December 2025

PR24 Cost change process

Asset health investment assessment guidance

Ofwat

About this document

This document provides guidance to water companies that plan to submit asset health related investment proposals through the PR24 cost change process.

In our final determination, we set out our intentions to enhance asset health understanding in the water sector during the 2025–30 period.[1] As part of this, we stated that we would consider whether additional allowances were required during the 2025–30 period to make further improvements to asset health for a defined set of priority assets. This investment would be above and beyond that already funded through PR24 base expenditure allowances.

The guidance in this document seeks to build upon our PR24 cost adjustment claim and enhancement deep dive assessment criteria, and focus on the core evidential requirements related to asset health investment. This document also sets out our expectations in relation to different funding routes, our approach to assessing sector wide information, and assurance requirements.

Should an increase in funding be required, companies will be able to access in-period or end-of-period funding through the cost change process. Companies will be able to submit asset health related claims in 2026, 2027 and 2028. This document should be read in conjunction with our cost change process guidance note.[2]

[1] PR24-final-determinations-Expenditure-allowances-V2.pdf
[2] Cost-change-process-guidance-note.pdf

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1. Introduction

1.1 Context

Asset health is critical to ensuring long-term operational resilience in the water sector. Water companies must understand their assets, and what is driving changes in asset health over time, to ensure they maintain the long-term capability of assets and promote long-term asset health. We expect companies to have a robust asset management framework to enable them to understand their assets, develop and deliver mature well justified business plans. These plans should fund maintenance of their assets and deliver the right outcomes in both the short and longer term. Water companies have a general duty to maintain an efficient and economical system of water supply, including maintaining good asset health.[3]

In our PR24 final determination, we set out a roadmap to work collaboratively with the sector to improve common understanding of asset health during the 2025-30 period.[4] The roadmap focuses initially on the 2025-27 period, where we are working with the sector to select and define a priority list of assets to collect further data on expenditure, workload (repair, refurbishment, replacement), asset condition, and other asset health metrics. We will use this data to better understand the current health of these assets and how companies have invested base expenditure allowances in the past. If we find evidence that there is a sector wide asset condition issue that needs to, and can be, addressed ahead of PR29, we will, if appropriate, provide additional base expenditure allowances to companies to increase their rate of investment to improve asset condition. For example, an increase in asset renewals needed to move towards a more long-term sustainable renewal rate that prevents asset condition deterioration. Through this plan, we aim to improve long term service resilience through improved asset health in priority areas.

During 2025, we have actively engaged with the sector to progress our work on the roadmap, and build on the progress made at PR24 to better understand asset health. We have delivered against the initial milestones set out in our final determination, including:

- Delivery of 11 workshops, which have included water companies and other regulators.
- Identified priority assets, and developed condition grade methodologies to support a common understanding of asset condition.[5]
- Issued data requests to understand what companies have delivered historically through base allowances to help us understand what can already be delivered at PR24.
- Worked collaboratively to develop an assessment framework that will support companies in producing robust and high quality investment cases.
- Issued an asset condition data request for the priority assets.

[3] UK Government, Section 37, Water Industry Act, 1991
[4] PR24-final-determinations-Expenditure-allowances-V2.pdf, pp.91-94
[5] Condition methodologies can be found here: Enhancing Asset Health Understanding Workstream - Ofwat.

- Published all working materials and an enhancing asset health update paper on the Ofwat website.[6]

Through our work with the sector, we have identified the following priority assets for the 2025–27 period:

- Water network storage assets (service reservoirs, water towers, contact tanks and final water tanks)
- Rapid gravity filters (RGFs) at water treatment works
- Boreholes
- Activated sludge plants (ASPs) at wastewater treatment works
- Trickle filters at wastewater treatment works
- Settlement tanks at wastewater treatment works
- Gravity sewers

Companies will be able to submit investment cases relating to the defined priority assets listed above, through the cost change process from 2026. If we find that an increase in allowances is required to improve the health of the priority assets, and the work can be delivered in the remainder of the 2025-30 period, we have made licence modifications that will if necessary, enable companies to access funding in-period from 2027-28.[7] Our default position for asset health is that we will make adjustments at the end of the period. However, companies can make the case for in-period adjustments.

In our cost change process guidance we set out our intention to consult on extending the scope of the assets included in the cost change process for asset health ahead of the next price review.[8] This would be supported by the collection of robust and comparable asset condition data during 2026 for any additional assets. See section 6 for further information.

1.2 Purpose

This document sets out the guidance which describes the process and methodology for companies to develop asset health investment requests for submission through the cost change process. Companies will need to provide sufficient and convincing evidence that there is a need for additional investment beyond that provided through existing PR24 base expenditure allowances.

[6] Enhancing Asset Health Understanding Workstream - Ofwat
[7] The cost change process will be available for asset health related claims in 2026, 2027 and 2028.
[8] Cost-change-process-guidance-note.pdf, Appendix A3, p.22

Through the approach set out in this document, and in collaboration with the sector, we want to achieve:

- **Robust and high-quality investment proposals that clearly articulate and evidence the need for additional investment, and the benefits associated with the proposed investment.** In turn, delivering greater transparency and confidence in the actions of water companies to wider audiences;
- **A common standard that companies can adhere to, with guidance on how to account for company specific circumstances;**
- **Delivery of the most suitable long-term solutions** through robust assessment of options and associated cost benefit analysis (CBA);
- **Continuous improvement in the sector,** relating to the quality of evidence provided to support decision making, assessment of submissions, and
- **Successful delivery of investment** to improve long-term outcomes for customers and the environment

1.3 Our approach to developing the guidance

The approach builds on our PR24 cost adjustment claim and enhancement deep dive assessment frameworks. We have worked collaboratively with technical specialists and sought to reflect industry best practices. We have also worked collaboratively with companies to identify sector wide data collection that would support companies in the development of well evidenced asset health business cases, including asset condition and workload / expenditure data for the priority asset classes.

Where appropriate, we have tailored the assessment guidance to asset health related investment, and aimed to ensure that the evidential requirements are as clear as possible. For example, there is a reduced requirement to demonstrate exogenous factors driving the need for investment and an increased focus on investment delivery. We have also considered sector feedback after presenting the draft assessment framework to the sector at the asset health roadmap workshop.

1.4 How to use this guidance

This guidance should be used to support the development of investment cases where a need for step-change in investment has been identified for the priority assets. The need for additional investment may be required to (but not limited to):

- Move to a long-term sustainable renewal rate (a higher rate that has been delivered than in the recent past) to improve asset health and help ensure long-term resilience;
- Address a step-change in a direct risk to assets because of external factors such as climate change or other environmental impacts;
- Address a step-change in risk to future service because of higher than expected rates of asset deterioration; and/or
- Address high consequence risks for assets that require infrequent but major investment, for example replacement or major refurbishment of service reservoirs.

2. Timeline

This section outlines the timeline of submissions for asset health investment cases. A high-level timeline of submissions is provided below, with more detail in Appendix A1.

Companies can submit asset health cost change submissions in 2026, 2027 and 2028, with submissions due in a window from 1 March to 1 May in each year. We expect to make draft decisions by 15 August and final decisions by 15 December of the given year. This timeline is to allow sufficient time for assessment and consultation. Further details on the cost change process can be found in the 'Cost change process guidance note'.[9]

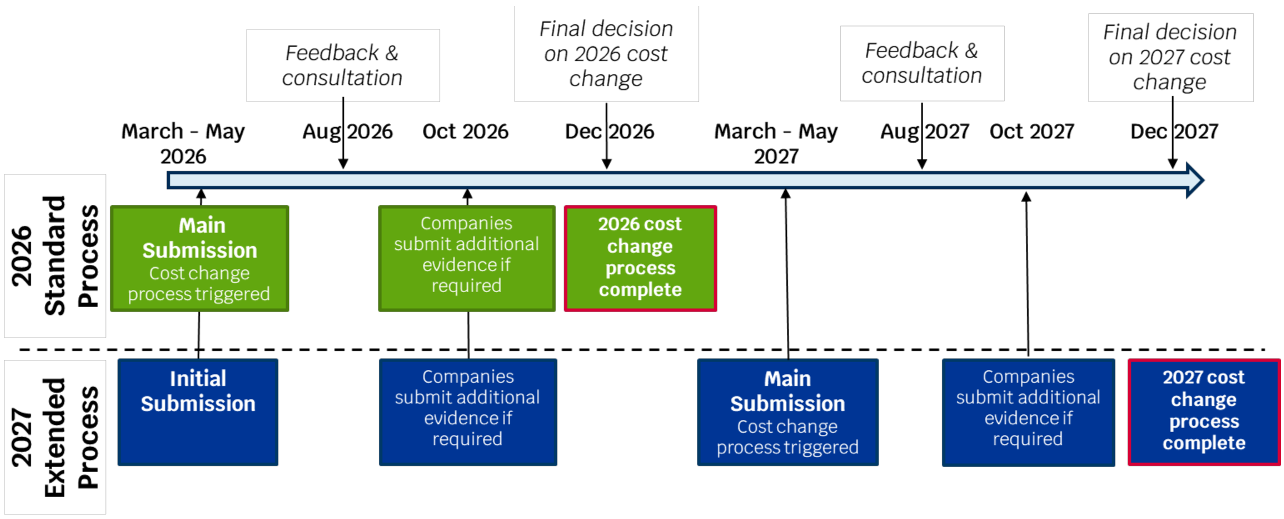
There are two routes to access the cost change process, which are summarised below. Companies must indicate which route they are following with their first submission. To note, there is no requirement to submit an investment case.

1. **Standard – single main submission:** Companies submit a full investment proposal by 1 May 2026, fulfilling the evidential requirements set out in this document. This submission will be used to trigger the cost change process in 2026. This will include a draft decision by 15 August 2026, and final decision by 15 December 2026. Companies could also use this 'standard' approach in 2027 and 2028.

2. **Extended – initial & main submission:** Companies submit an initial investment proposal that focuses primarily on the need for a step change in investment, optioneering and cost efficiency by 1 May 2026 to receive feedback on its proposal and agreement on the need for investment. The company would then return by 1 May 2027 with a full investment proposal, which would trigger the cost change process for that year, with a draft decision expected by 15 August 2027 and a final decision by 15 December 2027. Companies could also use the 'extended' approach in 2027 for a 2028 main submission and decision or in 2028 for a 2029 main submission and decision.

[9] Cost-change-process-guidance-note.pdf – timeline provided in Table 1 on p5

Figure 1: High level example timeline for submissions



3. Investment submission requirements

We expect investment proposals for additional asset health investment during the 2025-2030 period to follow a standard structure and content. This is to help promote high-quality submissions which can be assessed fairly and consistently against our framework.

Table 1 sets out our expectation for the structure of asset health investment proposals received through the cost change process. This aligns to the required evidential criteria, and sets out our planned approach to assessment.

This structure reflects an evolution of our PR24 cost adjustment claim and enhancement deep dive assessment frameworks, with additional requirements for companies to:

- demonstrate the **need for a step change in investment**;
- improve the evidence provided around selection of the **best option for customers**, and;
- present an **investment delivery plan**[10] to help reduce the risk of under or non-delivery.

Companies are still required to present evidence on **robust and efficient costs**, and **customer protection**.

To support water companies with interpreting and putting the guidance into practice, we have set out a list of examples of 'what good looks like'. These examples have been developed in collaboration with technical experts. It is not exhaustive list, but should be used to support development of proposals, where considered useful by companies.

We will assess the evidence holistically to satisfy ourselves that the company has provided sufficient and convincing evidence that there is a need for a step change in investment, and that it has arrived at the most cost efficient and appropriate solution that delivers maximum value for customers and the environment.

Table 1: Asset health assessment gates and assessment methods

Assessment gate	Assessment
Need for a step change in investment	Pass / Partial pass / Fail
Best option for customers	% challenge based on quality of evidence
Robust and efficient cost	% challenge based on quality of evidence
Customer protection	Sufficiency check
Investment delivery plan	Sufficiency check

[10] 'Investment delivery plans' are specific to the proposed investment and provided with the submission. They should not be confused with the 'delivery plans' that are part of annual reporting on progress of AMP8 delivery.

3.1 Submission opportunities

As stated in Section 2 there will be two routes for companies to submit investment requests. These are 'standard' and 'extended'. We expect most proposals to come through the 'standard' route. However, if companies' proposals are not yet fully developed and additional feedback is sought, they are able to follow the 'extended' route. The requirements for each of these are set out below. Detailed timetables for each route are provided in Appendix A1.

Standard – Single main submission

For the standard submission route, we expect companies to provide a full submission (in either 2026, 2027 or 2028) including sufficient and convincing evidence for:

- Need for step change in investment;
- Best option for customers;
- Robust and efficient costs;
- Customer protection; and
- Investment delivery plans.

We will provide feedback once submissions have been assessed and consult on the proposals by 15th August of each relevant year. This is the standard cost change process timeline.

Extended – Initial and main submission

For the extended submission we expect companies to provide an initial submission in year 1 (by 1 May of that year) and a fully updated main submission in year 2 (by 1 May of that year). The initial submission should include sufficient and convincing evidence for:

- Need for step change in investment;
- Best option for customers; and
- Robust and efficient costs.

We will provide feedback on the initial proposals but will not formally consult. **We will provide a decision on the 'Need for investment' gate by 15 December of that year**.

For the main submission in year 2 of the process we expect companies to update the initial submission evidence and include the remaining submission requirements;

- Customer protection; and
- Investment delivery plan.

The main submissions should reflect a more mature case compared to the initial submissions, with finalised evidence in all areas and cost estimates that are more reflective of final delivery costs. We will provide feedback once submissions have been assessed and consult on the proposals (as part of the cost change process).

3.2 Approach to submitting claims

Companies will have the opportunity to submit one claim per asset class through the cost change process. For example, if a company wants to submit a case for a step change in investment at trickle filters, all related investment should be grouped together. We do not expect to receive site level requests which contain a mix of priority assets.

If there are efficiencies to be gained by conducting interventions on multiple different priority asset classes at a site level, then the links between investment requests should be made clear.

This approach will ensure a smaller number of high-quality submissions (no more than six per company).

If a company does not meet the evidential bar in a claim submitted in 2026 or 2027, it will have the opportunity to resubmit the case for the priority asset class in the remaining year(s) of the cost change process. We will provide feedback on our assessment that the company will be expected to address.

3.3 Monitoring delivery

The delivery of investment once approved, will be tracked through the annual delivery plan submission process[11], which will also include the PCDs defined through this process. For clarity, this is not the same as the 'investment delivery plans' which are required to be submitted in the investment plans and are specific to each asset class

3.4 Submission structure and content

3.4.1 Need for step change in investment

Companies need to provide sufficient and convincing evidence that there is a need for a step-change in the current level of investment. Companies must show that the risk to assets and/or service in the future is sufficiently different to current, and that without a step-change in investment in its asset base, the company will not able to mitigate those risks.

[11] Delivery plan - Ofwat

For each of the prioritised asset classes, companies need to provide sufficient and convincing evidence of:

- historical investment and how risk and asset health has changed over time, to underpin the 'as is' position. If historical health or risk data is not available, an explanation of how the assets have been managed should be provided;
- an assessment of 'what base buys' to provide confidence that the requested additional investment is to address risk above and beyond what existing base expenditure allowances cover (see section 4 for further detail);
- identified risks posed to service or the environment as a result of the asset's current health. Where there is no historical precedent, companies should use expert judgement to determine risk;
- forecast of future asset health, how health and risk will change over time showing a change in quantified risk requiring a step-change in asset investment. If quantified risk information is not available, qualitative risk information and expert judgement should be used;
- alignment to long-term asset class strategies that demonstrate why the future is different from the past for the priority asset type, and why the investment is required now. For example, evidence that the asset is posing a greater risk in the future due to asset deterioration. Future uncertainties are taken into account for example. climate change impacts;
- engagement with stakeholders, where appropriate (e.g. Environment Agency, Drinking Water Inspectorate and local authorities).[12]

Assessment criteria

The evidence to demonstrate the need for step change in investment must be sufficient and convincing. If the company does not provide sufficient and convincing evidence, then the proposed investment will not progress past this assessment gate. **The need for a step change in investment will be assessed as pass/fail.** However, if some elements of the proposed investment demonstrate a sufficient and convincing need, then it may be considered a **partial pass.** In this scenario, the proposed investment will be reduced to align to the scope that meets the Need gate requirements set out.

What good looks like – Need for step change in investment

Historical analysis

- Robust historical expenditure and activity data and analysis which shows what risks were addressed and what benefits were achieved (for example. improved performance and service and/or increased asset health). Including a brief history of material

[12] The DWI has set out its own guidance and expectations for asset health related investment that companies should consult as part of their investment proposal development. Please see here: IL-05-2025-PR24-cost-change-process.pdf

interventions on the assets requiring investment, eg replacements, major refurbishments and upgrades.
- Demonstration of change in asset health and risk over time and how external factors have impacted asset health and performance
- Company has arrived at a clear view on 'what base buys' to provide confidence that the requested investment is to address risk above and beyond what existing base expenditure allowances should cover. 'What base buys' is determined using Ofwat assessment guidance (see Section 4).

Current 'as is' status

- Use of existing data or new surveys conducted to determine current asset health (condition, functionality and performance), using agreed framework.
- Coverage of asset health assessments goes beyond the data provided in the regulatory condition data requests and considers wider factors such as availability and criticality to form a rounded view of health.
- Assessment of current risk to service and the environment based on current asset health. Describing the impact of asset failure in the context of the wider system.

Future analysis

- Asset deterioration models provide a forward view of risk. Models are based on robust historical information and assumptions of key factors such as asset demand and environmental impacts.
- In the absence of deterioration models, quantitative risk analysis is conducted to provide a forward view of risk.
- Risk analysis demonstrates a clear increase in risk (or a sustained level of unacceptable risk) which can only be mitigated through a step-change in investment.

Strategic alignment

- Each investment proposal is supported by a long-term asset class strategy. Alignment to proposed investment and strategy is clear.
- The strategies clearly identify why the investment is required now.
- Future uncertainties such as climate change impacts are considered through the use of scenario planning.

Stakeholder engagement

- The relevant stakeholders (for example. Environment Agency, Drinking Water Inspectorate and local authorities) have been consulted (where it is appropriate) on the Need for a step change in investment and on any potential wider risks to the environment and customers.

3.4.2 Best option for customers

It is important that a sufficient number and range of intervention options are considered and suitably assessed. Otherwise, credible alternatives may not have been considered at all and/or the assessment process could have discounted the options unfairly. In some cases, a large range of options may not be obvious, however we want to encourage broader thinking and **innovative solutions**, therefore we consider it important that the company can demonstrate it has exhausted all other credible possibilities before arriving at its preferred solution.

In their submissions, companies should provide sufficient and convincing evidence of:

- an unconstrained set of potential credible options over a range of intervention types to meet the identified need;
- robust decision making and robust whole life cost-benefit appraisal that clearly shows best value for customers and the environment to inform the selection of the proposed solution(s);
- the proposed solution, including scale and timing of the investment. Including how it meets customer preferences;
- what additional benefits the proposed solution will provide compared to the current situation, with clarity on the assumptions underpinning the cost benefit analysis (CBA); and
- customer engagement to understand customer preferences for final options where appropriate.

Optioneering should be proportionate to the scale of the risk and cost of intervention e.g for low value high volume risks an optioneering methodology could be could be defined at programme level, but for high value, low volume risks we would expect this assessment at asset level.

In line with the new customer involvement rule, we expect companies to put forward investment proposals through the cost change process that have accounted for the views of customers.[13] This may include engagement with expert consumer representatives, Consumer Council for Water (CCW) or through their Independent Challenge Group (ICG).

Assessment criteria

The evidence to demonstrate that the proposed investment is the best option for customers must be sufficient and convincing. If the company does not provide sufficient and convincing evidence, then we will apply a **percentage challenge to the proposed investment.** This incentive is required at this gate to help ensure that final solutions are the best value for customers and the environment.

[13] PDF-20250630-Consumer-involvement-rule-stat-con-FINAL-1.pdf

What good looks like – Best option for customers

Optioneering

- Long list of unconstrained credible intervention options are considered to address risks and meet the identified need.
- Options are narrowed down through the introduction of appropriate constraints e.g. feasibility of technologies, delivery, environmental impacts etc.
- Options cover a broad range of solutions and are developed in consultation with internal asset specialists.

Decision making

- Established appropriate cost/benefit approaches are used to evaluate a refined list intervention options. The methods used for each asset type are explained and consistently applied within that asset class.
- Cost / benefit valuations are established using industry best practice and benchmarked where appropriate.
- Cost / benefit analysis is conducted on a whole life basis[14] to determine optimal whole life value.
- Where it is not possible to determine suitable benefit values, alternative frameworks are used, such as cost-effectiveness. This is where the most cost-effective solutions (e.g. lowest whole life cost whilst achieving the desired outcomes) are identified.

Proposed solution

- A clear and detailed description of the proposed solution(s), including scope, scale of investment and timeline. Diagrams or photos are provided to help provide context where appropriate.
- The additional benefits of the investment compared to the current situation are clearly understood and explained e.g. improved asset life, improved performance, improved resilience.

Customer engagement

- Customer views have been sought on risks and possible solutions, and potential impact on bills. Customer preferences are clearly set out where appropriate. Engagement is proportionate to the level of investment and aligned to the new customer involvement rules.

[14] The time period for CBA for assets that are mostly comprised one asset type (e.g. a concrete tanks), should be determined by the 'construction period + expected asset life'. The time period for CBA for assets that are made up of a mix of asset types (e.g. treatment assets) should be set by company, but the minimum expectation would be 'construction period + 25 years' for treatment assets.

3.4.3 Robust and efficient costs

It is important for companies to demonstrate that the proposed costs are efficient to help ensure that customers do not pay more than they need to. Ofwat should be able to clearly understand the methodology used by companies to derive efficient costs. The proposed costs should be reflective of actual delivery cost and have no overlap with allowances in other areas.

In their submissions, companies should provide sufficient and convincing evidence of:

- the costing methodology and approach being applied to derive the cost of options and chosen solution;
- efficient costs for options and the chosen solution;
- cost benchmarking, including comparison to historical outturn costs and external benchmarks, where available (for related/alike schemes)[15]
- cost breakdowns for individual schemes (not expected for the initial submission in year 1 of the 'extended' process, but required for the main submission in year 2)

Assessment criteria

Companies are required to provide sufficient and convincing evidence that their costs are efficient. Where companies do not provide this evidence, **we will apply a % challenge to the proposed costs of investment**.

What good looks like – Robust and efficient costs

Methodology to determine costs

- Established and transparent cost methodologies are used to determine solution costs. These are based on the use of historical costs of delivering similar solutions, suitably tested against external benchmarks (if there is no historical data).
- Methodologies consider all capital costs associated with the solution, including 'on costs' and other overheads.
- Cost Benefit Analysis (CBA) is informed by whole life capex and opex costs for example maintenance frequencies, energy usage and operator costs

Efficient costs

- Costs of final intervention options (ie short list) are benchmarked to demonstrate efficiency. Benchmarking should be against internal cost benchmarks (historical

[15] Benchmarking using 3rd party cost data is acceptable, coverage is expected to be broad but does need to include all companies in England and Wales.

costs), external cost benchmarks (where available), competitive procurement, and have third party assurance.
- If costs are significantly different from the benchmark, then sufficient and convincing evidence is provided to demonstrate company specific factors.

Cost breakdowns

- Cost breakdowns are provided for all proposed investments clearly showing all aspects of cost build up[16]

3.4.4 Customer protection

Price control deliverables (PCDs) enable monitoring of delivery and provide protection to customers in the event of non-delivery. As part of their submissions, we expect companies to propose a PCD for each priority asset class where investment is requested.

The proposed PCD should follow the design approach adopted in the PR24 final determination[17] and sufficiently protect customers from companies failing to deliver the funded improvements. This includes holding companies to account for investment delivered through existing base expenditure allowances (i.e. what base buys) towards the priority asset class. This helps to protect customers from under-delivery where additional investment is required, and reduces any incentive for companies to focus only on delivering investment associated with any additional allowances provided through the cost change process.

Companies should therefore propose a PCD to enable us to monitor investment and, where necessary, clawback and return funding to customers that covers:

- The investment delivered or covered by existing PR24 base expenditure allowances, i.e. what base buys; and
- The investment delivered through requested additional allowances through the cost change process.

We will consult on the design of appropriate PCDs in individual cases as part of our consultation on the cost change process draft decisions.

Companies should also identify any impact of additional investment on existing PR24 performance commitments and PCDs (where relevant).

[16] We would expect high level costs for the initial submission and fully completed breakdown for all elements for the main submission. Cost breakdowns are required to ensure the requested funding is fully transparent.
[17] Ofwat, PR24 final determinations: Expenditure allowances, section 4.7.2.

Companies should also provide sufficient and convincing evidence that existing PR24 base allowances will be spent efficiently and appropriately before requesting additional allowances through this process. At PR29, we intend to compare actual outturn spend against base expenditure allowances over the 2025-30 period, including any additional allowances provided through the cost change process. If a company materially underspends its PR24 base expenditure allowance and any additional capital maintenance allowances, but cannot provide sufficient and convincing evidence that the underspend is due to efficiency, we may need take this into account at PR29 to protect customer interests.

Assessment criteria

We will assess the suitability of the proposed PCD and make adjustments if we consider that customer protection is not sufficient. Holding companies to account for delivering promised investment is important to ensure customers are protected from under-delivery.

We expect companies to set out the expected delivery date as part of their PCD. Our position on delivery and financial clawback aligns to the outcome of the PCD consultation.[18] Whereby, if a scheme is expected to be completed by 2029-30, we will monitor its delivery accordingly. If the scheme is not delivered on time, and is less than 60% complete by 2029-30, we will return the cost of the scheme back to customers.

What good looks like – Customer protection

- The PCD is consistent with the approach adopted in the PR24 final determinations.[19]
- Both non-delivery and time incentive PCDs are included.
- PCDs cover all scope elements of the proposed expenditure, including the implicit allowance (ie what base buys) and additional expenditure allowances requested.
- PCD identifies a clear output or outputs to be delivered
- Clear articulation of any impact on and overlaps with existing performance commitments (PCs) and PCDs.
- Impacts and overlaps are accounted for in the investment and PCD proposals. These and any proposed adjustments are clearly set out.
- Sufficient and convincing evidence that existing PR24 base allowances have been spent efficiently and appropriately to warrant additional allowances, including provision of evidence on the current level of spend relative to allowances; direction of outturn spend (i.e. what has the company invested in); delivery against existing base PCDs; and forecast spend level by 2029-30.

[18] Price-control-deliverables-guidance.pdf
[19] Ofwat, PR24 final determinations: Expenditure allowances, section 4.7.2.

3.4.5 Investment delivery plan

A robust and well-developed delivery plan is key to ensuring successful delivery of a project. Companies will be required to provide this in their investment proposal(s) to reduce the risk of non-delivery.

In their submissions, companies should provide sufficient and convincing evidence:

- that design and delivery risks are being considered and tracked;
- of ongoing engagement with relevant stakeholders (incl. customers) where appropriate;
- of agreement of plans with stakeholders where required (Environment Agency and DWI, local planning authorities);
- of engagement with supply chain (if required) to ensure sufficient resources are available for design and delivery;
- that existing AMP8 investment is on track to provide confidence that additional allowances can be delivered; and
- an outline delivery schedule (with detail plans available to Ofwat on request)

Companies could also propose a proportionate financial incentive to encourage timely delivery if supported by sufficient and convincing evidence that it would be beneficial to customers.

Assessment criteria

Provision of allowances does not guarantee that investment or the benefits will be delivered, and whilst the PCD mechanism is in place to return money to customers in the event of non-delivery, it is important that companies deliver the investment required and benefits promised to customers.

We will assess the plans to ensure there is sufficient and convincing evidence of delivery planning, engagement with relevant stakeholders, and potential risks to delivery.

What good looks like – Investment delivery plan

Delivery risks

- Design and delivery risks have been considered and will be continually monitored.
- The coverage of risks included is broad and comprehensive.
- Mitigation plans are in place to address risks.

Stakeholder engagement

- Relevant stakeholders have been consulted on investment delivery, this includes any impacted parties including customers.
- Relevant permissions for construction have been sought from stakeholders including the Environment Agency, DWI and local authorities (where applicable).
- Plans are in place to address stakeholder concerns.
- A comprehensive engagement plan is in place where it has not been possible to gain stakeholder permissions in time for the submission.

Supply chain engagement

- Plans are in place with supply chain partners to provide sufficient resources and capability for both design and delivery of proposed solutions.
- Availability of materials for delivery of solutions have also been confirmed or as a minimum the risks of unavailability are clearly understood and articulated.
- Contingency plans are in place should existing supply chain partners not be able to provide suitable resources, including materials.

2025-30 (AMP8) delivery

- Sufficient and convincing evidence that AMP8 investment is on track to be delivered in full by the end of the 2025-30 period. Companies could use evidence provided with delivery plan submissions, and evidence of plans on how existing PR24 capital maintenance allowances (not covered by existing PCDs) will be invested.

Delivery programme

- Confirmation that a comprehensive delivery programme is place which shows timeline and resourcing for all phases of solution delivery.
- An outline plan is provided, but a full detail plan should be available to Ofwat on request.

4. Determining 'what base buys'

At PR24, we allowed a total of £60.1 billion of base expenditure for companies to deliver against performance commitments and to maintain their assets during the 2025-30 period. It is therefore fundamental that before providing any additional allowances to further improve asset health, we understand what level of investment companies can deliver through their existing PR24 base expenditure allowances towards the priority assets. We commonly refer to this as determining 'what base buys'.

It is acknowledged amongst the sector that there is no perfect way to determine what base buys. But the approach taken should consider the following (not exhaustive) list of principles:

- Avoid the risk of customers paying twice for investment, once through existing base allowances and once through any additional adjustments;
- Have a clear rationale, and where possible, is consistent with the way allowances are set during the price review;
- Acknowledges that companies receive long-term base allowances, and that spend on an asset class across periods is likely to vary over time; and
- Is informed by good quality information, and where there are limits to this, is aware of data limitations.

4.1 Data to inform what base buys

Through the roadmap, we issued a query to companies to report historical workload and expenditure data associated with asset repair, refurbishment and replacement for the 2015-25 period. This data was shared by companies on 14 November 2025, and once reviewed, will be collated to produce a sector wide dataset that we intend to publish on our website. This dataset should be used by companies to help determine their view of what base buys for the priority asset classes. We will also schedule a discussion with the sector in early 2026 on our findings, and to provide clarity on any assumptions made in the data.

Table 2: Intervention definitions

Intervention type	Definition
Repair	Reactive maintenance, also referred to as corrective maintenance or run-to failure maintenance is an operational maintenance task that is only performed after an asset has malfunctioned or broken down. Its focus is to return an asset to its normal operating conditions. Repairs can be temporary or permanent. This should also include minor planned maintenance or refurbishment to sustain functionality of the asset.
Refurbishment	Significant planned capital activity to rebuild or replace parts or components of an asset that are worn out to restore it to a required functional condition and efficiency and extend its life. Refurbishment might incorporate some modification. Assets requiring refurbishment may have deteriorated in condition to a point where further deterioration would make replacement the only option. Refurbishment may also expand the assets functionality.

Replacement	Planned capital maintenance activity to re-set asset life and/or to expand functional capability for assets that are approaching or have reached the end of their functional life.
Other	Planned capital maintenance to facilitate inspections, to comply with changing regulations or other remedial work that is not directly related to extending asset life or improving functionality. Expenditure associated with the planned decommissioning of assets where no replacement is planned.

Investment cases submitted through the cost change process should be focused on capital maintenance interventions to improve the overall health of the asset. We therefore consider that refurbishment and replacement capital maintenance data is most relevant to determining what base buys for this type of investment.

While repair data is likely to be predominantly opex costs, we strongly encourage companies to consider how they could use this data to support their assessment. For example, through considering opex savings as a result of investing capital maintenance in long-term solutions.

4.2 Water company proposals

Through our engagement with the sector, we encouraged water companies to share their own thinking on approaches to determining what base buys for investment proposals received through the asset health reopener. We received proposals from Anglian Water (developed with third party consultants), Severn Trent Water and Thames Water. We summarise these approaches in the table below.

Table 3: Water company proposals

Company	Overview of proposed approach
Anglian Water	Apply an adjustment to individual company AMP7 run rates that is in line with the increase to allowances in AMP8, i.e. scale up AMP7 run rates to reflect the change in AMP8 allowances.
Severn Trent Water	Remove historical costs and/or relevant cost drivers from econometric benchmarking models to determine a modelled implicit allowance.
Thames Water	Assume that the historical sector average proportion of base expenditure directed towards the priority asset(s) remains the same as a proportion of AMP8 allowances.

4.3 Our approach to 'what base buys'

Companies are required to assess what base buys as part of evidencing the need for a step up in investment.

Asset health allowances provided through the cost change process should be used to deliver a step up in investment during the period, beyond what is already funded through existing base expenditure allowances. We therefore consider it necessary to first understand how companies intend to invest their existing capital maintenance allowances at PR24. This will help us to understand where there is a need to increase existing allowances, and how the company intends to invest this during the period.

We discuss the steps to determining and assessing what base buys below.

Step 1: Company AMP8 capital maintenance plan

Through the requested step change in investment, the company should aim to move the company towards a sustainable rate of investment for the priority asset class, as included in the evidential requirements detailed above.

To help determine the level of investment already funded through existing base allowances, we ask the company to set out its requested capital maintenance investment programme for the priority asset class for the 2025-30 period. This should include the investment that can be delivered through existing base expenditure allowances, and the additional capital maintenance expenditure allowances requested through the cost change process. We summarise the key components of the plan below.

Table 4: What base buys components

Inclusion	Description
Expected sustainable level of intervention/investment during 2025-30	This should reflect the full scope of capital maintenance works associated with the priority asset for the 2025-30 period, including the proportion of works that can be delivered through 'what base buys' and the proportion requested through the cost change process. This should align to the scope of the proposed investment, and the long-term asset class strategy set out as part of the 'Need for a step change in investment'.
Company view of what base buys	Company view of the proportion of costs that can be delivered through existing allowances ('what base buys').
Company requested additional allowances	Company requested incremental investment above what base buys. This is the requested increase to existing allowances through the cost change process, and should reflect the remaining costs associated with the works proposed in the investment case.

By doing so, the company will provide complete transparency on what it intends to deliver during the PR24 period (relating to the priority asset class), how its existing allowances will be invested towards this, and where there could be a need for additional allowances to help deliver a step up in investment.

This plan will be assessed alongside the company's long-term asset class strategy, as required under the Need for a step change in investment to understand the alignment between the two.

Step 2: Understanding historical spend

Looking at historical spend provides a view of what companies have been able to deliver historically through base expenditure allowances. This is a sensible starting point for arriving at a view of what level of implicit funding exists within PR24 base expenditure allowances.

Companies should use the historical capital maintenance workload and expenditure data to help arrive at a view of what base buys at PR24 for the relevant priority asset class. This can be estimated through a range of approaches. We set out below potential approaches that we consider may be appropriate. We encourage companies to test the approaches.

Table 5: Approaches to determining what base buys

Approach	Description
Removing historical costs using PR24 econometric benchmarking models	Removing historical capital maintenance expenditure related to priority assets from PR24 base expenditure econometric benchmarking models to estimate implicit level of funding in modelled allowances associated with priority asset classes.
Adjusting historical capital maintenance expenditure for AMP8 allowances	Adjusting sector average/median outturn AMP6 and AMP7 capital maintenance expenditure related to the priority asset class to the increase in base expenditure allowances provided at PR24.

What base buys should be calculated using the maximum number of years of data to align to our approach of setting long-term base expenditure allowances. We recommend that companies test the different approaches, and sense check the outputs. It may be appropriate to triangulate between approaches to provide a reasonable view of what base buys.

Step 3: Our assessment

As part of our assessment of company capital maintenance plans, we will look to test the company's view of what base buys, and how this compares to historical spend, alongside the proposed scope of works.

We understand that capital maintenance spend tends to fluctuate between peaks and troughs over time, and that spend patterns may look different on an individual company basis. We therefore encourage companies to explain their position on what base buys, and provide an evidence based view on why it considers it is appropriate.

As part of our assessment, we will arrive at our own view of what base buys, and use this to help derive the value of any required adjustments to allowances.

We will also look to share a complete workload and expenditure dataset with the sector in early 2026, supported by any relevant assumptions and findings that should be used to help inform companies' assessment of what base buys.

5. Sector wide assessment

Understanding sector wide information

At PR24, we introduced sector wide adjustments where we found compelling evidence that there was a need for a step up in investment that impacted all or several companies. This meant that, even if a company did not request an increase to its modelled base allowance, we applied an adjustment to help facilitate timely and efficient delivery of investment. At final determination this applied to seven areas of base expenditure.

Applying sector wide adjustments meant that we were able to assess all companies consistently, and apply adjustments based on robust and comparable information. We expressed our intention to continue to collect sector wide information through the asset health roadmap to enable us to continue to enhance asset health understanding at a sector level, and at a company level.[20] This approach aligns to the recommendation made by the Independent Water Commission (IWC) to develop common condition methodologies and better understand asset health at a sector level.

Collecting robust and comparable data at a sector level through the roadmap enables us to continue to build a consistent understanding of the health of the water network across England and Wales. It ensures that we draw conclusions based on trusted data, and where required, use this to help determine the step up in investment required. It also helps to share best practice among companies, and will support companies in developing long term asset management plans and business plans at future price reviews.

Assessing sector wide asset health

Companies are required to provide asset condition and health data for a representative sample of the priority assets by 1 May 2026. We will use this data to understand asset health at a sector level, and at an individual company level.

In our final determination, we stated that, where we found evidence of a sector wide health issue we will consider the need for additional allowances. This means that where we find evidence that the general condition of assets across the sector requires improvement during the period, or investment is at an unsustainably low rate, we will consider applying adjustments to allowances to improve this.

Identifying sector-wide issues helps to avoid the risk that poor health is not a result of historic underinvestment in the asset by an individual company, but instead reflects a broader, systemic challenge which requires additional allowances.

[20] PR24-final-determinations-Expenditure-allowances-V2.pdf, pp.91-94

In addition, we will analyse company workload and expenditure data to help us understand the types of solutions companies have invested in historically, and whether there is a need to increase funding to move towards a more sustainable rate of investment that will improve the long-term health of assets.

In line with our approach at PR24, and the recommendation made by the Independent Water Commission, we will also consider evidence on company specific issues or circumstances. This will require sufficient and convincing evidence from companies to demonstrate why they are unique, and why they should be treated differently to other companies, particularly where it is considered an outlier in terms of asset health.

Approach to applying sector wide adjustments

Following the submission of asset condition data, we will look to draw conclusions about asset condition at both a sector and company level. This information will be used to support our assessment of company investment proposals, and where there could be a need for a step change in investment.

Companies are not required to submit investment proposals relating to asset health. However, should they wish to, companies will have the opportunity to submit investment proposals in 2026, 2027 and 2028 through the cost change process. This means that, if the asset condition data submitted in 2026 indicates a health issue, companies will have the opportunity to submit a proposal at a later date.

If a company with an indicated issue chooses not to submit an investment proposal, we will look to engage directly with the company to understand:

- Its reasoning for not submitting an investment proposal, and confirmation of whether it intends to at a future date.
- Insight into the key drivers of poor asset health, and whether there are company specific circumstances driving this.
- Understand the company's current AMP8 investment plans, and the extent to which current asset health will be improved as a result.
- Understand the long-term asset strategy for the asset class, and whether this will deliver improvements in asset health over the long term.

Through this engagement, we aim to gain further insight into individual company circumstances and investment needs.

6. Routes to funding

In the final determination we set out two potential options for accessing funding:

1. In-period or PR24 end-of-period reconciliation; and
2. Acceleration of AMP9 capital maintenance expenditure (from 2027-28).

In-period or PR24 end-of-period reconciliation

Companies will be required to submit their investment proposals through the cost change process. The submission window will be open between 1 March to 1 May in 2026, 2027 and 2028 for asset health related submissions.

During 2025, we consulted the sector on proposed license modifications to facilitate changes to allowances during the 2025-30 period. For asset health, this focused on the defined priority assets. In November 2025, we published our final cost change guidance.[21]

To access additional funding through the cost change process, companies must be able to identify the key driver for their submission, and the associated trigger. For asset health this is the defined list of priority assets. We provide further guidance in Appendix A3 of our published cost change process guidance.

Companies will be required to indicate whether they are seeking in-period or end-of-period funding through the cost change process.

If a proposal covers expenditure under more than one eligible cost area in the cost change process, e.g. economic growth and asset health, the company must clearly set out the primary driver for its submission, and ensure that this meets the defined trigger. We ask the company to clearly set out in its submission any areas of overlap, and ensure that the evidence provided meets the evidential requirements for the relevant areas. We also ask for advanced engagement on such cases ahead of submission to help understand the drivers and overlap.

Considering a broader scope

In our published cost change process guidance we indicated that we will look to consult the sector during 2026 on broadening the scope of assets included in the current asset health license modification.[22] This would include further work with the sector to define

[21] Cost-change-process-guidance-note.pdf
[22] Cost-change-process-guidance-note.pdf, p.22

additional assets, and collect further information to support the assessment of asset health.

If the scope of the cost change is widened to include additional assets in future years (2027 or 2028), companies will be required to follow the same process to submitting an investment proposal as set out in this assessment guidance.

AMP8-AMP9 capital maintenance expenditure

Where a company proposes priority asset investment that would start in AMP8 and complete in AMP9, we consider that it would be appropriate to agree allowances for the whole scheme upon assessment of the proposal as part of the cost change process. This is to provide certainty over the agreed allowance, and to help encourage efficient delivery of the work. This may be most relevant for proposals submitted in 2028.

We will look to provide further guidance on priority asset investments that will start in AMP8 and complete in AMP9 ahead of receiving investment proposals in 2027.

7. Assurance

We expect independent third-party assurance on all submissions to be provided. The purpose of conducting independent assurance is to provide regulators and customers with confidence that company submissions, including data and other information included, are accurate, complete and not misleading and that the processes followed to produce such submissions are robust.

We expect assurance of the proposed investment to be consistent with the assurance requirements set out in PR24 final determinations for delivery of enhancement schemes.[23]

The requirements are set out in summary below:

We expect separate technical and commercial assurance from suitably qualified providers. Assurance reports should be provided at the same time as company submissions.

Technical assurance: the independent assurer should provide a view on the robustness of the company's investment proposal based on clear engineering rationale and the extent to which it is supported by sufficient and convincing evidence. Technical assurance should also confirm that the proposed investment meets the requirements set out in this document for the following gates:

- Need for a step change in investment;
- Best option for customers; and
- Investment delivery plan.

Commercial assurance: the independent assurer should provide a view on whether the robustness of the costs proposed by the company are efficient and represent industry best practice, this includes the assessment of cost estimation approach. Commercial assurance could also confirm that the proposed investment meets the requirements set out in this document for the following gates:

- Robust and efficient costs; and
- Customer protection.

[23] PR24 final determinations: Expenditure allowances – assurance requirements for delivery of enhancement schemes appendix – Ofwat

A1 Detailed timeline

Figure 2: Standard submission route timeline for 2026 submission (repeat for 2027 or 2028 standard routes)

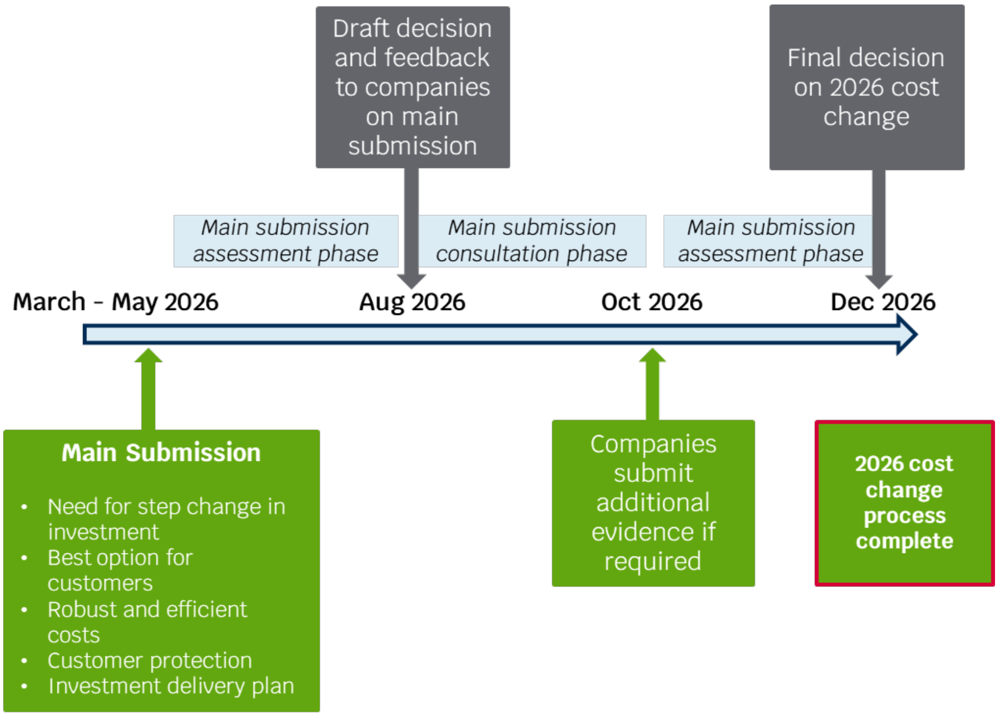
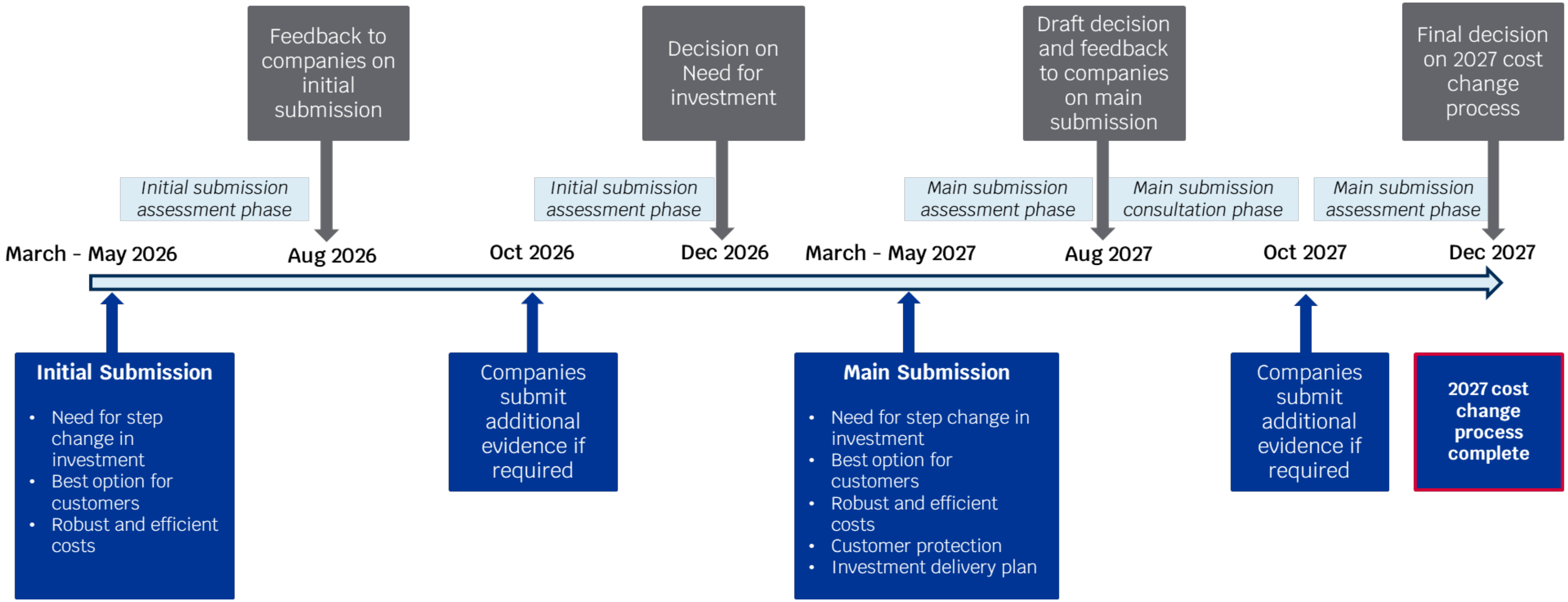


Figure 3: Extended submission timeline for 2027 submission (repeat for 2028 extended submissions)



A2 Company feedback on our initial proposals

We held a workshop with the sector on 22 October 2025 where we set out our proposals for the asset health submission process and guidance.[24] Verbal feedback was provided at the workshop, and we encouraged companies to provide a written response by 14 November 2025. We received written feedback from twelve companies.[25]

Overall, there was positive support for the proposed approach. The main feedback points are summarised below, including how we have sought to address them.

Table A2: Summary of company feedback

Areas	Main feedback points	How we have responded
Overall approach	• Broadly supportive of the requirements and the relevance of these when assessing asset health related investment. • Supportive of setting out examples of 'what good looks like' to support companies in developing proposals.	• We have retained 'what good looks like,' and have tailored our draft proposal to provide further clarity where requested. • We have sought to reflect on company feedback, and make updates to our proposal as appropriate.
Timeline	• Gated-style approach was broadly supported to support with proposal development. • Ask to consider development funding for companies that opt for a gated-style route in 2026. • Ask to accelerate the timeline between submission and final decisions. • Agreement that it is essential to ensure that AMP8 deliverability is not compromised, and that there is a sufficient delivery window within the AMP to deliver schemes. • Ask for further clarity on how the process would work, and whether proposals received in 2027 need to present a case in 2026.	• Given that the type of investment companies are likely to submit cases for, e.g. refurbishment or replacement of assets, we do not consider the scope of works requires upfront development funding. For companies that choose the gated-style route, we will look to agree on the need for investment in 2026, but will not agree on an efficient cost until 2027 when the company's evidence has matured. • The timeline is set to align to the cost change process and to allow for sufficient time to review the evidence, and to consult on our draft decisions ahead of applying any required adjustments to allowances. • Companies do not have to submit an initial case in 2026. Rather, companies can choose to submit a case in 2027 or 2028 through the cost change process. This would be required to be a full submission, i.e. covering all assessment gates.
Need for investment	• Ask for further clarity on whether need will be assessed on the asset group as a whole, or whether it will be based on specific named assets. • Potential difficulty in assessing risk to the environment or service for civils assets as	• We have included a range of examples of what we consider 'good' looks like in terms of evidence provided by companies. We have also reflected some alternative evidence/approaches that

[24] [Enhancing Asset Health Understanding Workstream – Ofwat]()
[25] Anglian Water, Dŵr Cymru, Hafren Dyfrdwy, Pennon group (incl. South West Water, Bristol Water, SES Water), Severn Trent Water, Southern Water, Yorkshire Water, Affinity Water, Portsmouth Water.

	this assessment may have not happened in the past. Risk, and the approach to assessing it, is also likely to vary across companies. • Suggestion to engage with a cross regulatory panel rather than engaging with individual stakeholders on investment proposals.	companies may present in absence of information. • We have updated our position on the need for engagement with stakeholders and customers in line with the new customer involvement rule and proportionality relative to investment.
Best option for customers	• Ask for further clarity over whether Ofwat will be setting clear guidance on the preferred approach to CBA and assumptions to use. • Range of potential solutions for civils asset health investment is limited so producing an unconstrained list of options may not be appropriate. • Ask for further clarity over expectations on seeking customer views would be valuable.	• We consider that companies are best placed to arrive at the most appropriate assumptions to use to support CBA. There is not a common methodology used by the sector to undertake CBA, and we did not consider it was appropriate nor proportionate to develop one at this time. • We have tailored the expectations and examples of 'what good looks like' to reflect the feedback points on potential interventions. • As above, we have updated our position on the need for engagement with stakeholders and customers in line with the new customer involvement rule.
Robust and efficient costs	• Ask for further clarity over appropriate benchmarks for companies to use, and whether use of consultants to support cost benchmarking remains appropriate. • Mention of challenges associated with benchmarking, particularly where information is not readily available. • Ask for further clarity on cost breakdown, and the expected level of granularity.	• Companies are asked to prepare evidence of internal and third-party benchmarking. We expect the latter will involve engagement with consultants who specialise in cost benchmarking exercises. • We will look to provide further clarity on cost breakdown requirements.
Customer protection	• Preference was expressed for setting a precedent on the approach to setting PCDs for the priority asset classes. • Suggestion to reflect on PR24 PCD setting, and how to best avoid unintended consequences. • View that customer protection should be proportionate to the level of investment. • PCD should incorporate flexibility in the final solution, and Ofwat should consider a substitution process for asset health related PCDs.	• We discuss our position on the application of PCDs to base expenditure and asset health investment in section 3.2.4. • We maintain our PR24 principles on the approach to applying PCDs. • We will also consult the sector on the proposed scope and structure of the PCD as part of our draft cost change process decisions.
Investment delivery plan	• Clarity on the difference between investment delivery plan and PCD delivery plans. • Merit in considering progress against existing AMP8 base commitments. • Concerns about deliverability of full delivery plans by May 2026 if there is a need to engage with other regulators and local authorities.	• PCD delivery plans track agreed delivery, where as the investment delivery plan will demonstrate the process followed by the company to prove deliverability of proposed investment. Further clarity provided in guidance note. • Companies should seek to engage with relevant regulators and local authorities as appropriate (noting the DWI cost change process guidance).
What base buys	• Many companies did not support relying solely on econometric benchmarking.	• See section 4 for our preferred approach to assessing what base buys for asset health related investment cases.

	• Need to consider the potential for perverse incentives when asking companies to set out how what base buys will be used. • Support for using the ten years of data collected through the data request and consideration of company specific circumstances alongside the data. • Support for considering a range of approaches.	
Other	• Clarity on assurance requirements welcome.	• Included in guidance note.

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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