

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
11 Westferry Circus, Canary Wharf, London, E14 4HD  
[www.ofwat.gov.uk](http://www.ofwat.gov.uk)

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By email to wastewater Company CEOs

10 October 2022

Dear Chief Executive,

## **Ofwat's industry overview of draft drainage and wastewater management plans 2022**

This letter provides our overall feedback from our assessment of each sewerage undertaker's draft Drainage and Wastewater Management Plan (DWMP) which were published for public consultation in summer this year.

The aims of the new industry-led DWMPs are to provide a consistent, structured, and collaborative long term planning approach to ensure the resilience of wastewater systems and drainage networks against future pressures such as population growth and climate change to achieve the best outcome for the environment and customers. Issues covered by DWMPs such as storm overflow spills, sewer flooding and pollution incidents are a high priority for customers and wider stakeholders. It is therefore critical that final DWMPs provide a robust evidence base for PR24 investment proposals to make sure that companies are choosing the right long-term solutions.

We have reviewed draft DWMPs. While we appreciate the effort that has gone into the development of the first set of DWMPs, we have several concerns. Although the DWMPs are new, planning for and managing risks for wastewater networks is something companies have always been responsible for. While there are several areas of good practice across individual companies, for example on stakeholder engagement, we have identified key common areas of concern from our assessment that companies will need to address to convince us that their plans are in the best interests of customers. These concerns broadly fall into the following four areas:

1. Company plans on storm overflows are lacking. All or part of the UK government's storm overflow targets have not been included in the DWMPs for English water companies. In Wales, company plans lack evidence that the right options are being proposed to reduce the harm from storm overflow spills.
2. There is insufficient evidence to support the investment needs and inadequate development of costs and benefits of solutions, particularly for schemes with multiple benefits.

3. There is a lack of ambition in prioritising improvements from base expenditure, and prioritising nature-based solutions or surface water separation options.
4. There is a lack of focus and maturity in partnership solutions.

We provide further details of our feedback in the annex to this letter. This should be considered alongside our separate individual company feedback.

To allow companies to address feedback and develop a robust evidence base for their PR24 investment proposals, we propose to allow companies, on request, an extension to the submission of their final DWMP from March 2023 to end-May 2023.<sup>1</sup>

Yours sincerely

**Aileen Armstrong**  
**Senior Director, Company performance and price reviews**

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<sup>1</sup> We have agreed this proposed extension with Defra, the Environment Agency, Welsh Government and Natural Resources Wales.

## Annex

### What is a DWMP

DWMPs are new, industry-led plans aimed at providing a consistent, structured, and collaborative long term planning approach (over a minimum of 25 years, with consideration of 5- and 10-year planning intervals) to ensure the resilience of wastewater systems and drainage networks against future pressures such as population growth and climate change to achieve the best outcome for the environment and customers. DWMPs are fundamental to companies carrying out their legal obligations as sewerage undertakers. DWMPs set out how each company will manage and develop its system to be able, and continue to be able to, meet its obligations under the Water Industry Act 1991, which includes section 94,<sup>2</sup> as supplemented by the Urban Wastewater Treatment (England and Wales) Regulations 1994,<sup>3</sup> to effectually drain its area and deal with the contents of its sewers.

The UK government's strategic priorities statement for Ofwat<sup>4</sup> (UK SPS) expects us to challenge and incentivise companies to meet the aims of strategic drainage and wastewater management planning in a way that represents best value for money over the long-term for customers, the environment and wider society. It also expects us to encourage and support the industry to collaborate with others to implement and develop DWMPs, and encourage the increased use of catchment-wide, nature-based solutions and sustainable drainage schemes, where appropriate.

The Welsh Government's strategic priorities and objectives statement for Ofwat<sup>5</sup> (Welsh SPS) states that we must challenge companies to understand current and future resilience risks, provide robust, adaptive and evidence-based plans, and encourage catchment-wide, nature-based solutions including sustainable drainage schemes, where appropriate.

It is critical that this current cycle of DWMPs provides regulators, customers, and stakeholders with confidence that the water companies will deliver the required improvements to services, meet the commitments in the National Flood and Coastal Erosion Risk Strategy for England<sup>6</sup> (including contributing to flood risk resilience in the exercise of their functions), and provide an appropriate evidence base for PR24 investment requirements.

Whilst this is the first 5-year cycle of the new DWMP planning framework, the process of planning for and managing risks in your wastewater networks is not new and has always been part of each companies' obligations as a sewerage undertaker. Companies should have been

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<sup>2</sup> UK Government, '[Water Industry Act 1991 s94](#)'

<sup>3</sup> UK Government, '[The Urban Waste Water Treatment \(England and Wales\) Regulations 1994](#)'

<sup>4</sup> UK Government, '[The government's strategic priorities for Ofwat](#)', updated March 2022

<sup>5</sup> Welsh Government, '[Strategic Priorities and Objectives Statement to Ofwat](#)', July 2022

<sup>6</sup> FCERM –[Flood and coastal erosion risk management strategy roadmap to 2026](#), June 2022

building on existing planning approaches to identify, prioritise and manage risks to both customers and the environment.

There is increasing stakeholder scrutiny of companies' performance as sewerage undertakers. In addition, we have investigations into all companies and enforcement cases with six companies regarding their environmental performance, particularly at sewage treatment works. It is critical that companies understand the importance of these plans to deliver their legal obligations and intended outcomes.

This feedback and our company specific response letter on their draft DWMP are given without prejudice to Ofwat's on-going enforcement cases and wider investigations and any subsequent decisions that we make during PR24 in connection with your business plan.

## Our assessment approach for companies' draft DWMPs

Currently, the DWMP planning process is a non-statutory framework in England and Wales, ahead of section 94A Water Industry Act 1991 coming into force. We have reviewed companies draft DWMPs as a non-statutory consultee

In assessing companies' draft DWMPs, we have considered our statutory duties and the UK and Welsh SPSs. We have also considered the (Water UK) Framework for the production of a DWMP,<sup>7</sup> the Guiding Principles for drainage and wastewater management plans<sup>8</sup> (Guiding Principles) which set out the UK and Welsh Governments and the environmental and economic regulators' priorities and expectations for cycle one of DWMPs, our expectations for strategic planning frameworks,<sup>9</sup> and our final guidance on long term delivery strategies.<sup>10</sup>

Some aspects of most companies' plans are in line with planning framework guideline recommendations, and some plans demonstrate areas of good practice for example, good stakeholder engagement and descriptions of solutions required at specific locations. However, in most cases the plans fall short when it comes to describing and evidencing the required outputs from the process. Each company is required to provide sufficient and convincing evidence to demonstrate the robustness of its DWMP and that it is fit for purpose to deliver the right solutions to improve drainage and environmental water quality.

As part of our assessment, we have considered the following:

- The quality of the planning processes undertaken. This includes how companies have used adaptive planning to provide visibility around how preferred interventions consider

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<sup>7</sup> WaterUK, '[A framework for the production of drainage and wastewater management plans](#)', September 2021

<sup>8</sup> UK and Welsh Governments and the environmental and economic regulators (including Natural Resources Wales, Environment Agency and Ofwat), '[Guiding Principles for drainage and wastewater management plans](#)', updated August 2022

<sup>9</sup> Ofwat, '[Ofwat's expectations for strategic planning frameworks at PR24](#)', November 2021

<sup>10</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022

current needs while allowing for future flexibility. It also includes how accessible companies have made information for consultation.

- The maturity of decision making and appraisal of options. This includes the level of ambition around prioritising improvements from base and selecting nature-based solutions. It also includes providing sufficient convincing evidence that the right best value options for customers and the environment are put forward.
- Whether English water companies have included all of the (then draft) UK government storm overflow reduction plan targets in their DWMPs and presented these priorities for consultation. For companies in Wales, we have considered how well companies understand the root causes and risks associated with storm overflow spills, and how clearly they have set out options and timelines for reducing the environmental harm from spills.<sup>11</sup>
- How well companies have developed and presented costs and the multiple benefits of investment requirements over the full planning horizon. This includes the impact on affordability and bills, but with particular focus on those priorities that will be put forward for PR24 investment.
- The quality and quantity of stakeholder engagement, including how companies plan to work closely with risk management authorities (RMAs) and other third parties to address broader issues, such as surface water management and separation, to maximise the benefits of partnership working and co-funding.
- How well engaged companies' Boards have been and whether appropriate governance and assurance has been provided. Also, whether companies have sought additional audit of DWMPs or component parts such as the data and modelling.

We strongly encourage companies to take on board the comments that we make and they work to improve your DWMP ahead of the final submission. Our comments do not endorse any parts of your draft DWMPs in advance of the PR24 process and, should we still have concerns about your final plans, we reserve the right to request additional evidence for PR24 investment plans.

## Key areas of concerns

Below we provide our comments on the quality and robustness of plans and reiterate our expectations for final DWMPs, including how plans should provide the evidence for long-term wastewater delivery strategies<sup>12</sup> and investment requirements for PR24.

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<sup>11</sup> While the Welsh Government and UK government are aligned on the overall challenge we face to improve water quality, Welsh Government's approach is to focus action on an integrated, evidence, outcomes and standards-based approach to improve water quality. This approach is consistent with the Welsh requirement to achieve the Sustainable Management of Natural Resources (SMNR) and with Welsh Government's strategic objectives and priorities. There are not, as yet, specific targets on storm overflow spills in Wales.

<sup>12</sup> Ofwat, ['PR24 and beyond: Final guidance on long-term delivery strategies'](#), April 2022

The key areas of concerns identified from our assessment of all company plans that we expect companies to consider and address in their final DWMPs:

1. Company plans on storm overflows are lacking. All or part of the UK government's storm overflow targets have not been included in draft DWMPs for English companies. Companies have not consulted on the same basis for reducing harm from storm overflows or the frequency of spills, nor consistently with what they will need to plan investment for in business plans
2. There is insufficient convincing evidence presented in plans to demonstrate that the proposed investment needs are the right ones for the long-term, and costs and benefits of solutions are not fully developed or evidenced, particularly where schemes have the ability to deliver multiple benefits for customers and the environment.
3. There is a lack of ambition in plans particularly regarding improvements that can be made from base expenditure, such as plans having a strong focus on risks that can be reduced through better asset management and optimisation of existing networks. Ambition is also lacking in proposing and prioritising nature-based solutions or surface water separation options. This is despite these being key considerations in the WaterUK technical framework, and explicitly stated in the guiding principles and the storm overflow reduction plan.
4. There is a lack of focus and maturity in the development of partnerships with other RMAs or third parties which are key to maximising benefits that can be delivered within catchments.

We explain further the key areas of concerns below.

## 1. Company plans on storm overflows are lacking

The Environment Act 2021 places a legally binding duty on English sewerage undertakers to secure a progressive reduction in the environmental and public health harm caused by discharges from storm overflows.<sup>13</sup> Defra published its Storm Overflows Discharge Reduction Plan<sup>14</sup> ('storm overflow reduction plan') which includes targets for companies to eliminate harm from storm overflow spills in England.

For Welsh sewerage companies, we expect companies to develop clear plans and associated costs and benefits of reducing the impact of storm overflow spills consistent with the requirements of the Wales better river water quality taskforce<sup>15</sup> and Welsh Government's storm overflow evidence project.

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<sup>13</sup> An English sewerage undertaker is a sewerage undertaker whose area is wholly or mainly in England. These companies must secure a progressive reduction in the adverse impacts of discharges from the undertaker's storm overflows

<sup>14</sup> Defra, '[Storm Overflows Discharge Reduction Plan](#)', August 2022, as required by section 141A of the Water Industry Act 1991

<sup>15</sup> Welsh Government, [Wales better river quality taskforce](#).

Storm overflows are safety valves built into the combined sewer system that discharge excess sewage and rainwater to rivers, lakes, or the sea when the sewer system is under strain. They protect properties from sewer flooding and prevent wastewater backing up into streets and homes during heavy storm events. Companies need to ensure that they plan to ensure their systems are appropriate in light of future challenges such as population growth, urban creep and climate change, so that they meet their legal obligations in relation to storm overflows

We set out in our pre-consultation engagement with companies earlier this year that DWMPs are required to plan to significantly reduce the frequency and volume of sewage discharges from storm overflows, and that we expect English companies' DWMPs to incorporate the interventions required to meet the Defra storm overflow reduction plan targets. We said that companies should include a range of scenarios and costs in draft plans for consultation, and where possible, costs should indicate the impact on affordability of bills.

Some English water companies had not incorporated the proposed storm overflow reduction plan targets<sup>16</sup> in their draft DWMPs, while others have addressed some but not all targets. This means that some plans are not complete in this respect and do not align with the Defra storm overflow reduction plan.

The final storm overflow reduction was published in August 2022 with the same headline targets as those proposed by Defra's consultation on Storm Overflows Discharge Reduction Plan published and released in March 2022. Companies could have developed sensible scenarios that tested a range of likely targets to mitigate the need for significant re-working.

All English water companies need to address Defra's storm overflow reduction plan targets in their final DWMPs and should clearly set out how they will achieve, or exceed, them along with the costs and associated benefits to the environment and society.

The extent of re-working required will vary across companies. We are concerned that some final plans could look significantly different to draft plans after amending for storm overflow reduction plan targets, and that these will not be subject to a fair and transparent consultation process with key stakeholders and customers. We expect your final plans to incorporate all the required storm overflow targets and clearly set out how these will be delivered with the right best value solutions.

In Wales, while water companies have developed plans to reduce the impact of storm overflow spills, for one company we are unclear of the timelines and key milestones to deliver these plans and how much improvement will be made in the next control period. Both companies also appear to have focused on grey storage solutions, particularly in the short term. If final DWMPs do not provide appropriate supporting evidence for proposed storm overflow investments, companies will need to provide additional supporting evidence to Ofwat as part of their PR24 business plan submissions.

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<sup>16</sup> Defra, '[Storm Overflows Discharge Reduction Plan](#)', August 2022

## 2 Insufficient evidence to support investment needs and inadequate development of costs and benefits of solutions, particularly schemes that deliver multiple benefits

We are concerned that companies have not yet fully or adequately identified the scale or timing of their investment needs and have therefore not fully consulted on these. DWMPs should provide us with confidence that the solutions identified by companies are needed and are the best value over the long term.

At this stage in the planning process, we expect companies to have a more detailed understanding of the likely scale and pace of investment requirements across the 25-year planning horizon, and therefore be able to be clear on what best value, least regret solutions are likely to be put forward for PR24. We do not yet have confidence that plans will deliver the best solutions out of all feasible options.<sup>17,18</sup> Companies' plans should clearly set out the outcomes or performance levels that they need to achieve, and why. The plans should then map the required interventions across to how these outcomes will be delivered. Without this, we are unable to compare the level of ambition around performance improvement or the efficiency of performance improvement. This is of particular concern where companies with poor performance, compared to others, have not used this consultation process to fully test with customers the level of ambition and investment required for improved performance.

We expect DWMPs to provide the rationale and evidence for the long-term delivery strategies for wastewater that we have requested for PR24<sup>19</sup> and the PR24 investment proposals included in business plans. This will avoid the need for separate or substantially different submissions. As part of this, water companies are required to provide sufficient and convincing evidence of the need, optioneering, cost efficiency and customer protection for expenditure proposals.<sup>20</sup> DWMPs will also need to fully reflect the requirements of the Water Industry National Environment Programme ('WINEP') in England<sup>21</sup> and the National Environment Programme ('NEP') in Wales.<sup>22</sup> If the final DWMPs do not provide sufficient and convincing evidence to justify the required investment for PR24, and/or convince us that proposed solutions are the right ones, companies will need to submit additional evidence as part of their PR24 business plans. This would be sub-optimal and inefficient in terms of having separate plans, and potentially detrimental to the overall outcome.

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<sup>17</sup> In our November 2021 letter on Strategic Planning Frameworks, we stated that companies will "need to take the opportunity now to plan effectively so that the right investments can be identified to deliver the best long-term outcomes."

<sup>18</sup> The DWMP guiding principles also makes clear the need to elect options with a view to delivering the best value for money over the long term, considering the wider costs and benefits to the economy, society and the environment and expects plans to offer best value and be affordable while demonstrating legitimacy by taking due account of customers' priorities and appetite for risk.

<sup>19</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022, pg 5, 15, pp 23-24, 26-27 and 53-54

<sup>20</sup> Ofwat, '[PR24 draft methodology: Appendix 9: Setting expenditure allowances](#)', July 2022, pp 148-153.

<sup>21</sup> WINEP represents a set of actions that the Environment Agency have requested all 20 water companies operating in England, to complete between 2020 and 2025, in order to contribute towards meeting their environmental obligations.

<sup>22</sup> Natural Resources Wales request similar contributions to meeting environmental obligations from water companies operating in Wales, known as the National Environment Programmes (NEP)



While DWMPs should present companies' preferred best value plans for the next 25 years, our expectations have been clear that options selected should be compared to alternatives, such as least cost plans, with clear rationale for those that have been discounted, and that green /nature-based, low carbon solutions should be pursued where possible, in line with the guiding principles.<sup>23</sup>

Defra's storm overflow reduction plan requires English companies to prioritise removing existing surface water connections from the combined sewer network (where this achieves the best outcome for people and the environment) over building additional storage. We therefore expected companies to provide appropriate evidence in their plans for prioritising traditional 'grey' solutions (e.g., storage tanks) over more sustainable, green solutions. However, several companies expressed concerns over 'timescales' and 'certainty of delivery' as reasons for their preferred solution without providing satisfactory accompanying evidence.

With uncertainties around the pace and impact of future climate change, we set clear expectations that companies should use an adaptive planning approach to consider longer-term options.<sup>24</sup> The application of adaptive planning approaches should provide confidence that the shorter-term investment needs are right for the longer term. However, despite most companies having a reasonable understanding of adaptive planning, most have not yet demonstrated effective application of this approach. We expect a well-developed, adaptive plan to demonstrate that an optimised programme of investment has been prioritised.

Our feedback following the pre-consultation meetings with companies earlier in 2022<sup>25</sup> raised concerns regarding the lack of detail around the scale and scope of DWMP interventions, notably costs and benefits. We made recommendations that companies should demonstrate the pace of investment over time and show how certain solutions could address multiple risks, so that we are clear on the costs and benefits of proposals and confident that the right solutions have been prioritised.

In our assessment of draft plans, we observed a wide variance in costs for similar activities proposed by different companies, and a significant variance in the level of ambition in prioritising nature-based solutions or partnership schemes.

It was also apparent that the maturity of the cost information provided in draft DWMPs varied significantly between companies, causing us concern that final DWMPs may not provide the expected level and quality of detail on costs that we would consider essential as supporting evidence for PR24 investment business cases. Companies will need to address these issues in their final DWMPs so that these can be used as supporting evidence for PR24 business plans.

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<sup>23</sup> Defra, 'Guiding principles for drainage and wastewater management plans', Principle 2 – Resilient

<sup>24</sup> Ofwat, '[PR24 and beyond: Final guidance on long-term delivery strategies](#)', April 2022

<sup>25</sup> Feedback was provided to companies in April and May 2022 following pre-consultation / early engagement meetings in February and March 2022.

### **3 Lack of ambition in prioritising improvements from base expenditure, nature-based solutions or surface water separation options**

We have seen that some companies' plans consider improvements in asset health, management and optimisation as key in a hierarchy of solutions to reduce risks and provide initial hydraulic headroom in the system, whereas other plans are clear that base expenditure activities are separate considerations. We consider that base activities that maintain and improve asset health and performance are essential to meet, and continue to meet, legal obligations and must form part of a company's long-term strategy and should be factored into the mix of options for addressing future resilience risks.

We are also concerned that companies have not been able to satisfactorily prioritise green /nature-based and low carbon solutions such as surface water removal or separation, where feasible. English companies should also take account of the expectations in the current joint Environment Agency and Natural England guidance Water Industry Strategic Environment Requirements (WISER)<sup>26</sup> regarding the promotion of nature-based solutions, sustainable drainage and co-funded partnership solutions. In Wales companies should take account of Natural Resources Wales's Expectations Document. We expect to see sufficient and convincing evidence in plans as to why certain solutions were less favourable than others, particularly where traditional, grey solutions, such as storage tanks, have been prioritised over green solutions. Nature-based solutions should be robustly considered, where appropriate, when determining the best long-term value, but we have not seen satisfactory evidence presented that companies have fully explored such options or provided compelling evidence for discounting them.

### **4 Lack of focus and maturity in partnership solutions**

While some companies have shown good practice in the quality and quantity of stakeholder engagement, this varies across companies, and we require all companies to provide sufficient and convincing evidence on the extent the engagement activities have influenced the DWMPs.

We are concerned that companies have not maximised opportunities to engage and work with other risk management authorities with responsibilities for drainage, to fully explore partnership schemes that could offer best long-term value.

Some potential partnership opportunities have been identified by companies, but these are not yet sufficiently well-defined to give us confidence that they will be prioritised above alternative options and be successfully pursued. We expected companies to present clearer evidence for the viability of third-party collaborations by this stage in the planning process, based on existing successful partnership schemes and well-established relationships with key stakeholders.

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<sup>26</sup>UK Government, '[Water industry strategic environmental requirements](#)', May 2022. WISER describes the statutory and non-statutory expectations of water companies for PR24, and expected practice, WISER provides the legislative requirements and related government priorities for the actions companies need to take in their Water Industry National Environment Programme ('WINEP').

## Next Steps

We expect DWMPs to provide the rationale and evidence for the long-term wastewater delivery strategies that we have requested as part of the PR24 submission. In this way DWMPs would help to provide the evidence base for PR24 investment proposals, avoiding the need for companies to develop separate additional submissions to justify their PR24 investment proposals.

We expect each company to address our comments and feedback in its final DWMPs. This is likely to require considerable work on finalising the plan. To help companies to address this feedback and provide a high quality final DWMP, we propose to allow companies, on request, additional time to submit their final DWMPs. This would extend the time to submit final DWMPs from March 2023 to end of May 2023. Companies would remain responsible for ensuring the results of the final DWMP will be fully incorporated into their PR24 business plan and long-term delivery strategy.

Where companies need to make significant changes between draft and final plans, for example where English water companies have not reflected the UK government's storm overflow reduction plan in their draft plan or companies have not provided sufficient detail on the impact of their proposed plan in terms of investment or bills, then companies should consider how they can engage and consult appropriately with customers and other stakeholders on the likely scope and make-up of the final DWMP.

Final DWMPs should receive full Board assurance that the plan follows and applies the planning process as defined by the WaterUK Planning Framework and the DWMP Guiding Principles. Where full Board assurance has not been provided for draft DWMPs, we expect full and complete Board assurance covering each of the required areas for final plans. In our joint letter to companies (from Defra/EA/Ofwat) issued on 16 February 2022, we set out our expectations for board assurance for draft and final DWMPs and the areas it should cover as a minimum. It will be a missed opportunity, and detrimental to the industry's effort and commitment to improving wastewater services and resilience, if final DWMPs do not adhere to these assurance expectations.

We will continue to engage with companies to discuss our consultation response and the development of final DWMPs. We will also continue to work closely with the Government and other regulators in both England and Wales to improve wastewater services and resilience through PR24 and beyond to future planning cycles. A meeting has been/will be offered to each company during October 2022 to discuss the feedback they have been given. We would also be happy to arrange further conversations with each company between now and when final DWMPs are submitted.