



Department
for Environment
Food & Rural Affairs

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Consultation on Defra's strategic policy statement to Ofwat, incorporating social and environmental guidance

Consultation summary

March 2013

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1. Background

1.1 In this consultation, Defra invited comments on draft guidance to Ofwat on Strategic Priorities and social and environmental objectives, entitled the Strategic Policy Statement.

1.2 The Principles of Economic Regulation establish that independent regulation needs to take place within a framework of duties and policies set by a democratically accountable Parliament and Government. Regulatory frameworks must form a logical part of the Government's broader policy context and be consistent with established priorities. The Principles therefore require that Government puts in place a strategic policy statement for each of the economic regulators to provide transparency regarding priorities and desired outcomes. The guidance sets out the priorities for regulation of the water industry which the Government expects Ofwat to reflect in their decision making.

1.3 The guidance reflects Government's expectation that Ofwat's regulatory decisions are transparent, accountable and aligned with the Government's policy priorities for the water and sewerage sector, as set out in the Water White Paper: Water for Life, published in December 2011. This identified the challenge of increased water scarcity due to climate change and demographic trends and highlighted an increased emphasis on resilience, long term planning and customer choice.

1.4 The Strategic Policy Statement provides the overarching context for more detailed Social and Environmental Guidance issued to help Ofwat contribute to the Government's wider social and environmental goals as set out in their sustainable development duty. These have been brought together to provide a single, consolidated source of guidance to Ofwat.

1.5 This guidance refers to Ofwat's work in relation to the appointment areas of all water and sewerage undertakers and licensed water suppliers who operate wholly or mainly in England. Ofwat's activities in relation to companies whose areas are wholly or mainly in Wales fall under the jurisdiction of Welsh Ministers.

1.6 For ease of reference this summary is presented using chapter headings from the draft guidance.

1.7 The consultation ran from November 2012 to December 2012.

2. Summary of Responses - General

2.1 Thirty responses were received. These were comprised of:

Water Companies and Investors: 13

Non Governmental Organisations: 3

Lead Local Flood Authorities: 3

Other : 11

A list of those who responded is in the Annex.

2.2 All respondents welcomed the guidance and the clarity it provided on the roles and responsibilities of Ofwat as well as its recognition of the importance of aligning regulatory decision making with strategic policy objectives, while reaffirming Ofwat's regulatory independence.

2.3 The focus on addressing the long term challenges facing the water sector in adapting to climate change and increased water stress was welcomed by all respondents. Respondents considered that the themes covered in the document aligned well with the priorities set out in the Water White Paper: Water for Life, especially the need to increase resilience.

2.4 All respondents recognised the importance of retaining investor confidence in the water sector through a stable, transparent regulatory regime and welcomed this emphasis in the document.

2.5 All respondents welcomed the inclusion of priorities and a process for reporting on them. There was a consensus that this would provide accountability and transparency to the process.

3. An Innovative Water Sector within a Transparent and Predictable Regulatory Regime

3.1 All respondents supported the section setting out the need for a transparent and predictable regulatory regime. It was recognised that reforms and risks had to be carefully assessed and forecasted and that change should be evolutionary and clearly communicated to all parties.

3.2 The emphasis on supporting, wherever possible and proportionate, the drive for growth and ensuring that companies, such as developers, do not face unnecessary burdens or costs was specifically welcomed by some respondents. Other respondents sought assurance that this would not be carried out to the detriment of environmental objectives. Overall, respondents felt this balance had been achieved.

3.3 All respondents supported the section on Effective Engagement and emphasised the importance of partnership working to achieve shared objectives.

4. A Sustainable and Resilient Water Sector

4.1 All respondents welcomed the emphasis on supporting resilience and embedding a long term planning culture in the sector. Some respondents asked for further consideration of Ofwat's sustainable development duty.

4.2 Some respondents thought that the paragraphs on intergenerational equity and mitigating negative impacts on the supply chain were particularly important.

4.3 The sections endorsing Ecosystems Services and Catchment Management approach were supported. Some respondents called for a strengthening of guidance on managing excess water and requested a broader definition of resilience that placed greater emphasis on flooding prevention and control.

4.4 Messages on demand side measures were welcomed, though some respondents called for a strengthening of expectations on companies as part of a more holistic approach to managing water resources effectively.

4.5 All respondents welcomed the paragraphs on tackling unsustainable abstraction.

5. A Customer Focused Water Sector

5.1 All respondents considered that customer protection was Ofwat's primary objective and supported a broader, longer term assessment of customer needs.

5.2 There was broad support for messages on supporting vulnerable customers and those struggling to pay, including the role of Social Tariffs and consumer representation.

6. Social and Environmental Guidance

6.1 There was broad support for the objectives set out in this section and an appreciation that they developed and in some cases provided more detail on sections in the strategic policy statement.

6.2 Some respondents called for a strengthening of messages around managing flood risk in line with a broader definition of resilience.

6.3 There was a broad consensus that Ofwat should work closely with environmental and quality regulators to contribute, where their powers and duties were aligned, to environmental outcomes. However, it was acknowledged that this must be balanced with protecting customers and enabling water companies to efficiently carry out their functions.

7. Next Steps

7.1 The Strategic Policy Statement will be assessed and refined to take into consideration responses to this consultation. A final version will then be published. This will inform the Price review process.

7.2 The Government and Ofwat will work together to review progress towards achieving the objectives set out in the document and will meet periodically to assess each priority and the extent to which outcomes have been supported by the price review process.

7.3 Unless in particular circumstances, such as a significant change in policy or circumstance, the document will be reviewed and re-issued every five years to inform each price review period.

Annex – List of Respondents

Affinity Water
Anglian Water
Blueprint for Water
Bristol Water
British Water
Chartered Institute of Water and Environmental Management
Citi
Committee on Climate Change Adaptation
Consumer Council for Water
English Heritage
Hertfordshire County Council
Herts and Lincolnshire Wildlife Trust
House Builders Federation
Infracapital
Institution of Civil Engineers
Liberal Democrat Party
Lincolnshire County Council
Portsmouth Water
Royal Council of Kensington and Chelsea
Society of British Water and Wastewater Industries
South East Water
South West Water
Southern Water
Thames Water
United Utilities
Water Industry Commission for Scotland
Water UK
Waterwise
Wessex Water
Yorkshire Water