives at CCW-convened consumer panels outweighs any potential downsides to such a requirement. The rule will still provide flexibility around how exactly each company engages with its panel and vice versa, and we would expect these arrangements to develop and evolve over time to become more effective.

2.5 Reporting

We have considered what reporting arrangements should be put in place to support our rule and enable monitoring of its implementation across the sector. We believe that there are three broad types of reporting that will ensure the rule is effective:

1. **Forward-looking reporting** where the company sets out how it plans to comply with the rule in its future work. For example, this may include explanation of which of the company's future decisions it believes are likely to require consumer involvement, and what arrangements the company will be putting in place at various levels to comply with our rule. This forward-looking reporting will be of interest to Ofwat, but also to stakeholders including CCW, ICGs, and other independent consumer experts, who may wish to provide feedback to the company on its current and/or future plans to involve consumers.

2. **Consumer-friendly retrospective reporting** about the steps the company has taken to comply with the rule over the previous year. Our joint research with CCW showed that consumers think this is an important way that companies can hold themselves accountable to their consumers. We think that this type of reporting need not always look the same as compliance reporting (see below), and that companies should be able to innovate and experiment with the most effective ways to report back to their consumers.

3. **Compliance reporting to Ofwat** about how the company has met its regulatory requirements over previous periods. We consider that this is best done through the annual performance reporting (APR) process and the regulatory accounting guidelines. By requiring companies to report to us through their APRs, we can monitor implementation in a way that is well-aligned to existing industry processes and timelines.

Our rule includes a number of requirements around both forward-looking reporting and consumer-friendly retrospective reporting. Our rule and guidance make clear that the purpose of this reporting is to support effective delivery of the rule itself.

We will separately consult on compliance reporting arrangements as part of our normal regulatory accounting guidelines process.

2.6 Definitions

The WIA91 requires Ofwat to set a rule that a relevant undertaker to have arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.

In our rule, we set out some proposed definitions of these and other terms for the purposes of interpretation of the rule.

2.6.1 Consumers

For the purposes of our rule, we define consumers as any person who is provided with water or sewerage services by the appointee either directly or indirectly via a licensee, but does not include a licensee (defined as the holder of a water supply licence or a sewerage licence granted by Ofwat under (respectively) section 17A or section 17BA of the Water Industry Act 1991) acting in its capacity as such. This definition mirrors our definition of 'customer' in water company licences, and this definition is aligned with how the term 'consumer' is used in the language of the WIA91.

In practice, this means that the rule applies to the involvement of household consumers, non-household consumers, and developer services consumers, but not to business retail companies.

Our guidance makes clear that we expect companies to consider what arrangements are necessary to involve these different types of consumers in decisions which have a material impact on their interests. Some of the steps required to involve household consumers may be different to the steps required to involve non-household consumers, and companies will have to consider other factors such as the fact the non-household consumers in England do not have a billing relationship with their wholesaler.

2.6.2 Consumer matters

Consumer matters is defined in the 1991 Act as matters connected to the interests of consumers in relation to the supply of water to premises and the provision of sewerage services, and this definition is mirrored in our rule.

This definition is broad and is appropriate given the wide range of topics that consumers will need to be involved in if the objectives of our rule, such as increased trust in the water sector, are to be achieved.

Our rule goes on to provide some examples of matters which are likely to be considered consumer matters. These examples have been informed by our research on consumer engagement and accountability. These examples are not intended to be exhaustive and companies should consider which of their decisions are likely to fall within scope of the 1991 Act's definition.

2.6.3 Decisions that are likely to have a material impact

Our proposed rule defines these decisions as any decision that is likely to have a non-negligible impact. In including this definition, we have sought to balance the need to provide clarity on our requirements with the need for our rule to reflect the legislative framework. Our rule also notes that decisions by companies' boards on consumer matters are likely to be ones with a material impact. However, we are clear that other decisions taken outside of companies' boards may also have a material impact. Companies will need to carefully consider how the threshold of materiality will apply in their own decisions.

2.6.4 CCW-convened consumer panel

Our proposed rule includes a high-level definition of CCW-convened consumer panels for the purposes of interpreting the rule. We define this as a group of consumers arranged on a standing basis by CCW for the purposes of providing views to and holding accountable their respective water company.

Our definition is also intended to provide a degree of flexibility to allow the panels to embed and evolve over time, while also being clear on what is and is not a CCW-convened consumer panel. The key distinguishing features of such panels is that they will be formed of a standing group of consumers (i.e. rather than convened on an ad hoc basis) and that they will be engaged with their own water company, rather than the sector in general. Our definition is also clear that such a panel must be arranged by CCW. This does not preclude companies from convening other panels for the purposes of compliance with the rule (for example: sub-regional panels, non-household consumer panels, or vulnerability panels) but our rule's requirements around the CCW-convened consumer panels (e.g. their ability to summon water company representatives) would apply to those panels alone.

As the statutory consumer advocate for the water sector, CCW have taken forward work to establish these new panels. We note the Independent Water Commission's recommendation that the government should consider transferring the advocacy functions of CCW to Citizens Advice.[13] The UK government has not yet set out its response to this recommendation. The proposed language of our rule is not intended to express any view on the Independent Water Commission's recommendation, which is a decision for government. We will monitor any developments in this area as we finalise our rule.

2.7 Guidance

As with our performance-related pay rule, we have developed non-mandatory guidance for companies to help them comply with the rule. This is included at Appendix 2. The guidance provides further detail of our expectations which companies should take into account when considering compliance with the rule. Ofwat will consider companies' approach to this guidance when assessing compliance with the rule.

2.8 The role of consumer experts

In developing our rule, we have considered the definition of 'consumers' and the role of independent consumer experts in consumer involvement arrangements.

Our rule is clear that independent consumer experts can play an important role in involvement arrangements. Our guidance highlights CCW, independent challenge groups, and local or national third sector organisations as examples of independent consumer experts who can support companies' work in this area. Clearly, however, the views provided by these organisations cannot substitute for the direct voice of consumers when that is what is required. Therefore, companies will need to have regard to the guiding considerations of

[13] Independent Water Commission – Final report

our rule (in particular, our guiding consideration of 'Representativeness') when determining how and when to involve 'ordinary consumers' or independent consumer experts.

We especially consider independent consumer experts as having an important role to play in creating positive feedback loops around companies' arrangements to comply with our rule. Involving them in this way will help identify any shortfalls in the company's approach, with the company then able to consider any changes to their arrangements as a result.

Independent Challenge Groups are a key mechanism for delivering effective consumer challenge and assurance to companies. During the PR24 process, these independent consumer groups played a vital role in representing consumer views at a local level. They offered informed input and robust challenge on complex issues within the business planning process.

Alongside other forms of consumer engagement, ICGs can play a significant role in enhancing the effectiveness of the consumer voice. We have found them to provide distinctive contributions that add real value for both companies and their consumers.

At PR24, we have set standards for continuous customer challenge, covering both the development and delivery of business plans. Companies must provide evidence that they welcome and respond to challenges not only during the creation of their business plans for price reviews and long-term strategies but also in their day-to-day performance.

The policy for company challenge will continue to be developed as part of wider regulatory planning.

2.9 Implementation

We propose that our rule will come into force on 1 April 2026 for the largest companies holding an appointment as a water and/or sewerage undertaker under the Water Industry Act 1991, also known as incumbent companies.[14] We expect incumbent companies to use the intervening period to review their current arrangements for engaging and involving consumers, and consider what changes and additions may be required in order to comply with our new rule once it comes into effect.

We propose that our rule will come into force on 1 April 2027 for new appointees (also known as NAVs). We believe a longer period before implementation is appropriate for new appointees. This is because, while incumbent companies have historically been required to engage with and understand the views of their consumers as part of the price review process,

[14] These are: Affinity Water Limited, Anglian Water Services Limited, Dŵr Cymru Cyfyngedig, Hafren Dyfrdwy Cyfyngedig, Northumbrian Water Limited, Portsmouth Water Limited, Sutton and East Surrey Water Plc, Severn Trent Water Limited, South East Water Limited, South Staffordshire Water Plc, South West Water Limited, Southern Water Services Limited, Thames Water Utilities Limited, United Utilities Water Limited, Wessex Water Services Limited, Yorkshire Water Services Limited.

new appointees have had fewer previous regulatory requirements in this area. We therefore believe that consumers would benefit from these companies having more time to develop and implement arrangements to comply with our rule.

Our rule states where we consider that an undertaker has contravened the rule, we may use our powers under section 35B(7) of the Water Industry Act to issue a direction to the undertaker to take steps to address the contravention which we have identified. If we decide to issue a direction, we will take account of all relevant circumstances when deciding on the contents of that direction. If an undertaker breaches any direction we issue, we may take enforcement action. The process we would take in relation to any enforcement action is explained further in our Enforcement Guidance. As set out in section 3 of that guidance, we would use a range of information to consider whether any breach had occurred.

2.10 Review

We plan to commence a review of the effectiveness of the rule in 2027. During that time, in addition to close engagement with companies and other stakeholders, we will evaluate how the rule has worked in practice, whether the arrangements proposed in the rule remain the correct ones, and importantly how companies have reacted to it.

The following appendices contain the draft proposed wording of the consumer involvement rule, accompanying guidance, and impact appraisal. We would welcome views and comments from all interested stakeholders on all these documents.

Appendix 1 – Proposed rule: Consumer involvement

Introduction

1. This rule is issued by the Water Services Regulation Authority under section 35B of the Water Industry Act 1991 ('the Act'). It should be read alongside our Board Leadership Transparency and Governance Principles 2019 as amended or updated from time to time.

2. The purpose of this rule is to require an undertaker to have arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.

3. For the purposes of references in this rule to 'undertaker', the rule applies to all water undertakers and sewerage undertakers in England and Wales appointed under Chapter 1 of Part II of the Act, including new appointees.

4. This rule comes into effect on 1 April 2026 for the largest water undertakers,[15] and 1 April 2027 for new appointees[16].

Interpretation

5. Unless the context otherwise requires, in these rules:

   "consumer": means any person who is provided with water or sewerage services by the appointee either directly or indirectly via a licensee, but does not include a licensee acting in its capacity as such. This includes both existing and future consumers.

   "**licensee**" means the holder of a water supply licence or a sewerage licence granted by Ofwat under (respectively) section 17A or section 17BA of the Water Industry Act 1991.

   "consumer matters": means matters connected to the interests of consumers in relation to the supply of water to consumer premises and the provision of sewerage services as defined in the Act. Such matters may include, but are not limited to: the cost

[15] These are: Affinity Water Limited, Anglian Water Services Limited, Dŵr Cymru Cyfyngedig, Hafren Dyfrdwy Cyfyngedig, Northumbrian Water Limited, Portsmouth Water Limited, Sutton and East Surrey Water Plc, Severn Trent Water Limited, South East Water Limited, South Staffordshire Water Plc, South West Water Limited, Southern Water Services Limited, Thames Water Utilities Limited, United Utilities Water Limited, Wessex Water Services Limited, Yorkshire Water Services Limited.

[16] These are companies holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers.

and affordability of bills; performance on key services; service and support when things go wrong; and priorities for improvements and investment.

"decisions that are likely to have a material impact": means any decision that is likely to have a non-negligible impact on consumer matters. In particular, it is likely to include (but is not limited to) decisions by undertakers' boards on consumer matters.

"CCW-convened consumer panel": means a group of consumers arranged on a standing basis by the Consumer Council for Water for the purposes of providing views to and holding accountable their own undertaker/s.

Consumer involvement in decision-making

Core requirement

6. Undertakers must have appropriate arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters (the 'core requirement'). To deliver this rule, undertakers must deliver as a minimum the following components:

Component 1 – Insight on views and preferences

7. To support delivery of the core requirement, undertakers must put in place, and follow, effective arrangements to appropriately understand the views and preferences of their consumers in relation to matters relevant to this rule. Such arrangements must include:
   - Surveys of consumers; or,
   - Qualitative research among their consumers; or,
   - Engagement with independent consumer experts; or,
   - Additional or alternative approaches which achieve the outcome in paragraph 7; or,
   - A combination of any of the above arrangements.

Component 2 – Decision-making mechanisms

8. Undertakers must have arrangements in place at the appropriate levels of decision-making within the undertaker to deliver the core requirement. This means that undertakers must ensure that the views, experiences and preferences of consumers, including those understood as a result of component 1, are appropriately fed into, and taken into account, in the decision-making process for decisions that are likely to have a material impact on consumer matters.

9. At Board level, in relation to decisions relevant to this rule, this must include:
   - Regularly allocated time within the annual board cycle for discussions focusing on consumer matters at meetings of the Board; or,

- Arranging for the regular attendance of independent consumer experts at meetings of the Board; or,
- Designating an independent non-executive Board member with specific responsibilities for involving consumers; or,
- Holding open meetings of the Board which consumers are able to attend; or,
- Additional or alternative approaches which achieve the outcome in paragraph 8 or,
- A combination of any of the above arrangements.

10. When a CCW-convened consumer panel requests the undertaker's attendance at a meeting of the panel, the undertaker must make all reasonable efforts to ensure that at least one senior representative of the undertaker attend the meeting. Following attendance at a meeting of a CCW-convened consumer panel, the undertaker must provide a summary of matters discussed at the panel meeting to the undertaker's Board.

Component 3 – Feedback on consumer experiences

11. In order to deliver the core requirement, undertakers must seek feedback from consumers on their experiences relevant to this rule, so that the impact on consumers of past decisions:
    - is understood;
    - is taken into account in decisions affecting current and future consumers; and
    - informs relevant future planning for delivery of this rule.

12. This exercise of seeking feedback must include engagement with any CCW-convened consumer panel that has been established for that undertaker.

13. Further arrangements to achieve this must include:
    - Open sessions involving members of the undertaker's staff and consumers to obtain the relevant feedback for this Component 3, including following incidents; or,
    - Qualitative research among consumers; or,
    - Additional or alternative approaches which achieve the outcome in paragraph 11 or,
    - A combination of any of the above arrangements.

14. Undertakers must seek feedback from independent consumer experts on the manner in which they have sought to deliver the core requirement.

Guiding considerations

15. Undertakers must have regard to the following guiding considerations when designing and operating their arrangements to achieve the core requirement:

    - Accessibility – making involvement as easy as possible for a range of audiences.
    - Independence – ensuring that views are not unduly influenced by the undertaker and reflect the genuine views of consumers.

- Timeliness – considering consumers' views at a frequency and time that makes sense for the subject matter and allows for meaningful involvement.
- Representativeness – involving a broad range of consumers or independent consumer experts that appropriately reflects the range of consumers the undertaker serves.
- Transparency – being open and honest with consumers who are being involved in decisions, and being open about how consumers have been involved in decisions.

Reporting

16. To support delivery of the core requirement, undertakers must set out on their website on at least an annual basis, in a manner that is up-to-date, effective, accessible and clear, and with reference to the Guiding Considerations, the steps they are taking to meet this rule. This must include reports on:
    - Forward looking plan: Their overall approach for compliance with this rule, including which arrangements they will adopt to deliver components 1, 2 and 3 above over the coming financial year;
    - Alternative arrangements: If the company undertakes an alternative approach as outlined in Components 1, 2 and/or 3, an explanation of how its alternative approach(es) achieve an equivalent outcome;
    - Engagement with experts: The feedback received from independent consumer experts under Component 3 and how they have responded to it; and
    - Compliance in previous financial year: The specific steps they have taken to comply with the rule during the previous financial year.

Appendix 2: Proposed guidance on consumer involvement rule

Ofwat will consider an undertaker's approach to this guidance when assessing compliance with the consumer involvement rule. Ofwat will keep the guidance under review and may update the guidance from time to time to clarify its expectations regarding compliance with the rule.

This guidance should be read in conjunction with the rule and the terms used within it are defined in the rule.

Application

1. The rule applies to all water undertakers and sewerage undertakers in England and Wales appointed under Chapter 1 of Part II of the Act, including new appointees.

2. The rule concerns undertakers' involvement of consumers in their decisions that are likely to have a material impact on consumer matters. 'Consumers' is defined as any person who is provided with water or sewerage services by the appointee either directly or indirectly via a licensee, but does not include a licensee acting in its capacity as such. Licensee is defined as the holder of a water supply licence or a sewerage licence granted by Ofwat under (respectively) section 17A or section 17BA of the Water Industry Act 1991. Therefore, this rule applies to the involvement of household consumers, non-household consumers, and developer services consumers, but not to business retail companies in the water sector. Undertakers should consider what arrangements are necessary to involve these different types of consumers in decisions which have a material impact on their interests.

Core requirement

3. This rule aims to achieve the following outcomes: that consumers' views are sought and demonstrably represented and taken into account in company's decisions, including at the level of the board, that are likely to have a material impact on consumers matters; that undertakers create an effective feedback loops to learn from consumers and their representatives if the arrangements the undertakers have established are effective or need to be improved for the following year; and that full transparency, including through reporting, on the delivery of this rule is provided.

4. This part of the rule sets out the core requirement that undertakers must have arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters. The subsequent components of the rule provide structure and clarity on how undertakers must deliver the core requirement as a minimum.

Component 1 – Insight on views and preferences

5. This component of the rule sets a requirement that undertakers must put in place arrangements to understand the views and preferences of their consumers. It then lists examples of what these arrangements may include.

6. An undertaker may adopt one or more of the example arrangements or it may choose to adopt an alternative approach as well or instead. If an undertaker does not adopt any of the example arrangements, it must set out why this is the case as part of its reporting under paragraph 16 of the rule, as well as any regular reporting to Ofwat. This justification must make clear how it has had regard to the guiding considerations of our rule in taking this alternative approach, and how its chosen approach will deliver equivalent or better outcomes for consumers.

7. In designing their approach to this component of our rule, we expect undertakers to have regard to the standards for high-quality research, engagement and customer challenge which we set out as part of our PR24 methodology.[17]

8. Undertakers should ensure that the findings from any such arrangements in component 1 are provided on a timely basis to the relevant decision-makers of the undertaker, for example, the undertaker's board. We expect undertakers to explain how they have done so as part of their reporting under this rule.

Component 2 – Decision-making mechanisms

9. This component of the rule sets a requirement for undertakers to have arrangements in place at the appropriate levels within the undertaker to deliver the core requirement. We expect undertakers to carefully consider what arrangements will be needed and at what levels. Undertakers should consider how important decisions on consumer matters get made within their organisation, and reflect at what points it would be appropriate to involve consumers.

10. For example, there may be aspects of an undertaker's business that are, for the most part, not linked to consumer matters, and therefore involvement of consumers should be carried out by exception. However, aspects that are heavily linked to consumer matters should have clear arrangements put in place for more regularised involvement, with undertakers having regard to the guiding considerations of our rule in designing these. Some impacts on consumer matters may be more indirect than others; however, if they are material, then companies should have arrangements in place to involve consumers in decisions on them.

[17] Ofwat - [PR24 and beyond: Customer engagement policy – a position paper]

11. The rule sets out examples of arrangements that may be put in place at undertakers' boards. An undertaker may adopt one or more of the example arrangements or it may choose to adopt an alternative approach as well or instead. If an undertaker does not adopt any of the example arrangements, we would expect it to set out why this is the case as part of its reporting under paragraph 16 of the rule, as well as any regular reporting to Ofwat. We would expect this justification to make clear how it has had regard to the guiding considerations of our rule in taking this alternative approach, and how its chosen approach will deliver equivalent or better outcomes for consumers.

12. In adopting any of the example arrangements, we expect undertakers to reflect on how the precise design of these arrangements can most effectively support the guiding considerations of this rule. For example: undertakers may designate an existing independent non-executive director (INED) as having responsibilities for consumers, or an undertaker may decide to recruit a new INED who has consumer experience to undertake this role. Designated INEDs will need support from the undertaker as it will be necessary to identify the most effective methods for the INED to engage with consumers and independent consumer experts. An effective designated INED will act as a bridge between consumers and the board, but their role has no impact on the collective responsibility of boards. Similarly, arranging for the regular attendance of independent consumer experts at Board meetings should be done while having regard to the guiding considerations of the rule.

13. Our example arrangements for boards include regularly allocated time for consumer matters discussions and regular attendance of independent consumer experts. Regularity is taken to mean that these occur in line with an established frequency or procedure. In determining the frequency of any such regular activity, undertakers should have regard to our guiding considerations, as well as considering what frequency will allow for the most effective involvement in decisions. Less frequent but regular engagement (e.g. once per year) could be effective if the involvement is well designed and truly meaningful; similarly, very frequent but tokenistic engagement is unlikely to be an effective arrangement for involvement.

14. This component of the rule also sets out a requirement that senior representatives of the undertaker should make all reasonable efforts to attend meetings of any CCW-convened consumer panel at that panel's request. For any undertaker where a CCW-convened consumer panel has not been established, this circumstance would not arise, because there would be no such panel to request attendance. However, we would expect that all undertakers would engage with CCW in its role as the statutory consumer voice in the water sector.

15. The identity of the senior representative who is to attend a CCW-convened consumer panel is likely to vary from case to case. Examples of senior representatives include: chief executive officers, other executive directors, non-executive board members, consumer / customer directors, or members of the senior or management team. We would expect

undertakers to send the most appropriate individual for the subject matter at hand, and in the case of any disagreement with the CCW panel about the identity of the individual sent (for example, that they are not of sufficient seniority, or do not have expertise in a particular subject matter), we expect undertakers to take this feedback into account and engage constructively with the CCW-convened consumer panel to agree a way forward.

16. This component of the rule also sets out that a summary of matters discussed at any such CCW-convened consumer panel meeting should be shared with the undertaker's board. Undertakers may do this in any manner appropriate which has regard to the guiding considerations of this rule.

Component 3 – Feedback on consumer experiences

17. This component of the rule sets a requirement for undertakers to seek feedback from consumers on their experiences. By understanding the impact of past decisions on consumers, undertakers can take this into account in future decisions affecting current and future consumers and thereby involve consumers in those decisions.

18. This component of the rule requires engagement with any CCW-convened consumer panel that has been established for that undertaker. This requirement would not impact any undertaker where a CCW-convened consumer panel had not been established. 'Engagement' with the panel may include a number of different activities and may evolve over time depending on the operating arrangements of the panel. It is likely to involve listening and acting in response to feedback from the panel on the undertaker's performance for consumers, as the panel seeks to hold the undertaker to account in this area.

19. In the case of any disagreement between the undertaker and the CCW-convened consumer panel about the extent of engagement on these matters, we would expect undertakers to engage constructively with the CCW-convened consumer panel to agree a way forward.

20. This component of the rule also sets out examples of further arrangements that undertakers may use to seek feedback from consumers on their experiences. An undertaker may adopt any number of the example arrangements or it may choose to adopt an alternative approach as well or instead. If an undertaker does not adopt any of the example arrangements, we would expect it to set out what alternative approach it is taking, as well as the reasons why it is doing so, as part of its reporting under paragraph 16 of the rule, as well as any regular reporting. We would expect this justification to make clear how it has had regard to the guiding considerations of our rule in taking this alternative approach, and how its chosen approach will deliver equivalent or better outcomes for consumers.

21. One example listed is holding open sessions involving members of the undertaker's staff and consumers following incidents. In determining whether to hold such sessions following incidents, we would expect undertakers to take into account all relevant considerations, including but not limited to:
    - The number of consumers affected by the incident;
    - The severity of impact on those consumers affected by the incident; and,
    - Whether the incident reflected a repeated pattern of failure by the undertaker.

    We expect undertakers to have regard to the guiding considerations of the rule when designing any such open sessions.

22. This component also requires undertakers to seek feedback from independent consumer experts on the manner in which they have sought to deliver the core requirement of the rule. This is to ensure that these experts are given the opportunity to identify any shortcomings in the undertaker's approach, and the undertaker is then able to consider any changes to their arrangements as a result.

23. Examples of how this feedback could be sought include: providing space for commentary in undertakers' annual reports, regular engagement with undertakers' decision-makers such as boards and / or designated consumer INEDs, and allowing undertakers to provide views on undertakers' draft reporting under paragraph 16 of the rule.

Guiding considerations

24. This part of the rule sets out guiding considerations that we require undertakers to have regard to when designing and operating their arrangements to achieve the core requirement. The guiding considerations are intended to guide undertakers' work in this area so that they deliver positive outcomes for consumers and avoid unintended consequences.

25. The table below provides examples of how undertakers could seek to have regard to each guiding consideration in their work. The examples are not intended to provide absolute requirements about how an undertaker should approach a specific issue, but to illustrate what having regard to a guiding consideration could look like in practice.

Guiding consideration	Example
Accessibility	An undertaker is holding a 'town hall' style meeting in a local community to inform its future approach to delivering major works in the area. The undertaker considers how best to ensure that as many different members of the community can attend as possible. It decides to hold two meetings, one during the day and one in the evening, so that consumers with different personal and work commitments are able to attend and give their views.
Independence	An undertaker wants to better understand the experiences of consumers in water poverty to inform a new metering programme. It considers how best to ensure that these views are captured in a sufficiently independent way, that encourages candour

	and openness. The undertaker has an independent non-executive Board member with specific responsibilities for involving consumers. The undertaker asks the Board member to convene a meeting of local poverty charities and advocacy groups to gather their honest views about the company's previous work in this area. The independent Board member is allocated time at a future Board meeting to feed back what they have learned.
Timeliness	An undertaker wants to conduct qualitative research to understand the impact of a specific water supply incident on its non-household consumers. The undertaker considers the best timing for this research to take place. It decides to time the research with enough distance from the event that the consequences for consumers are fully played out and things have returned to normal, but soon enough after the incident that research participants remember how it affected them. The research is provided to the undertaker's independent non-executive Board member with consumer involvement responsibilities in time for them to consider it ahead of a relevant Board discussion.
Representativeness	An undertaker is surveying its consumers to understand what their service priorities are for the future. The undertaker considers how to ensure that its survey appropriately reflects the range of consumers it serves, and specifically the full geography of its area of appointment. It decides to work with a research agency to set minimum quotas of responses from each region within the undertaker area, so different parts of the area are all sufficiently represented.
Transparency	An undertaker establishes a new panel of local emergency services organisations, including representatives from fire and rescue services, ambulance services, and police services, with the aim of understanding those organisations' experiences of working with the undertaker as they conduct their work. The panel provides robust feedback on the undertaker's support to those services and highlights areas for improvement. The undertaker considers how to be transparent in reporting back the results of this process. In addition to a direct response to the panel, it decides to include a summary of the feedback and any areas for improvement as part of its regular newsletter for local stakeholders, along with its response to or actions on those points.

Reporting

26. This part of the rule sets out the requirement that undertakers should report publicly on their overall approach to compliance with the rule, and the specific steps they have taken to comply with the rule.

27. The purpose of this reporting is to support delivery of the core requirement, by allowing consumers and independent consumer experts to understand the undertaker's approach to compliance with the rule. This will allow them to provide feedback to the undertaker and will support transparency.

28. In designing their approach to this kind of reporting, undertakers should have regard to and report against the guiding considerations of the rule.

29. This reporting requirement does not override any other regulatory reporting requirements established by Ofwat for the purposes of monitoring compliance with the rule.

Other requirements

30. For the purposes of this rule, examples of independent consumer experts include but are not limited to: CCW, Independent Challenge Groups, and local or national third sector organisations. The specific independent consumer experts who an undertaker involves in a decision should be determined by having regard to the guiding considerations of our rule. For example: for an issue that affects a certain community or area, the experts involved should be sufficiently representative of that community or area.

Contraventions of the rule

31. Where we consider that an undertaker has contravened the rule, we may use our powers under section 35B(7) of the Act to issue a direction to the undertaker to take steps to address the contravention which we have identified.

32. If we decide to issue a direction, we will take account of all relevant circumstances when deciding on the contents of that direction.

Appendix 3: Impact appraisal of consumer involvement rule

Introduction

This appendix sets out the impact appraisal that Ofwat has undertaken for implementing the rule on consumer involvement in decision making introduced by the Water (Special Measures) Act 2025, which inserted a new section 35B on remuneration and governance in the Water Industry Act 1991.

Ofwat has been developing policy approaches to implementing its new rules on remuneration and governance, introduced by the Water (Special Measures) Act 2025 (the "2025 Act") which inserted a new section 35B in the Water Industry Act 1991. The 2025 Act specifies certain new rules ('the rules'), which are:

- A rule to prohibit the payment of performance related executive pay where company performance fails to meet specified standards;
- A rule to require companies to test whether individuals in senior roles meet standards of 'fitness and propriety'; and
- A rule to ensure companies have arrangements for involving consumers in company decision-making.

Defra produced an Impact Assessment (IA) for the 2025 Act which included consideration of the rule provisions in the Act.[18] That IA considered the high-level impact on companies and Ofwat of establishing and implementing the rules. We undertook and published an impact appraisal on the performance related executive pay (PRP) rule on 28 March 2025.[19]

This impact appraisal draws mainly on a qualitative assessment of the alternative policy options as there is little quantitative data available. However, we do draw on quantitative data when setting out the rationale behind the policy proposal and the issue. We also appraise the ability of policy options to meet the objectives for the rule, whilst also considering the proportionality of our approach and the impact on water companies.

Context

One of the goals of Ofwat's strategy, Time to Act, Together,[20] is to transform water company performance. An important element of that is having demonstrably strong leadership within water companies to drive forward the right culture and behaviour that is focused on delivering the improved performance that consumers want to see, such as on pollution.

[18] Defra – Impact Assessment for the Water (Special Measures) Bill (Pg3) – October 2024
[19] Ofwat – Impact appraisal – performance related executive pay (RPR) rule
[20] Ofwat – Time to act, together: Ofwat's strategy – October 2019 (refreshed January 2024)

As a condition of their licence with Ofwat, water companies must already meet the objectives of Ofwat's Board Leadership, Transparency, and Governance principles[21] which include ensuring "leadership and approach to transparency and governance engenders trust in the Appointee [water company] and ensures accountability for their actions" (licence condition P3.3). However, the declining levels of trust, and increasing complaint numbers, demonstrate that more action is needed to drive a shift in company culture to ensure the sector better reflects the priorities and expectations of consumers, thereby maintaining and restoring trust from those consumers.

A core purpose of our new statutory power, as set out by government, is to increase accountability within water companies with the aim of driving improved performance. In October 2024, Ofwat undertook an initial consultation[22] on the possible policy detail and implementation of the rules in which we explained that water companies must:

- Work to regain customers' trust, including by holding those in senior roles accountable so that their remuneration better reflects the service customers expect;
- Ensure those in senior roles are regularly evaluated to ensure they have the right qualities and competences to do their job; and
- Involve consumers more in decisions that affect them.

In our consultation we also explained that we were aiming to achieve that the rules:

- deliver the legislation's intentions.
- are clear and unambiguous.
- retain company accountability.
- are proportionate.
- focus on prompting culture and behaviour change in the sector.

We published a summary of the consultation responses, including respondents' views on our initial policy approaches for the rules, on 25 March 2025.[23] We reflected on consultation views and the wider engagement we undertook with water sector, environmental non-governmental organisations (eNGOs), consumers and other stakeholders in our further development of the rule.

We are implementing the rules following statutory consultation, as required under section 35C of the Water Industry Act 1991 (as inserted by the Water (Special Measures) Act 2025).

Approach

[21] Ofwat – Board leadership, transparency and governance – principles – updated July 2019
[22] Ofwat – Consultation on new rules on remuneration and governance provided for in the Water (Special Measures) Bill – October 2024
[23] Ofwat – Consultation on new rules on remuneration and governance provided for in the Water (Special Measures) Bill – Policy consultation response document – March 2025

This impact appraisal covers the following points, as set out in the Central Government guidance on Appraisal and Evaluation (The Green Book):[24]

A. **Policy rationale and evidence –** the issue that the rule is looking to address, including the rationale for intervention
B. **Policy objective** – what the implemented policy is looking to achieve
C. **The alternative options and an appraisal of these options** for implementing the rule, and the final preferred option
D. **The risks and assumptions** associated with the preferred option
E. Our plans for **monitoring and evaluating** the impact of the preferred option

A) Policy rationale and evidence

Defra's impact assessment of the Water (Special Measures) Bill set out that the problem that all three rules look to address is: "Environmental water industry performance is lagging overall… This is driving a lack of trust between consumers and the water industry". It is also consistent with and reflects Ofwat's experience as a regulator.

Ofwat acknowledges that public trust in the water sector is low. There is a clear sentiment from stakeholders that more alignment is needed between water sector performance and what consumers expect from the sector. For example, in response to our October 2024 consultation we received 11,668 responses which showed there was broad support for the overarching objectives of the rules to drive performance improvements across the water sector, and the ambition to bring about change in the culture and behaviour of leadership in water companies over the longer term so they better meet consumer expectations.

Defra set out in its Impact Assessment that there is a lack of trust between consumers and the water industry. This is confirmed by other evidence. Consumer satisfaction with water companies has declined considerably since 2022. CCW's "Water Matters" survey in May 2025 saw the average customer trust score for water companies hit the lowest score CCW has ever recorded.[25] Ofwat's joint customer research with CCW, published on 10 April 2024, found that 40% of respondents agreed that companies are more interested in profits than providing a good service (up by 13% compared to the previous year's survey).[26] Other findings included:

- 31% of respondents agreed that companies provided a good service (down by 5% compared to the previous year).
- 49% of respondents were satisfied with the quality of their wastewater and drainage services (down 7% compared to the previous year).
- 23% of respondents agreed that they trusted companies to do what's right for the environment (down 8% compared to the previous year).

[24] HM Treasury – The Green Book
[25] CCW – Water Matters 2025
[26] Ofwat and CCW – Customer trust and satisfaction in water companies falling in latest Ofwat and CCW research

- 22% of respondents agreed that companies act in the interest of customers (down 5% compared to the previous year).

This declining trend in public trust is an increasing risk when considering the planned increases to customer bills over this new regulatory period. Based on Ofwat's Final Determinations, bills are due to rise by an average of £31 a year between 2025-2030. While this will help fund record levels of spending by water companies to deliver better outcomes for customers and the environment, we anticipate that the increase in bills will add to frustrations that customers feel if they perceive companies failing to take their interests into account in decisions.

B) Policy objective

One of our policy objectives is to deliver the requirements of the Act. The rule on consumer involvement is at a minimum, intended to achieve the effect of requiring water companies to have in place arrangements for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.

Our key policy objective is around improving consumer trust. Involving consumers in decisions could build consumer trust in water companies. For those consumers who have more closely been involved in decisions – for example, through participating in panels or research – they will have a direct experience of how their input is shaping decisions. Even for consumers who have not been directly involved, if they are made aware of how their peers have been involved in decisions, this could help them understand how involvement has taken place. When consumers become aware that a decision has taken place with consumers involved, they may have more trust that the decision taken was the right one.

Involving consumers in decisions can also lead to more informed and transparent decision-making. When consumers are allowed to provide their views and experiences as part of the decision-making process, this means that these decisions are more informed, because the full impact of them can be considered. For example, if a company is making a decision about how to reduce water consumption, allowing consumers to explain their experiences of using water, and what kinds of communications are most effective in helping them use less water, will be helpful in making the decisions as informed as possible.

Design approach

The design approach behind our rule is that in order to involve their consumers in their decision-making effectively, companies must first take steps to effectively understand what their consumers think and experience. They must take demonstrable insights from these steps, and then they must incorporate those insights into the decisions that they make.

Companies will be required to meet the rule's 'core requirement', which is to have arrangements in place for involving consumers in decisions of the undertaker that are likely to have a material impact on consumer matters.

The rule then expands on three components that support the core requirement. Companies will be required to understand their consumers' views and preferences, which can help to inform companies' approaches. Then, when decisions that are likely to have a material impact on consumer matters are made, the company needs to have clear processes in place to ensure that consumers are involved. Finally, the company needs to understand how those decisions impact on consumers in practice, including through accountability mechanisms, so that this can be taken into account for future decision-making.

These three components of our rule are supported by five guiding considerations which companies must have regard to in designing their arrangements to deliver all aspects of the rule.

There are several scenarios that could occur when the rule is implemented:

- Scenario 1 – Companies respond to the new rule, and find new and improved ways of involving consumers in their decisions. This will lead to improved decisions and improved levels of trust in the sector. Companies are incentivised to innovate and find new ways to effectively engage consumers in the future.
- Scenario 2 – Companies do not respond strongly to the new rule, but instead simply use it to rebadge existing consumer research initiatives under a new regulatory framework without considering what could be improved. This would not lead to improved decisions, but may lead to improved trust in the sector if companies use the new rule as an opportunity to raise consumer awareness of their current work.
- Scenario 3 – Companies respond to the new rule but in an overly rigid manner that focuses more on meeting the regulator's minimum requirements than delivering real improvements for consumers. This could lead to less innovation in this area, which would lead to worse outcomes for consumers in the long term.
- Scenario 4 – Companies do not respond strongly to the new rule and are not sufficiently motivated to continue existing consumer involvement arrangements. This would lead to poorer decisions and reduced levels of trust in companies and the sector.

In addition to these scenarios, there are a wider set of risks which might occur along with mitigating actions (set out below). These risks, if they crystallize, do not impact on the key outcomes of performance or consumers' trust in the water sector, but could have wider unintended impacts.

C) Options considered

Ofwat's October 2024 consultation proposed an outcomes-based approach to the consumer involvement rule, rather than an approach of prescribing a specific method or mechanism.

We said that companies would be able to comply with the rule by taking into account a range of different sources of consumer insight, which will allow them to act in an informed manner and take the most appropriate and proportionate approach in the light of their customer base, particular company circumstances and governance models.

We noted CCW's proposal for new consumer panels and proposed that companies would be able to comply with our new rule by taking appropriate account of the views of these new consumer panels, alongside any other properly constituted consumer representative groups that also meet our guiding considerations.

We proposed that when the rule comes into force, companies will need to demonstrate tangibly that they have put in place arrangements for involving consumers in decisions that are likely to have a material impact on them. We proposed that the rule could set out a range of options by which companies can comply with this requirement, across key elements.

Our proposed approach was broadly supported by consultation respondents. In considering the responses, wider stakeholder engagement and in undertaking further policy development we have defined the option further, creating an option 2 (set out in Table 2.1 Policy options). This option represents our proposed approach in our statutory consultation.

We have also considered how we define "material impact" for the purposes of our rule. Our proposed rule defines these decisions as any decision that is likely to have a non-negligible impact. In including this definition, we have sought to balance the need to provide clarity on our requirements with the need for our rule to reflect the legislative framework.

We could have chosen to take an alternative approach to our rule, while still being compliant with the Act. Two different options are described under option 1 and 3 below.

In summary, the policy options considered have been:

Table 2.1 Policy options

Option	Description
Option 1	Establish least specific rule possible required under the Act. Require companies to have arrangements for involving consumers in place, but place no further requirements or structure on what these should involve. Do not require companies to engage with CCW-convened consumer panels.
Option 2	Take principles-based approach, allowing companies to take a range of different approaches to consumer involvement within an overarching structure and framework, based around the cycle of company decision making. Allow companies to comply by adopting one or more of a list of approaches, or an alternative approach on a justified basis. Require companies to engage with CCW-convened consumer panels.
Option 3	Establish a rule which prescribes specific consumer involvement arrangements which companies must adopt in order to comply. Option 2's exemplary lists become mandatory.

Option appraisal

This section appraises how we expect the three options to deliver against the main policy objectives and align to the intended outcomes, i.e. delivering the legislative outcome and standards, incentivising culture and behaviour change, and ultimately leading to improved levels of consumer trust. In addition, we also consider the possible scale of the costs of the options. This appraisal is qualitative. This policy will, as part of our wider regulatory approach, help deliver our broader consumer outcomes.

To decide which of the three policy options is our preferred option, we consider how they focus on the issues the rule aims to address, supports objectives for the rule, the types of possible costs associated with the options, and how they are most likely to contribute to the delivery of scenario 1 above.

Table 2.2 Policy option appraisal

Policy objectives	Option 1	Option 2	Option 3
Improves public trust	Rule may not go far enough – unclear what change we expect to see in the sector as a result of the rule.	Companies steered towards actions that help to improve public trust. Fact that adoption of specific arrangements is not mandatory could be seen as not requiring necessary change. However, fact that companies will be required to engage with CCW panels means that clear change has been achieved.	Clear requirements make it easier to understand whether companies are compliant.
Incentivising companies to drive forward improvement in performance	Level of ambiguity means that companies have to carefully consider how to meet the rule for themselves. Some companies may rise to challenge and use freedom to innovate for the benefit of consumers but some may not.	Companies have space to innovate within our overall requirements. All companies have to put relevant arrangements in place for each aspect of our rule.	Companies may be content to meet our requirement and go no further. If all companies have same arrangements in place, little room for innovation.
Meets intended outcomes for the rules (deliver legislation's intentions; clear and unambiguous; retain company accountability; proportionate; focus on prompting culture and behaviour change in the sector)	**Legislation's intent:** It covers the requirements of the 2025 Act. **Clear and unambiguous:** Significant ambiguity around whether companies could consider themselves compliant or not. Unclear to stakeholders what change we would be expecting.	**Legislation's intent:** It covers the requirements of the 2025 Act. **Clear and unambiguous:** Clear articulation of the aspects of company decision making that we expect arrangements to cover. Some ambiguity remains around what alternative arrangements companies could put in	**Legislation's intent:** It covers the requirements of the 2025 Act. **Clear and unambiguous:** Very clear which arrangements we would require companies to establish. **Company accountability:** Companies would not be responsible for considering what arrangements would

Policy objectives	Option 1	Option 2	Option 3
	Company accountability: Companies are responsible for considering what arrangements to put in place, without clear requirements to guide this. **Proportionality:** There is a need for further intervention based on the lack of trust in the water sector. **Culture and behaviour change:** May lead to diverging approaches across sector, with some companies using total flexibility of arrangements to design innovative approaches, and other companies taking a more laissez-faire approach. We would need to ensure best practice was shared so that culture change took place across sector.	place and whether these would be compliant. **Company accountability:** Companies are responsible for considering what arrangements should be put in place within our proposed framework. **Proportionality:** Provides clear direction to companies, while giving flexibility for companies to adapt to their own circumstances. Current arrangements could be retained or built on as part of refreshed approach. This is likely to be a proportionate approach, especially for smaller companies such as new appointees. **Culture and behaviour change:** Sets clear areas where arrangements must be put in place, and where we can review sector culture and behaviour.	be necessary to deliver the intended outcome, because these would have already been set out by the regulator. **Proportionality:** Mandatory arrangements may be disproportionate, especially for smaller companies such as new appointees. Companies' existing arrangements may have to be dropped in favour of new mandatory arrangements, whether or not the previous arrangements were effective. Companies would have limited scope to design their arrangements to reflect local circumstances and priorities. **Culture and behaviour change:** Sets clearly required arrangements but if companies are not prompted to design their own arrangements, then may be harder to embed behaviour change.

Table 2.3 Policy option costs

Option costs	Option 1	Option 2	Option 3
Costs[27]	Unclear what cost impacts would be. Likely to vary significantly between companies depending on how each company responded to the challenge of an extremely flexible rule.	Likely to be some additional costs to companies of adopting new arrangements. However, where existing arrangements can be continued or refined in order to meet our rule, this could result in lower costs than starting from scratch.	Likely to be some additional costs depending on companies' existing processes. One-size-fits-all approach may lead to disproportionate costs for some companies.

Preferred option

[27] Defra's Impact Assessment on Water (Special Measures) Bill produced estimations on familiarisation costs for all three rules.

Based on this appraisal, Option 2 is our preferred option.

This is because we assess it as best meeting the legislative requirements and providing a proportionate way to seek to address the objectives of this rule in terms of increasing trust and improved accountability with the aim of driving improved performance.

Option 2 balances the need for flexibility and scope for innovation, with clarity for companies and stakeholders about the types of arrangements that companies will need to adopt. Based on previous consultation feedback, we believe this approach will be welcomed by consumers and stakeholders.

D) Risks and assumptions

The policy consultation and other stakeholder engagement identified the following risks which could occur in implementing a consumer involvement rule. We have considered and suggest proposed mitigations if these risks were to occur for option 2.

Table 2.4 Risk assessment for option 2

Risk	Description	Impact if risk occurs	Proposed mitigations
Overlap with consumer involvement arrangements in price reviews	Our rule unhelpfully overlaps with consumer involvement arrangements for future price reviews, leading to ambiguity and confusion for consumers, industry and stakeholders.	Reduced trust in sector. Duplication of effort within companies and regulator.	Seek to ensure that consumer engagement approach to future price reviews is developed in a way that builds on companies' work to meet our rule, and that regulatory position remains coherent.
Arrangements not leading to meaningful impact on decisions	Companies adopt arrangements to involve consumers but this does not lead to markedly different decisions being made.	Reduced trust in sector.	Monitor closely and intervene as necessary using our powers of direction if the outcomes intended by the rule are not achieved, while recognising that there is value in not being too prescriptive.
Low quality of company arrangements	Most or many companies' arrangements to comply with the rule do not meet our expectations and are not perceived as sufficient to deliver the change we expect to see, or that consumers want.	Reduced trust in sector. Potential investigation and enforcement action.	Issue guidance to accompany the rule that further explains our expectations in key areas. Maintain strong engagement with companies and independent consumer experts (e.g. CCW, ICGs, etc) to gather insight on companies' approaches and proactively raise any concerns with companies.

Risk	Description	Impact if risk occurs	Proposed mitigations
Insufficiently informed consumers	Companies seek to involve consumers without providing them with the necessary information and background on the issues at hand.	Frustration from consumers involved in decision-making reduces their trust. Potentially worse decisions being made if consumers aren't involved in right way.	Ensure rule encourages both direct consumer involvement through CCW panels, qualitative research, etc; but also involvement of independent consumer experts.
Companies only adopt alternative arrangements	Companies fail to adopt example arrangements in rule and universally adopt alternative arrangements, justifying these with reference to our guiding considerations. Results in patchwork of approaches in different company areas.	Lack of clarity for consumers and stakeholders of how our rule works. May reduce trust in sector	Monitor industry carefully and understand alternative arrangements where these are used. It may be that the alternative arrangements adopted are in the best interests of consumers. If we believe alternative arrangements adopted are not in best interests of consumers, challenge companies on this and consider whether amendments to guidance or rule itself would help to achieve improvements.

Impact on small and micro businesses

The policy will apply initially to the 16 largest water companies holding an appointment as a water and/or sewerage undertaker under the Water Industry Act 1991. The rule will apply to new appointees from 1 April 2027.

The flexibility built into our proposed rule will allow a proportionate approach to be taken by new appointees, based on their operating circumstances and customer bases.

Ofwat's duties

In considering the options above and coming to the proposals set out in our consultation we have taken account of our relevant duties, including our primary duties[28] to act in the manner we consider best protects the interests of customers, secures companies properly carrying out their functions and secures the resilience of water supply and wastewater duties. We have also taken account of the principles of best regulatory practice including transparency, accountability, proportionality, consistency and that activities should be targeted only at cases in which action is needed.

The Growth Duty[29] came into statutory effect on 29 March 2017 and requires specified regulators to have regard to the desirability of promoting economic growth, and in doing so, particularly consider the importance of ensuring that regulatory action is taken only when

[28] Section 2 of the Water Industry Act 1991.
[29] Section 108 of the Deregulation Act 2015.

needed and any action taken is proportionate. On 21 May 2024, the Growth Duty was extended to include Ofcom, Ofgem and Ofwat.

The statutory guidance[30] on the Growth Duty outlines seven drivers of sustainable economic growth (innovation; infrastructure and investment; competition; skills; efficiency and productivity; trade; and environmental sustainability), and seven behaviours of Smarter Regulation (pro-innovation; skilled and capable; business aware; proportionate, efficient and responsive; collaborative, internationally aware; and consistent, transparent and accountable), and against which we have considered this rule.

The preferred option could increase efficiency through innovation, and is explicitly designed to be proportionate. It should also increase transparency in the sector by making water companies' decision-making processes more open to their consumers.

The Public Sector Equality duty[31] is a statutory duty imposed on public authorities and other bodies carrying out public functions. It ensures that those organisations consider how their functions and decisions, in this case our power to issue the rules for remuneration and governance, will affect persons with different protected characteristics.[32] We are also required to monitor the actual impact of our policies.

The general duty requires us as decision-makers to have due regard to the need to eliminate conduct prohibited by the Equality Act 2010, advance equality of opportunity between people who have a protected characteristic and those who do not and foster good relations between people who have a protected characteristic and those who do not in exercising our functions.

In developing our approach for implementing this rule, Ofwat undertook a policy consultation in October 2024, and carried our further engagement including a roundtable discussion of the policy with consumer organisations. We are now undertaking a statutory consultation to implement the rule.

Water and sewerage services are essential for all consumers. We consider that the rule has the potential to improve services for all consumers who have and do not have protected characteristics. Those consumers with protected characteristics of age, disability and pregnancy and maternity, and religion or belief may be impacted to a greater extent if water companies do not meet their core duties as they may have extra needs and/or an enhanced reliance on their water supply and wastewater services due to these characteristics.[33] Our rule would also encourage companies to take steps to involve consumers who need extra

[30] Growth Duty: Statutory Guidance – Refresh – Department for Business and Trade – 21 May 2024
[31] Section 149 of the Equality Act 2010.
[32] Relevant protected characteristics are: age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation.
[33] We set out expectations for companies supporting customers who need extra help in our Service for All Guidance: Service-for-all-–-Ofwats-final-vulnerability-guidance-for-water-companies-supporting-customers-who-need-extra-help.pdf

help, for example through vulnerability panels and engagement with third sector organisations.

E) Monitoring and evaluation

Ofwat will monitor the effect of the rules and the practicalities of their operation on an annual basis, and evaluate them in 2027 in relation to the design approach and the policy objectives – one year after implementation.

At this review, we will assess what the impact of the rule has been in terms of the policy objectives and whether it has delivered in relation to the intended outcomes we set out in our consultation, specifically whether the rule:

- Improves public trust;
- Incentivises companies to drive forward improvement in performance;
- Meets intended outcomes for the rules (deliver legislation's intentions; clear and unambiguous; retain company accountability; proportionate; focus on prompting culture and behaviour change in the sector.

We will also consider whether the possible risks to implementation have occurred and whether there have been any cumulative impacts of risks associated with the other two statutory rules under section 35B of the Water Industry Act 1991; and whether the interventions should be amended.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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