

## Saving the Water Restoration Fund

### Briefing for Commons report stage of the Water (Special Measures) Bill

January 2025

This briefing is on behalf of the [Blueprint for Water](#) Group within Wildlife and Countryside Link ([Link](#)). Link is the largest nature coalition in England, bringing together 86 organisations to campaign for the natural world.

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The Water (Special Measures) Bill has been significantly improved during its passage through Parliament. Parliamentarians from a range of parties have proposed amendments to increase the Bill's effectiveness as a tool to reduce the impacts of water pollution on nature, and Defra Ministers have listened. As a result, the amended Bill will give Ofwat an environmental duty for the first time, encourages the use of nature-based solutions and provides legislative underpinning for effective pollution incident plans.<sup>1</sup>

These improvements are welcome. However, debates at earlier stages of the Bill have revealed a threat to a key source of funding for efforts to tackle the nature impacts of sewage pollution. The Water Restoration Fund, established in 2022 to ringfence fines from polluting water companies for spending on water restoration projects to address pollution impacts, is in danger. Ministers have stated that this funding stream is now being examined by the Treasury, it appears with a view to returning to the pre-2022 arrangements where the proceeds of environmental fines on water companies automatically went into general Treasury funds.

This briefing sets out the case for NC1, tabled by Tim Farron MP and others, and NC16, tabled by Victoria Atkins MP and others, which would both amend the Bill to legally constitute the Water Restoration Fund to protect it against Treasury deprecations.<sup>2</sup> We urge MPs to speak and vote in favour of the two new clauses at report stage on 28<sup>th</sup> January, to preserve funding for water restoration.

#### The Water Restoration Fund

The Water Restoration Fund (WRF) was announced by Defra under the previous Government in November 2022. The Defra blog confirming the Fund's creation explained that:

*'At present, money from fines imposed by Ofwat and those arising from Environment Agency prosecutions is returned to the Treasury. Under the new plans, ringfenced funds will go to Defra and will be invested directly back into environmental and water quality improvement projects.'*<sup>3</sup>

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<sup>1</sup> See Link Lords report stage [briefing](#) for fuller description of accepted amendments to the Bill

<sup>2</sup> Commons report stage [list](#) of amendments

<sup>3</sup> Defra [blog](#), November 2022

Environmental organisations had been calling for this reform for some years<sup>4</sup>, and welcomed the new Fund's embodiment of the 'polluter pays' principle that payments from polluters should always 'restore or redistribute the costs of environmental damage'.<sup>5</sup>

The first round of the Fund was formally launched in April 2024, when Defra announced that £11 million of funds from fines and penalties levied between April 2022 and October 2023 would be spent on projects to 'protect and improve our rivers, lakes, and streams'.<sup>6</sup> Defra opened an application page<sup>7</sup>, for organisations and landowners to bid for a share of the £11 million to support particular water restoration projects.

### **Growing concern about the future of the Fund**

In August 2024, Ofwat proposed £168 million of fines for pollution breaches on Thames Water, Yorkshire Water and Northumbrian Water. Link and fifteen other environmental organisations wrote to Defra to ask for confirmation that the new Government maintained its predecessor's commitment to the WRF and for assurance that these new fines, once formally levied, would be ringfenced for the Fund.<sup>8</sup>

A delayed and non-committal answer raised concern about the future of the Fund.<sup>9</sup> A cross-party group of parliamentarians gave Defra the chance to put the WRF on a sure footing, through the Water (Special Measures) Bill. During Lords stages, Baroness Bakewell of Hardington Mandeville and the Duke of Wellington tabled amendments to require the Secretary of State to pass regulations to put the Water Restoration Fund into law and to require all water company fines from breaches of environmental provisions to be paid into the Fund.<sup>10</sup> At Commons Committee stage, Conservative, Liberal Democrat and Green members supported a successor amendment to establish a legislative basis for the WRF and specify which fines should be paid into it.<sup>11</sup>

All of these amendments elicited the same response from Defra Ministers; that this was a matter under active discussion with Defra. As stated by Bill Minister Emma Hardy at Commons committee, Defra is due to "work with His Majesty's Treasury regarding continued reinvestment of water company fines and penalties, and water environment improvement. A final decision on that will be made when the spending review concludes later this year"<sup>12</sup>

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<sup>4</sup> See Angling Trust [press release](#), November 2022

<sup>5</sup> See the Government's [Environmental Principles Policy Statement](#)

<sup>6</sup> Defra [blog](#), April 2024

<sup>7</sup> Defra WRF application [portal](#)

<sup>8</sup> Link [letter](#), August 2024

<sup>9</sup> Reply from Defra to August 2024 Link letter

<sup>10</sup> Amendment [list](#) and [Hansard](#) for Lords report stage, 20<sup>th</sup> November 2024

<sup>11</sup> Commons committee [list](#) of amendments

<sup>12</sup> [Hansard](#) for Commons committee stage, 14<sup>th</sup> January 2025

This close Treasury involvement in fine and penalty payment allocation decisions strongly suggests an abandonment of the previous ringfenced approach – after all, Treasury abstraction of funds is what ringfencing is designed to prevent.

The line ‘the Treasury will decide’ has been repeated by the Government in response to a series of parliamentary questions, including in response to a question asking when successful applicants for round 1 of the WRF would be announced and the money paid out to projects.<sup>13</sup> This, and the fact outcomes from the round still haven’t been confirmed over six months on from applications closing, has raised further concerns that even money already allocated for the Fund will be abstracted by the Treasury. This possibility has been reported in the press (including 19.01.25 Guardian article entitled ‘Treasury seeks to keep water firm fines earmarked for sewage cleanups’) and has not been denied by the Government.<sup>14</sup>

### **The need to preserve the Fund**

A significant funding gap hinders the restoration of England’s waterways to the condition that the public expect.<sup>15</sup> The WRF marked a start at addressing that gap, channelling funding from polluters to projects to address the consequences of that pollution. The cancellation or scaling down of the Fund will mean that millions of pounds worth of projects to clean water, and to restore habitats for wildlife and public enjoyment simply will not happen. It would also reduce the funding available to deliver on the Government’s revised Environmental Improvement Plan, described by the Office for Environmental Protection as ‘*the means of achieving all that must be achieved by 2030, and beyond*,’<sup>16</sup> both in terms of direct funding and cultivating a pipeline of restoration projects that will attract further investment.

This loss, in terms of both progress towards the Government’s environmental objectives and in meeting the public demand that sewage pollution be resolved<sup>17</sup>, will comprehensively outweigh any marginal improvements to the Treasury’s balance sheet. Put simply, the restoration of Treasury control over water company fines would mark an environmental regression. This regressive loss of £11 million from round 1 and/or the many millions more from post 2023 fines<sup>18</sup>, risks breaching the Labour Manifesto promise to ‘*clean up our water*’. It also marks a departure from the Defra Secretary of State’s stated objective to ‘*make the polluter pay*’ in the water sector.<sup>19</sup>

We urge the Government to avoid this blow to its environmental promises and to public trust in them by adopting NC1 or NC16 at Commons report stage. By legally ringfencing specific environmental fines for use by Defra to support water restoration projects, both amendments would effectively safeguard

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<sup>13</sup> [Written question](#), January 2025

<sup>14</sup> See Link 09.01.25 [letter](#), i news article [09.01.25](#) Guardian articles, [19.01.25](#) & [22.01.25](#)

<sup>15</sup> See Link [press release](#), October 2024

<sup>16</sup> OEP environmental progress [report](#), January 2025

<sup>17</sup> See polling on public views about nature and water restoration, [April 2023](#) and [June 2024](#)

<sup>18</sup> See ENDS Report [estimates](#) of £5 million of confirmed water company fines for environmental breaches in 2024.

<sup>19</sup> [Speech](#) from the Secretary of State, September 2024



the WRF and ensure that the original ringfenced vision for the policy, which was supported on a cross-party basis, is fulfilled.

Ministers have previously suggested that '*defining a water restoration fund in legislation would create an inflexible and rigid funding mechanism*'.<sup>20</sup>

It is difficult to sustain this objection, as both new clauses require the Secretary of State to pass regulations to legally define the Fund. Flexibility could be built into this secondary legislation through a review mechanism, allowing sources and destinations of WRF to be amended, should the need arise.

We urge Defra to accept the amendment to the bill proposed by the new clauses and prevent a significant source of funding for water restoration, embodying the polluter pays principle, being lost to general Treasury funds. The WRF has been an important and impactful response to the public demand for more action to address sewage pollution and restore the health of the water environment. Diminution of the Water Restoration Fund would impair the Government's wider response to this demand, frustrating the very objectives the Water (Special Measures) Bill was introduced to achieve.

#### Other amendments of note

Link also wishes to highlight the following Commons report stage [amendments](#). Arguments in support of them can be found in Link's Commons committee stage [evidence](#):

**NC5**, Tim Farron MP & others: Duty to prevent chemical pollutants entering the water environment

**NC6**, Tim Farron MP & others: License conditions about nature recovery (Nature-based solutions)

**NC23**, Adrian Ramsay MP: Special administration for breach of environmental and other obligations

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<sup>20</sup> [Hansard](#) for Commons committee stage, 14<sup>th</sup> January 2025



This briefing on saving the Water Restoration Fund is supported by:

The Wildlife Trusts

The Rivers Trust

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