

WORSHIPFUL COMPANY OF WATER CONSERVATORS

This is a briefing on two recent responses to consultations by Ofwat and the EAC

RESPONSE TO THE OFWAT CONSULTATION ON ITS INNOVATION FUND APPROACHES 2025-2030

1 Ofwat consulted on how it proposes to operate the Innovation Fund for 2025-2030. It included continuing its successful competitions and introducing new funding streams to ensure companies share knowledge, collaborate and adopt successful innovations to meet future challenges.

<https://www.ofwat.gov.uk/wp-content/uploads/2024/03/Ofwat-Innovation-fund-consultation-approach-for-2025-30.pdf>

2 The WCWC response is on its website .It answered the questions and made some general points.

3 McKinsey the global business consultancy defines innovation as the ability to conceive, develop, deliver, and scale new products, services, processes, and business models for customers. There is a tendency to think of innovation as technology based, whereas it should embrace everything which makes an organisation smarter and quicker. The WCWC suggest that the Innovation fund more focus on smarter management.

4 The WCWC suggested that whilst it is right that the allocation of the fund must be managed rigorously, this consultation sets out processes which appear to be overly complicated.

5 It would good to see a much stronger correlation with external policy drivers. For example, delivery of the DBT requirements for water to be a contributor to the post Brexit economy, the Defra Water Plan, catchment management, new monitoring requirements etc. In particular, as far as the technology focus is concerned, how the Innovation Fund can assist in the effective and efficient delivery of the forthcoming expanded capital programmes whilst keeping customers' bills as low as possible.

6 There have been several recent consultations on the future of water management and the WCWC responses can be found on its website. There were three in the Winter just past came from a newly surgent Department of Business and Trade. In responding to these the WCWC responded to its references to innovation. These were given in the following paragraphs.

7 Innovation is referred to in the Duty of Growth consultation, but it must form part of all smart regulation; and in its submission the WCWC has pointed to many examples of specific innovation in new investment models, by expanding the appellant functions of Ofwat, by the use of drones for inspections, the evolution of catchment management and so on. The WCWC supports any development of tariff innovation, which is balanced fairly.

8 The WCWC is very supportive of innovation and has pointed out that any technical innovation must always be accompanied by caution in application so that no risks to health and the environment occur. It is co-operating in producing a think piece on innovation since 1974. It is, however, essential that operational and technical innovation must produce a

tangible and measurable benefit if it is successful and the regulators should insist that the benefits must be clearly stated before the innovation is adopted.

9 This provides some extra insight into the proposals by Ofwat. The WCWC now poses an additional question to Ofwat; how will it respond to the requirements of DBT?

RESPONSE TO THE CALL FOR EVIDENCE BY THE ENVIRONMENTAL AUDIT COMMITTEE ASKING THE QUESTION - IS THE GOVERNMENT DOING ENOUGH TO FIX THE UK'S RIVERS, MEETING ON 15th MAY 2024

1st MAY 2024

10 The Environmental Audit Committee has announced a follow-up evidence session on water quality and water infrastructure, taking place on Wednesday 15th May 2024. The announcement stated that:

In its evidence session, the Committee will consider what progress has been made since the Committee's influential 2022 report on 'Water quality in rivers'. In its 2022 report, the Committee called a step change in regulatory action, in water company investment and in cross-catchment collaboration, so as to restore rivers to good health and prevent further damage. MPs demanded far more assertive regulation and enforcement from Ofwat and the Environment Agency. Several recommendations made in 2022 appear to have influenced Government and regulator policy. There remain questions about the level of progress the Government has made on water quality since.

The Committee will return to its recommendations, examining the ongoing role of the environmental and economic regulators in enforcing responsible behaviour by water companies and taking action against unpermitted sewage discharges. Members will want to examine whether current plans for investment in infrastructure improvements are adequate, timely and deliverable, and how permitted sewage discharges are being monitored.

<https://committees.parliament.uk/committee/62/environmental-audit-committee/news/201014/is-the-government-doing-enough-to-fix-the-uks-rivers-committee-takes-stock-of-water-quality-progress/>

10 The WCWC submitted an extensive commentary on progress on what has been done and what has not been done.

In Summary

The WCWC's position on where we are now was best provided principally as a repeat of the evidence it gave to the Department of Business and Trade in the Winter of 2023-4. It is modified somewhat to reflect the fact that the DBT consultation and the WCWC responses were focussed largely on England and to some extent, Wales.

- Be clear on whether a policy or regulation, driven by the UK government, is for England, Wales or the UK.
- Develop a national water strategy, and to do so urgently. This was expressed in the context of England. The WCWC suggests that the EAC considers whether a high level quadripartite national strategy, or, at least, a Concordat might be of some value.

- Create a national consensus on water including how it can be an effective and safe enabler of a resurgent economy. This applies equally as the UK and at national levels.
- The WCWC is sure that the EAC will be aware of the initiatives by all the Governments, but to aid other readers of this submission a summary is given of the announcements by the UK Government with respect to initiatives in England so far this year as a demonstration of the fragmented approach.
- Rebuild public trust by being clearer about the objectives and consequences of delivery plans; this would include a review of the resources available to the regulators and to ensure that the economic regulatory processes embed the principles of trust and customer care.
- Apply a simpler, clearer ‘line of sight’ between the source of investment and the practical application of that investment with optimum return to investors and fair charges to customers. This must form part of the economic regulatory process.
- Accept that innovation in investment must not compromise operational integrity.
- Integration of all the growth duties of all the regulators in the water sector, with separate guidance.
- Establish a closer working of all relevant government departments, particularly DBT, Defra and DLUPHC and Defra arms-length bodies. In the context of the UK such co-operation must extend to similar bodies in the devolved administrations
- Reduce of the fragmentation of policy and practice.
- Apply a ‘once in a lifetime’ review of the Ofwat price review and determination processes rather than the current approach of ‘piece-meal’ changes (in England and Wales). The WCWC suggests that this should be ready for 2029, implementing the lessons of almost 35 years of experience and acceptance of the economic and financial consequences of all the current demands for improvements to water services. This would embrace the principles of smart regulation as set out later, whilst preserving the principles of commercial viability. The WCWC suggested that any strengthening of the regulatory process must include extended powers for Ofwat to investigate and regulate the financial structures of the holding companies, all of their subsidiaries and their licenced subsidiary water companies. And would include an extension of the Purpose of the water companies. This will contribute to the rebuilding of public trust but must be done in ways which do not discourage investment.
- Attend to many specific issues which need resolution within this context.
- Recognise more explicitly that economic growth must be environmentally sustainable and incorporate the principles of Natural Capital.
- Plan for the future, learn from the past, act in the present.