Centre City Tower, 7 Hill Street, Birmingham B5 4UA
Westferry House, 11 Westferry Circus, Canary Wharf, London, E14 4HD
www.ofwat.gov.uk

Code for Adoption Agreements

Sewerage sector documents: Change proposal (Ref 022)

Modification proposal	Sewerage Sector Guidance Appendix G – Terms of Reference: Change of Panel Membership
Independent Sewerage Adoption Panel Recommendation	The Panel recommended the proposed change
Decision	Ofwat has accepted the proposed change
Publication date	1 October 2026
Implementation date	1 October 2026

Following the publication of the Independent Water Commission final report, the UK government has set out a new direction for the water sector with the formation of a new regulator in England. This marks an opportunity to reset the sector, so it delivers better outcomes for customers and the environment. Ofwat will now work with the government and other regulators to form this new body in England, combining Ofwat with the Drinking Water Inspectorate and including elements of the Environment Agency and Natural England. We will also continue to engage with the Welsh Government and contribute to discussions on the options for Wales. Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment.

Background

The Independent Sewerage Adoption Panel (**the Panel**) submitted this change proposal to Ofwat on 20 May 2026 and published it on their website. The function of the Panel is to consider change proposals to the sewerage sector guidance and model sewerage adoption agreement (**the Sewerage Sector Documents**) which apply to sewerage companies operating wholly or mainly in England. These documents were developed by sewerage companies as

required by the Code for Adoption Agreements (**the Code**) and came into effect in April 2020. A change proposal is defined in the Code as a proposed change to the sector guidance or the model adoption agreements.

This change proposal was submitted by the Panel.

The change proposed by the Panel concerns the guidance in the Sewerage Sector Documents Appendix G – Terms of Reference (**ToR**) relating to the membership of the Panel and also seeks to provide the Panel with the ability to set up arm's-length working groups to consider issues relating to the Sewerage Sector Documents.

The change proposal

Following commission by Ofwat, Europe Economics conducted a review of the Adoption Codes regime and set out their findings and recommendations in a final report published on 25 September 2025.[1] The report contained suggested amendments to the Panel's ToR, in order to support the report's recommendations around the appointment of NAV members to the Panel and the creation of a new arm's-length industry working group to promote changes to the Code where required.

The changes that the Panel has proposed to the ToR are aimed at implementing these recommendations.

The first proposed change is to the membership of the Panel. It would increase the number of members on the Panel from 10 to 12 and require membership to consist of

- three representatives from incumbent sewerage companies;
- three representatives from New Appointee companies[2] (**NAVs**); and
- six representatives from customers (which includes developers).

It will also make associated adjustments to the rules determining which parties need to be present for a meeting to be considered quorate.

The second proposed change is to permit it to approve submission of recommendations in writing to avoid difficulties where the Panel is unable to convene a quorate meeting within the required deadlines.

The third proposed change is the introduction of wording to allow it to form arm's-length working groups that can proactively investigate issues relating to the Code, proactively raise issues and submit change proposals to the Panel where necessary. The Panel states that this will allow it a clear route to proactively recommend changes to the Sewerage Sector

[1] Europe Economics: Evaluation of the Code for Adoption (CFA) – Final Report - Ofwat.
[2] New Appointees (NAVs) - Ofwat.

Documents or the Model Adoption Agreement where it identifies an issue, without having to rely on a third party to submit a change proposal.

The full details of the proposed changes to the ToR can be found on our website, with the proposed changes shown in track changes.[3]

Consultation and assessment

As the Panel itself has submitted this change proposal, the usual process by which the Panel would review a change proposal and make a recommendation to Ofwat on whether the proposal should be accepted cannot be followed. Instead, we have accepted that the Panel has considered this issue and voted to propose these changes to the ToR.

In order to ensure that parties other than the current membership of the Panel could provide their views on this change proposal, we issued a public consultation on the proposed change on 28 May 2026.[4]

We received 13 responses to this consultation from the following parties:

- Affinity Water Limited;
- Yorkshire Water Services Limited;
- Portsmouth Water Limited;
- Southern Water Services Limited;
- Anglian Water Services Limited;
- Severn Trent Plc.;
- Pennon Group Plc.;
- Albion Eco Limited;
- Last Mile Water Limited;
- ESP Water Limited;
- Independent Water Networks Limited;
- Independent Networks Association; and
- National Fire Chiefs Council Limited (**NFCC**).

All respondents agreed that the proposed changes to the Panel's ToR should be implemented, except for Southern Water Services Limited (**SRN**).

We have published the consultation responses on our website.

The concerns raised by SRN are:

[3] Microsoft Word - Proposed changes to the Sewerage panel's terms of reference.docx.
[4] Code for Adoption Agreements – Consultation on revised panel terms of reference - Ofwat

1. It does not agree with the assessment that NAVs are likely to deliver around half of all new connections in the future. It considers that the recent changes to the developer services market coming from the 2024 price review as well as the removal of most developer services revenue from the price controls of the incumbents is likely to affect market dynamics in the future. It therefore does not consider that an equal weighting between NAVs and incumbent water companies is appropriate.
2. SRN considers that insufficient weight was put on the finding that NAVs are more likely to agree to deviations from the Sewerage Sector Documents and the Model Adoption Agreement. It raises concerns that the proposed changes to the governance of the Panel "...could inadvertently promote outcomes that favour initial acquisition of customers over long-term asset quality and system resiliency".
3. SRN also points to the wider obligations that incumbent sewerage companies face, along with their expertise in long-term asset management as reasons for retaining a situation where incumbent companies have a larger voting power within the Panel.

We recognise that the future composition of the developer services market is undetermined, but it is clear that NAVs are presently rapidly increasing their share of the new connections market. In addition to this, we note that the Codes for Adoption only apply to new connections that are made by third parties and adopted. While the majority of new sewerage connections are made to incumbent sewerage companies' networks rather than NAVs', NAVs use (have used and are anticipated to continue using) adoptions for a much higher proportion of the new connections made to their networks. As a result, the Codes for Adoption have a greater impact on NAVs than they do on incumbent sewerage companies. Finally, in its evaluation, Europe Economics recommended that NAVs should have more representatives on the Panel than incumbents as it anticipated that NAVs would be adopting more infrastructure than the incumbent sewerage companies in the future. We recognise that the future state of the market is uncertain, and recognise the expertise in long-term asset management and statutory obligations that the incumbent sewerage companies have, which is why we support having an even number of representatives on the Panel for NAVs and incumbents, rather than having a majority of representatives from NAVs.

Regarding concerns that NAVs agree to more deviations than the incumbent sewerage companies, it is not clear that this is a reason not to include representatives from NAVs on the Panel. This may indicate that the current Sewerage Sector Documents and Model Adoption Agreement do not work as well for NAVs as they do for the incumbent sewerage companies and this is not being addressed by the current setup of this process. Our aim is for the Codes for Adoption to function effectively in enabling the appropriate adoption of infrastructure for all parties (as set out in the purpose of the Code at paragraph 1.2.2) including NAVs. We therefore see this as a reason to include NAV representatives in the Panel rather than a reason to exclude them.

While SRN has raised concerns that NAVs may be more willing to promote outcomes that favour their initial acquisition of customers over long-term resiliency, it has not provided any supporting evidence for these concerns. Adopting less resilient or poorer quality assets would appear to go against the interests of NAVs as they are the party, subject to duties to maintain their sewerage system, that would have the financial burden of fixing or replacing them.

Most respondents supported the proposal without raising any concerns, but Pennon Group Plc. suggested the changes should be "...accompanied by an equal expansion of obligations and transparency expectations placed on NAVs within the developer services framework".

We agree that the regulation and transparency of NAVs should be appropriate and proportionate to the size and effect of these businesses. We will continue to review our approach to regulating NAVs by reference to their positioning in relevant markets (including their market shares).

Our decision and reasons

We have considered the above issues, all supporting documentation provided to us by the Panel and the responses to our consultation and have decided to accept the proposed changes.

We note that there is general support for this proposal across both incumbent sewerage companies and NAVs as well as support from the Panel itself, which includes representatives from customers.

The proposal also aligns with the recommendation of the Europe Economics evaluation to include representatives from NAVs on the Panel. While its recommendation was for there to be more representatives from NAVs on the panel than from the incumbent sewerage companies, we consider the proposed three representatives from both NAVs and incumbent sewerage companies balanced by having six representatives from customers, to be a reasonable approach, allowing equality of views from all parties. This aligns with our Codes principle of having a 'Level playing-field'.

The proposal will also allow the Panel to set up arm's-length length industry working groups to consider issues specific to the Sewerage Sector Documents. This change would facilitate recommendations made by Europe Economics, such as the undertaking of a review of the change proposal application process to reduce any unnecessary administrative burdens. This change aligns with our Codes principles of being 'Clear, complete and current' and 'Fair and proportionate'.

We have also made minor adjustments to the definitions set out in section 2 of the ToR document compared to those that were proposed by the panel. We have added a definition for the term 'incumbent' as this was previously missing from the document. We have also amended the proposed definition of the term 'NAV' to more accurately reflect the definitions that we use elsewhere.

Decision notice

In accordance with paragraph 3.9.4 of the Code Ofwat accepts this Change Proposal.

Emily Bulman
Director, Charges, developer services and new appointee policy