THE WATER REPORT EXPERT FORUM

Please help us get fast feedback on key industry issues and policies by joining our The Water Report Expert Forum. The process is simple, easy and completely anonymous. You will be emailed a survey once every few months by our research partner Accent, to complete online. Accent send us aggregate, anonymised data which we report in the following issue.

We are actively seeking new members, so if you are working at a reasonably senior level in the sector, within a company or at another stakeholder organisation, please email karma@thewaterreport.co.uk to join. Thank you very much to our existing members.

THE WATER REPORT POLICY | REGULATION | COMPETITION

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PLAN B BECKONS

TWR Expert Forum expects structural change in the water sector by 2050, likely featuring less autonomy for companies and tighter regulation.

There is widespread expectation that the current structure of the water sector will not remain in place by mid century, according to the findings of our latest The Water Report Expert Forum poll.

As part of a survey about future planning for water, we asked: "Do you anticipate that the current structure of the sector will remain in place by 2050?" Over three-quarters of respondents anticipated structural change – and even among those who saw today's fundamentals continuing, there was some expectation of evolution of existing models.

For instance, one participant remarked: "Public ownership is a non starter but I could see water companies having a wider ownership structure to include customers, stakeholders and environmental groups."

And: "In terms of changes to the fundamentals of Regulatory Capital Value (RCV) backed investment, it is difficult to see how the step increase in investment – e.g. £56bn for sewerage plans and tens of billions for water security – can be financed if the current investors face significant losses as a result of any changes in structure of the sector."

However: "Changes we might expect to see [coming] though will come as a consequence of moving to regional based structures for water resource planning and catchment management, to identify environmental needs and to deliver benefits. Water companies have a real opportunity to show leadership in delivering catchment based approaches."

> "If companies don't step up then they will lose autonomy – for example, the calls for a demand equivalent of RAPID e.g. ARID are a consequence of water companies not taking ownership/delivering reductions in demand.

Loss of autonomy

However, the Forum indicated that should water companies fail to take the initiative and step into necessary new spaces, they could well lose some of the control they currently have. One respondent offered: "If companies don't step up then they will lose autonomy – for example, the calls for a demand equivalent of RAPID e.g. ARID are a consequence of water companies not taking ownership/delivering reductions in demand."

Elsewhere, a participant listed the ways water companies stand to lose autonomy. These included through: "Moves to regional planning for water resources; moves to catchment management; lots more scrutiny and more monitoring by other bodies e.g. demand management monitoring, pollution monitoring – water companies have lost the trust to be able to do the right thing without detailed scrutiny of every aspect of their activities; more fragmented investment and delivery e.g. water resource strategic resource options."

One Forum member cautioned that the opportunity to step up and take more control of the future is already slipping away: "The water industry is on the back foot and seems incapable of changing the narrative or understanding how to work with customers. The recent scrutiny is going to continue and I see this as the main barrier to the change in behaviour we need to see from domestic and business users."

Tighter regulation

Simultaneously to companies losing control, some Forum members envisaged tighter regulation in future. One offered: "It feels like something needs to change to recover public trust of the water sector. Not re-nationalisation but probably a combination of tighter regulation of water companies toward public interest objectives, and reform of the regulatory system to align the Environment Agency (EA) and Ofwat, hopefully with more resources for EA to enforce regulations for all sectors." Another said: "I think the regulatory framework will have to change and include a more robust monitoring of water companies to incentivise them to exceed expectations."

A range of other views were offered regarding how the structure of the sector might look in future. These included:

- "Merger and acquisition activity will continue and water only companies will eventually disappear."
- "A market is needed for recycled water."
- "It would be beneficial if [there was] further deregulation to allow household customers to choose suppliers like the non-household market."

Defra's Plan for Water

The Water Report Expert Forum was also asked specifically for views on Defra's new integrated *Plan for Water*. This new plan brings together policy – old and new – in an integrated way on three fundamental areas:

- Management of the whole water system.
- Delivering a clean water environment.
- A plentiful supply of water.

How does the plan measure up against the challenges in hand and the needs of the future?

Forum members gave Defra's plan a reasonably warm reception as a step in the right direction. However, responses suggested that it falls down in two principal areas: providing detail and reforming regulation.

Welcome positives

Among elements of the *Plan for Water* to be welcomed as strengths or positives, our respondents offered the following:

- The new legally binding target under the Environment Act to reduce the use of public supply in England per head of population by 20% by 2038, "as certainty can drive investment". Also more widely: "Targets on leakage, CSOs, pollution and demand management are good."
- "Reviewing the value of River Basin Management Planning to seek a more effective approach, and potentially creating a better apex target for river systems than WFD GES/GEP based on 'one out all out'."
- Movement toward catchment-scale integrated water management planning.
- Supporting the need for new water infrastructure.
- Recognising what farmers can do to store water and prevent pollution, and more widely taking a holistic view of the needs of the environment and addressing the role of non public water supply stakeholders.
- Accelerating investment in a number of areas.
- "Stating a commitment to act on many key issues that the water companies have been asking for over years, e.g. demand reduction policies – the ten point plan on reducing demand is welcome; sustainable drainage – finally promising building regulations for sustainable drainage in new developments; banning plastic in wet wipes."

Light on detail

However, multiple respondents called the plan out for being heavy on ambition but light on detail. Some examples: "The plan highlights the key issues to be addressed and some key next steps but [is] otherwise lacking in detail;" "It is very light on detail and leaves many questions open;" "Lack of costing and being clear on who pays. Lots of great ambitions but in many areas no clear plan."

The Forum highlighted that this is particularly true in the area of demand management. One member summarised this as: "The plan is silent on demand management but loud on water efficiency."

There was considerable appetite for more practical support, and greater consistency:

- "The *Plan for Water* sets out a number of steps for reducing demand, as well as a number of targets, but there is no recognition of the required step change in behaviours that will be needed. I would have liked to have seen a recognition of the need to change the narrative and consider the need for national messaging on the value of water. I would also have liked to see actions related to delivering reductions in NHH consumption (which accounts for 30% of usage). Where are the incentives for retailers to work with their customers to reduce demand?"
- "Demand management via the lens [of] citizen engagement and behaviour change are topics that are ill-understood and underfunded. Collective action on this topic is needed to see what works in this space so greater leadership, inspiration and join-up is required.
- "Demand management – lacks an understanding of how to engage with the public and business users and who should do this. Some independence and consistency across the whole country would be hugely beneficial."

Reforming regulation

Finally, some Forum argued Defra's plan falls short in terms of regulatory reform. One argued, for instance, this is sorely needed: "Complex regulatory framework allows for water companies and other groups to play the blame game. Ofwat not sufficiently geared up to meet the challenge. Restoring trust in the system a high challenge and must be a priority." Another said: "Regulation is in need of radical reform. The document goes nowhere near far enough in this respect."

Views were varied on how regulation should be changed. One suggested: "Development of a single streamlined and efficient water regulator with clear targets, goals and objectives and logical joined up thinking. Efforts at government level to explain our water resources and water pollution challenges to the public at large. Expanded role for Defra within a 'systems operator' model."

One final thought was offered: "If Labour win the next general election, I suspect they will want to make some kind of totemic change, as otherwise the criticism being levelled at the current Government will just continue to be levelled at them instead…. The industry is enduring the most change since privatisation, yet there is a lack of understanding as to how regulation needs to change in step. The likely change in Government may bring new ideas."

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