



Department
for Environment
Food & Rural Affairs

The government's strategic priorities and objectives for Ofwat

Summary of consultation responses

September 2017



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1. Introduction

People, businesses and the environment all depend on excellent water and wastewater services. We want a water industry that works for everyone: one that is resilient, efficient and innovative.

The Water Act 2014 created new powers under which the Secretary of State may publish a statement setting out strategic priorities and objectives for Ofwat, the independent economic regulator of the water industry. Government consulted on a draft statement in March 2017.

The draft statement complements Ofwat's existing duties and places emphasis on areas where we expect Ofwat to lead a shift in the water industry's strategic direction. The priorities identified in the draft statement in pursuit of an industry that works for everyone were:

- **Securing long-term resilience:** Customers expect resilient water and wastewater services, now and in the future – but some regions are exposed to substantial risks from service failures, for example due to drought.
- **Protecting customers:** Every home and business depends on a resilient water industry – but not everyone can afford their water bill.

The statement then translated what this means for the evolution of markets in the water sector, including our expectation that future reforms seek to address these priorities.

We expect that the regulated water industry will reflect our priorities and objectives in its strategic direction. We want to see a transparent, accountable sector which rises to the challenges set out in the statement and measures its performance by how it addresses these. Ofwat should have regard to these expectations and have a robust framework to hold companies to account within its statutory remit.

Views and comments on the draft statement, including responses to key consultation questions, were invited and this document summarises the responses received.

2. Purpose of the consultation

The purpose of the consultation was to seek views on our draft strategic priorities and objectives for Ofwat.

The consultation was an open one and ran from the 14 March to the 11 April 2017. The consultation can be found at: <https://consult.defra.gov.uk/water/consultation-on-a-new-sps/>

We asked four questions to provide an opportunity for respondents to give responses, comments and propose alternative options.

The responses to the consultation helped to inform finalising the statement.

3. Handling of responses

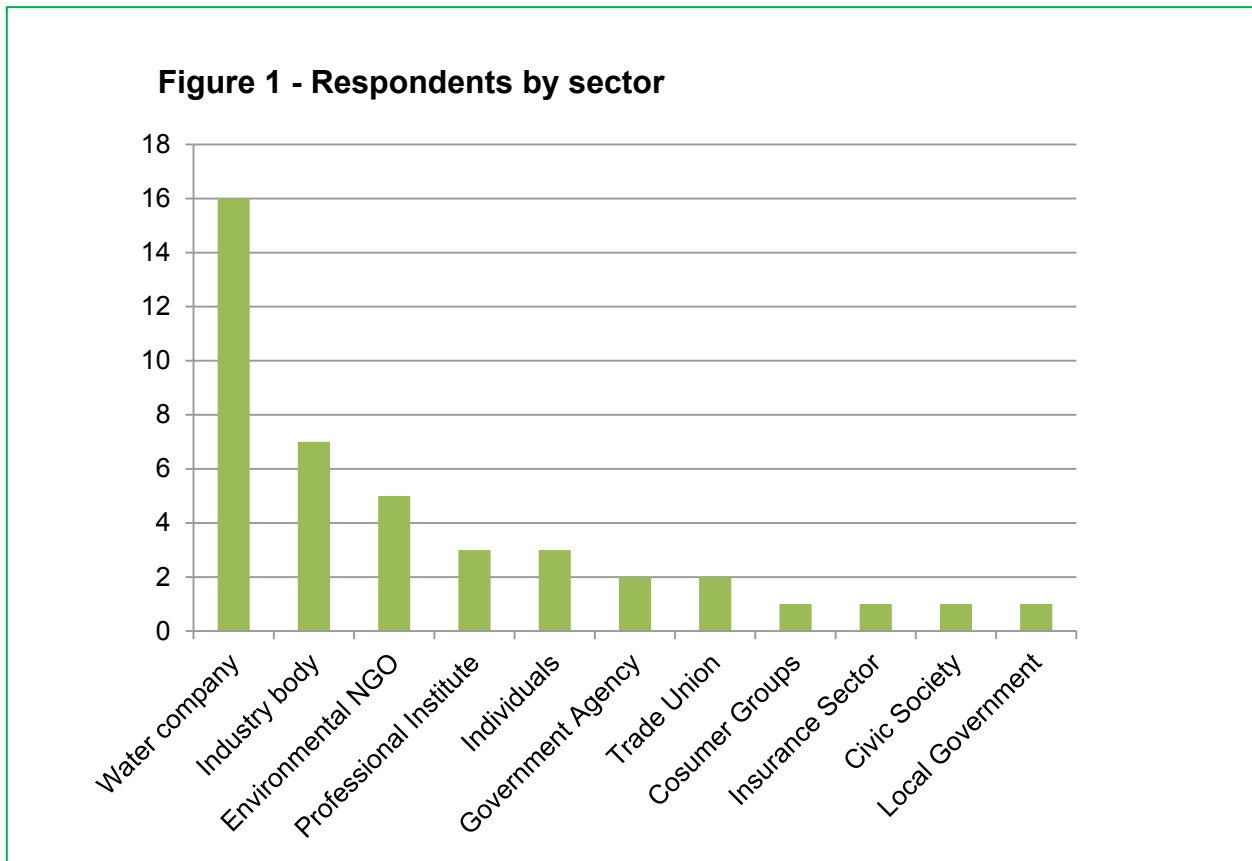
We are grateful to everyone who took the time and effort to respond and all the responses have been reviewed. They may also be seen by other Defra staff to help them plan future consultations.

This summary includes responses submitted online through citizen space, by post and by email. This summary is a high level overview of the main messages from the consultation responses; it tries to reflect the views offered but, inevitably, it is not possible to describe all the responses in detail.

Many respondents provided detailed comments and views and a broad analysis has been made of the key issues raised, including (where feasible) a quantitative summary and the breakdown of respondents by sector.

4. Overview of responses

The total number of consultation responses received was 42. Figure 1 below shows the number of responses by sector. Water companies were the largest sector to respond.



We asked four questions and a summary of the responses is given below. In general and across the range of respondents, there was broad support for the content and clarity of the proposed priorities and objectives.

5. Analysis of responses

The draft SPS statement for Ofwat identified three key priorities, with supporting objectives:

- Securing long term resilience;
- Protecting customers; and
- Making markets work.

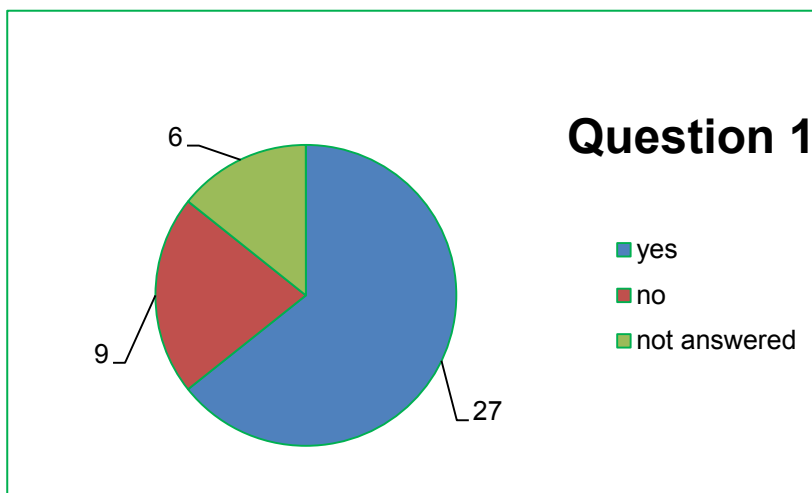
We asked four questions:

1. Has the government identified the most relevant strategic priorities for Ofwat? If not, please set out any strategic priorities you consider should feature.
2. Will the supporting objectives effectively underpin Ofwat's delivery of the strategic priorities? If not, please identify any key objectives that could be strengthened or key objectives you consider to be missing.
3. Do you consider that this statement to Ofwat is clear and easy to understand? Please identify any areas that could be clarified.
4. How should we measure Ofwat's success in securing the government's strategic priorities and objectives?

The next sections look in more detail at the responses we received for these four questions.

5.1 Strategic priorities

Question 1 - Has the government identified the most relevant strategic priorities for Ofwat? If not, please set out any strategic priorities you consider should feature.



The majority of respondents felt that the priorities were the correct ones to focus on as the industry prepares for the upcoming Price Review and welcomed the clarity they provide to Ofwat. Many respondents had detailed comments and suggested minor changes of focus with a small number proposing additional priorities. A number of respondents suggested an additional priority aimed at improving investor confidence by long-term planning and offering incentives for investment through economic regulation.

A more detailed summary is provided below for each of the three priorities.

Securing long term resilience

Priority: Ofwat should challenge the water sector to plan and invest to meet the needs of current and future customers, in a way which offers best value for money over the long term.

There was strong support for this priority across all sectors and general acknowledgement that long term planning to incorporate the impacts of climate change and population growth, are vitally important. The Water Resource Management Planning (WRMP) process was identified as the correct mechanism to help achieve this.

The Consumer Council for Water (CCW) make comments on the importance of customer engagement and welcome the reference we make to intergenerational equity. Another respondent said *“There is a balance to be struck between current and future customers with resilience and affordability, to ensure short-term decisions do not compromise long-term service delivery.”* [Affinity Water]

There were comments from a range of respondents concerning the five year planning and investment cycles associated with the WRMP and Price Review timescales. One respondent stated *“We welcome Defra’s recognition that securing resilience for current and future customers requires a long-term approach. There is however a natural tension with the industry’s 5-year regulatory cycle. It is for the companies to develop long-term strategies that reflect the needs of their customers, communities and operational region and demonstrate how this will be broken down into five-year deliverables, funded through the price review process.”* [Southern Water]

A small number of respondents offered the view that this cycle potentially reduces productivity and has adverse effects on workforce planning, in particular for small and medium enterprises.

There was broad support that a collaborative approach with partners needs to be taken when developing the future options of the water companies. This was mentioned in particular for water transfer options by a number of respondents, where it was felt levels of engagement and collaboration had been inconsistent.

Protecting customers

Priority: Ofwat should challenge the water sector to go further to identify and meet the needs of customers who are struggling to afford their charges.

There was broad support for this priority across all respondents. Many water companies responded with examples of how they are currently addressing the needs of individuals and business customers. A number of water companies referred to specific schemes that they operate which could be used to develop best practice. A small number of respondents

suggested using specific established Ofwat terminology within the document associated with 'customers in vulnerable circumstances' to ensure clarity.

Affordability of utility bills was recognised by a number of companies as a concern for many customers and that a balance must be found between funding the investment in infrastructure necessary to deliver resilient supplies, and the pressure that can place on customer bills.

On customer engagement: "Customer engagement and acceptability within the price-setting process is particularly important, and we therefore welcome the statement... [that] you 'expect companies to carry out meaningful and effective engagement with their customers and to demonstrate customer acceptability for their plans overall.'" [CCW]

Making markets work

Priority: Ofwat should promote markets to drive innovation and unlock efficiencies, with the aim of furthering: (i) the long-term resilience of water and wastewater systems and services; and / or (ii) the protection of vulnerable customers.

There was broad support for the inclusion of this priority. A common response from all sectors of respondents was that markets and competition should be seen as only one of a number of mechanisms to achieve long term resilience of the sector and protect vulnerable customers.

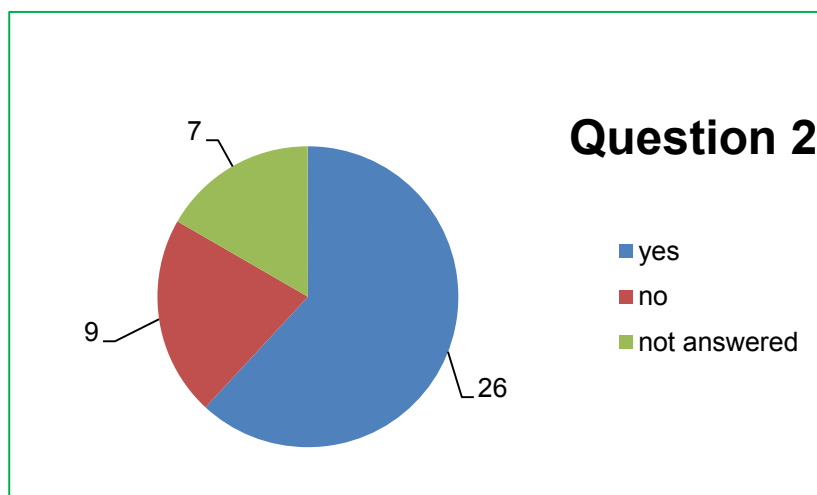
There was some concern that any opportunity markets might provide to pursue resilience should not override the needs of vulnerable customers - .. *"indeed, protecting their interests should be treated as a criterion for any market's success. Of course, we are mindful that any steps taken to increase long-term resilience must be balanced against maintaining affordability for our customers"*. [Thames Water]

A number of companies agreed that Ofwat should work with the government to fully understand the case for extending competition to households, learning lessons from the opening of the business market. One respondent stated *"We are yet to be convinced that the requirement to promote retail competition can be compatible with the requirements to improve service resilience and protect vulnerable customers. We agree that the lessons learnt from the business retail market should be used to inform the decision as to whether retail competition should be extended to households. Building the evidence base further is key"*. [CIWEM].

Several respondents were concerned with ensuring customers have a voice in decision making, including decisions on how the market should evolve to empower consumer choice.

5.2 Objectives

Question 2 – Will the supporting objectives effectively underpin Ofwat’s delivery of the strategic priorities? If not, please identify any key objectives that could be strengthened or key objectives you consider to be missing.



The majority of respondents felt that the objectives do effectively underpin the strategic priorities. One respondent stated *“Whilst challenging, these objectives are achievable and we welcome the opportunity to play our part.”* [Anglian Water]. Many respondents had detailed comments and suggested minor changes of focus with a small number proposing additional objectives. A more detailed summary is provided below for each of the objectives.

Priority – securing long term resilience

Water supply

Objective: Ofwat should further a reduction in the long-term risk to water supply resilience from drought and other factors, including through new supply solutions, demand management and increased water trading.

There was broad support for using the existing WRMP process and ‘twin track’¹ approach to managing supply and demand.

Although there was general support for the development of a National Policy Statement (NPS) for Water Resources, a number of respondents expressed concern that it should

¹ A balance between resource development and demand management.

not 'green light' potential new projects. One respondent stated *"The Government has an opportunity to develop a more holistic approach across the sector through the NPS, working with Water Resource Management Plans."* [Blueprint for Water].

A number of respondents highlighted the need to focus on maximising water efficiency to reduce demand. A small number of respondents suggested extending water metering beyond water stressed areas would facilitate opportunities for water transfer schemes.

Wastewater

Objective: Ofwat should challenge companies to improve planning and investment to meet the wastewater needs of current and future customers.

There was broad support for the inclusion of this objective and for 'challenging companies to invest' in more sustainable and catchment management solutions. Many respondents referred to their involvement in the '21st Century Drainage' programme, which is a multi-agency initiative including local authorities, the Environment Agency and land drainage boards as well as water companies; and expressed confidence that the programme will address many of the issues relevant to this objective.

It was also suggested by several respondents that there should be a long-term wastewater management plan, considering population growth and climate change and setting out options to ensure the wastewater system can meet future requirements, whilst protecting the environment.

"We note that investment in maintenance of infrastructure (water mains and sewers) has been constrained for decades and does not match the rate of deterioration. With continued pressures on household budgets and the desire to reduce water bills, it is possible that this essential area of infrastructure will suffer again over the next investment period. We consider that this is short-sighted, may cause a subsequent hike in prices and that maintaining existing infrastructure should be given at least the same priority by Ofwat as creating new assets." [Civil engineers and UK infrastructure]

Resilience against flooding and wider risks

Objective: Ofwat should work with water companies to ensure that they assess the resilience of their system and infrastructure against the full range of potential hazards and threats and take proportionate steps to improve resilience where required.

Again, there was broad support from respondents for this objective. Many also referred to the work undertaken as part of the National Flood Resilience Review and continuing assessments of flood risk. Many water companies and other industry related bodies also agreed and highlighted the need to consider the full range of potential hazards with a

number mentioning specifically cyber security, and lack of investment in current infrastructure.

The environment

Objective: Ofwat should encourage the sustainable use of natural capital by water companies – that is, our natural assets such as rivers and groundwater – by encouraging water companies to have appropriate regard to the wider costs and benefits to the economy, society and the environment.

There was wide acknowledgement amongst all respondents of the importance of this objective. Many respondents referred to the Defra’s forthcoming 25 year environment plan and the important strategic role it will play. There was also broad support for using the natural capital approach to investment. One respondent said *‘We also support the more objective natural capital approach to the management of the environment. This will allow decisions and prioritisation relating to the environment to be more robustly articulated and to allow meaningful comparisons with a wider set of priorities.’* [South East Water]

Priority – protecting customers

Household customers

Objective: Ofwat should challenge companies to improve the availability, quality, promotion and uptake of support to low income and other vulnerable household customers.

Business customers

Objectives: Ofwat should promote an enhanced focus by water companies on the needs of small business customers that may struggle to access the best deals.

There was unanimous support for these two objectives (from those respondents that answered this question).

Many water companies cited the measures they are currently taking to tackle the issues for household customers and referred to the benefits of looking outside the sector and working more closely with related organisations, for example Citizens Advice.

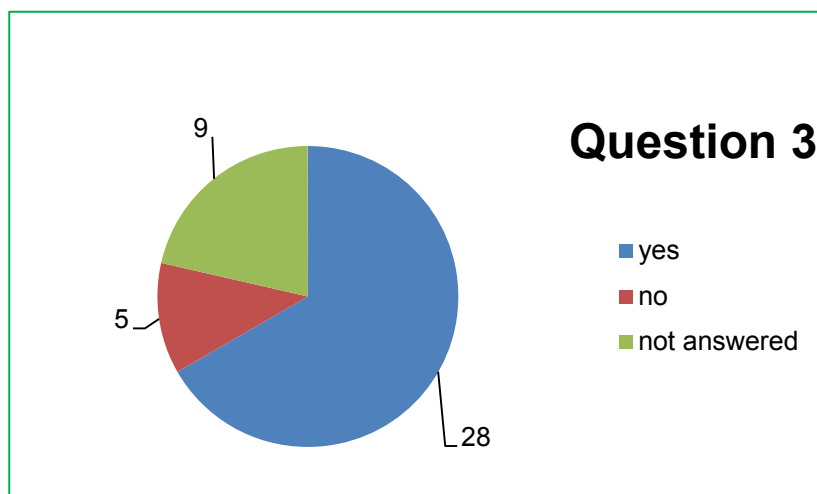
Water companies stated they were keen to see how the new retail market develops for business customers and to work with Ofwat to achieve the business customer objective.

CCW said that they welcomed the Government’s statement that it needs to assess the evidence of the new market for small businesses before taking the decision to extend

water retail competition to household customers. CCW emphasised the importance of looking at how the new market affects micro-businesses.

5.3 Clarity

Question 3 - Do you consider that this statement to Ofwat is clear and easy to understand?



Many respondents considered that the document was clearly presented and easy to understand. *“We particularly support the concise and focused nature of the document. In a sector with many possible priorities and objectives, the focus on two priorities, and a small number of objectives to meet in taking them forward, provides a welcome step-change in clarity for the sector.”* [Water UK]

A small number of respondents questioned the use of specific phrases such as [Ofwat] ‘should’ challenge, or ‘appropriate regard’ to. Respondents suggested that these should be clarified. A number of respondents commented that references should be included in the statement to Ofwat’s legal duties where relevant.

5.4 Measures for Ofwat

Many respondents agreed that a robust reporting mechanism was needed. Many highlighted the need for both quantitative and qualitative measures and how the objectives would be more or less difficult to measure. Many agreed that an annual reporting mechanism is needed which measures both Ofwat’s performance and the wider outcomes. Respondents looked forward to the opportunity to develop these metrics with Ofwat as part of the Price Review.

6. Next steps

Alongside the publication of this summary of response, we will lay the SPS of strategic priorities and objectives before Parliament. Subject to Parliament's views, the statement will be published² on the website.

² 40 days after the date it was laid before Parliament.

Annex 1 – organisations that responded

Affinity Water

Anglian Water

Bognor Regis Civic Society

Bristol Water

British Water

Canal & River Trust

Chartered Institute of Water and Environment Management

Clear Business Water

Consumer Council for Water

Energy and Utility Skills

GMB Trade Union

Institution of Civil Engineers

Kent County Council

Market Operator Services Limited

Met Office

National Flood Forum

National Joint Utilities Group

National Parks England

National Farmers' Union

Nomenca

Northumbrian Water

Portsmouth Water

Royal Town Planning Institute

SES Water

Severn Trent Water

South East Water

South Staffordshire Water

South West Water

Southern Water

Sustainability First

Thames Water

United Utilities

Water Resources East

Water UK

Waterwise

Wessex Water

Wildlife and Countryside Link Blueprint for Water Group

- Amphibian and Reptile Conservation
- The Angling Trust
- The Rivers Trusts
- RSPB
- The Wildlife Trusts
- Waterwise
- Wildfowl and Wetlands Trust
- WWF-UK

Yorkshire Water

Zurich Insurance