Water today, water tomorrow – Ofwat and sustainability

Ofwat – Protecting consumers, promoting value and safeguarding the future
About this document

We have a statutory duty to contribute to sustainable development. This document explains how we intend to do this, both through our own actions and by working with the water and sewerage sectors in England and Wales.

In developing this approach, we have built on the Government’s five principles for sustainable development. We have adapted these principles to the particular circumstances of the water and sewerage sectors.

We first consulted on our intended approach to sustainability in February 2006 in ‘Contributing to sustainable development – a consultation on Ofwat’s approach’. We published our conclusions in our response paper, ‘A sustainable water industry – to PR09 and beyond’ at the end of 2006. This document builds on this initial work.

It also highlights our commitment to challenging and improving the way we regulate in order to promote sustainability. Using case studies, we show how our approach to sustainability underpins our aim to protect consumers, promote value and safeguard the future.

Finally, this document highlights the progress that the water companies have made towards becoming more sustainable – and where they should concentrate their efforts in future.

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Appendix 1: Progress in delivering our sustainable development action plan 26
Safe, reliable water and sewerage services are not just essential for the well-being of society – they are vital for life itself.

And so, a long-term view of sustainability in the water and sewerage sectors in England and Wales is crucial. It is only if we take this long-term perspective that we can ensure the sectors will be able to deliver high-quality services at a fair price both now and in the future.

It is also important to look at sustainability in a broad, holistic way. Emphasising one aspect of sustainability at the expense of others would be a mistake. This is especially important in the current difficult economic times. Even though financial sustainability is an immediate concern, we should not treat it in isolation. There are also social and environmental aspects to consider and we must not lose sight of this.

The sectors have become more sustainable in the years since privatisation. The case studies in this document show how our policies have contributed to this. We are encouraged by the progress the water companies have made in measuring their own sustainability – showing they are willing to face up to the challenges ahead.

But we believe there is significant scope for a lot more progress and innovation. There must be a focus on delivering tangible results for consumers. This does not necessarily mean more investment. It does mean companies committing to, planning and applying the principles of sustainable development as a core part of their business.

We will continue to anticipate future challenges, test accepted thinking and respond to change by adapting our regulatory approach over time.

Regina Finn
Chief Executive

This document builds on our 2006 publication, ‘A sustainable water industry – to PR09 and beyond’. It does not set out ‘stand-alone’ sustainability policies. This is because we think that sustainability should be embedded in all of our policies.
1. The challenge of sustainability

Water is essential for life. Our bodies depend on it, our societies need it and our economies rely on it. Equally, we need effective sanitation and drainage to avoid disease, damage to our environment and to our property. Society would not function without these vital services. And yet we now face unprecedented global challenges.

Many people view water as the definitive renewable resource. However, like other resources, it is becoming an increasingly valuable commodity. Rising populations, emerging economies and the desire for a better quality of life by billions of people are putting pressure on the Earth’s finite resources. Globally, there have been predictions of ‘water wars’ as regions and nations compete with each other to secure diminishing water resources. Water has even been labelled ‘the new oil’.

This is challenging enough. It looks more daunting if we add the effects of unsustainable practices globally, nationally and locally. If we then introduce the likely impact of climate change, the situation begins to appear almost insurmountable.

For example, consider the implications and sheer complexity of our dependence on water and two of the other future challenges we face – food security and rising sea levels.

Food security

In the past few decades many countries, including the UK, have exported their demand for water by importing water-intensive goods from elsewhere. Some of the thirstiest crops are grown in the driest places on Earth. This has put pressure on the water resources of the exporting countries. In some places, it has already led to over-abstraction of water, smaller crop yields and long-term concerns about food security.

Climate change will make this problem worse. Warmer temperatures will reduce the soil moisture content in many parts of the world; this in turn may have a dramatic impact on agricultural productivity and food security. Some countries will struggle to sustain their own needs, let alone export their produce elsewhere.

Finding a solution is not as simple as just taking the water footprint of food into account. For example, it takes 16,000 litres of water to produce 1 kg of beef. This may appear to be unsustainable, but that might not be the case if the beef is from a water-rich country. This is before other factors are taken into account, such as the carbon footprint, environmental impacts and social equity issues. In the future, the UK may not be able to export as much of our demand for water as climate change impacts increase. This will place additional pressure on our water resources, which are already stretched in some parts of the country.
Rising sea levels

Climate change will lead to significant changes in sea levels because of thermal expansion of the oceans, melting glaciers and increased storm surges. The result is that some of the places where people live and grow food will become unsuitable for either. This includes the tropics, which as well as being particularly vulnerable to the effects of climate change, is home to half the world’s population.

This could lead to mass migration and increased global conflicts. For example, a one-metre rise in sea levels over the next 100 years would lead to Bangladesh losing 20% of its land area, potentially causing 15 million people to migrate. In the long term, there is a need to understand the implications of rising populations and what this means in terms of infrastructure, welfare and delivering essential services sustainably.

Rising sea levels will also have a significant impact in the UK. Many coastal locations are under threat. This will affect homes and businesses. There are also implications for the water companies, with valuable assets vulnerable to flooding and the threat of increased salinity in groundwater sources.

It is clear that there are huge global challenges to the way we use and manage water. We may think that these issues do not have an immediate effect on our lives, but this is not the case.

For example, not only do we import a lot of our food, but the UK’s population is predicted to increase to 71 million by 2031 and become the biggest in the EU by 2050. Much of this growth is likely to take place in the south-east of England, already the driest part of the country. At the same time, climate change may alter the seasonal reliability of our weather, making it more difficult to capture and store the water we need to meet our needs.

It is clear that action is necessary across nations and across sectors so that we understand and respond to the challenges ahead. Much of this work is already under way. We all have a part to play in tackling the issues: from consumers to companies to government decision makers.

As the economic regulator of the water and sewerage sectors in England and Wales our approach to sustainability sits within this wider context. We know that we cannot address these challenges in isolation, and nor can the companies. But we understand that we can regulate in a way that allows the companies to deliver sustainable water and sewerage services both now and in the future. In this way we can contribute to sustainability.
2. The concept of sustainability

The definition of ‘sustainable development’ that we use is one the Brundtland Commission first proposed in a report to the United Nations in 1987 (see below). We believe that it captures the overall aim of sustainability.

“To meet the needs of the present without compromising the ability of future generations to meet their own needs.”

In our view, only an approach that considers the needs of society, the economy and the environment together is truly sustainable. We believe that applying this approach to the water and sewerage sectors will deliver long-term benefits to consumers, investors, society and the wider environment. The three key aspects of sustainable development opposite illustrate this point.

The emphasis that is placed on each aspect will naturally vary as the relative importance of each fluctuates. However, it is important to maintain an overall view and not to neglect any of the areas.

The UK Government has identified a clear and urgent need for development to take place sustainably. To help achieve this, it drew up five principles for sustainable development, published in ‘One future – different paths’ (March 2005). They provided a common approach for assessing whether or not a policy is sustainable.

The five principles (see opposite) are applicable across government departments and are intended to guide all policies.

We need to meet our needs without compromising the ability of future generations to meet theirs.
The three key aspects of sustainable development

- Living within environmental limits
- Ensuring a strong, just and healthy society
- Achieving a sustainable economy
- Using sound science responsibly
- Promoting good governance
3. Our commitment to sustainability

We have had a statutory duty to contribute to the achievement of sustainable development since April 2005.

We first set out our approach to delivering this duty in ‘A sustainable water industry – to PR09 and beyond’ (November 2006). In this document, we adopted the Government’s five principles for sustainable development. We also set out the activities we planned to embed sustainability into our work.

We committed to publishing a sustainable development action plan against which to monitor progress. We did this in our ‘Forward programme 2007-08 to 2009-10’ (April 2007). An update of our progress in delivering against this plan is in appendix 1. We will revise the plan in 2010-11.

Last year, we published our first climate change policy statement. In it, we highlighted that it is essential to address the challenges that climate change presents in a sustainable way.

We also made our commitment to sustainability clear in ‘Ofwat’s strategy – taking a forward look’, which we published in April 2008 (see opposite). This set out how we intended to enable the sectors to overcome long-term challenges in a sustainable way. Our strategy reflects the Government’s five principles. It also makes ‘taking a long-term view of sustainability’ a specific priority for us.

We want customers to receive safe, reliable and high-quality services at a fair price both now and in the future. This will only be achieved if we have financially viable companies that are able to address the long-term challenges they face.

We believe that if the water and sewerage sectors are sustainable they are more likely to be successful in the long term. We think that this is in everyone’s interest.

We need financially viable companies that are able to address the long-term challenges they face.
Our strategy

Keeping consumers at the heart of what we do
Keeping companies accountable
Enforcing compliance in a reasonable and transparent way

Protecting consumers

Introducing competition progressively where it benefits consumers
Regulating effectively where competition will not protect consumers

Promoting value

Taking a long-term view of sustainability
Shaping the regulatory agenda at a national and EU level

Safeguarding the future
4. Delivering sustainable regulation

The five principles for sustainable development are both generalised and aspirational. This is so that they can be applied across all areas of government. Therefore, we have adapted them so that they are more directly relevant to our role as economic regulator of the water and sewerage sectors.

Our sustainability principles are set out opposite. We are committed to embedding these principles in formulating and reviewing all our policies. This is why we are not establishing separate sustainability policies.

We understand that, at times, it will be harder to demonstrate that some policies deliver our sustainability principles. Conflicts may arise with other requirements (such as European directives) that our policies have to accommodate, or even between the sustainability principles themselves. In such cases, we will make sure that sustainability is not put to one side when there are competing pressures. We will always promote evidence-based policy making, and voice our concerns if new policies or commitments threaten sustainable development in the water and sewerage sectors.

We will also evaluate our approach continually and make improvements so that we deliver effective and consistent outcomes to consumers, companies and the environment. We see sustainability as a journey of continual improvement, not a final destination.

Our policies have a significant influence on the way in which the companies are run. The case studies in chapter 6 illustrate how our policies reflect our sustainability principles.

Our sustainable activities

We are involved in a number of projects to deliver sustainability over the long term. These include:

- implementing the Water Framework Directive sustainably;
- helping to reveal the social, economic and environmental value of water by unbundling the companies’ accounts, thereby promoting the sustainable use of water;
- carrying out an in-depth study of climate change adaptation in the water and sewerage sectors;
- encouraging innovation to deliver sustainable solutions;
- challenging the way in which we collect and monitor data in our accountability framework; and
- investigating the sustainable benefits from abstraction trading – working with the Environment Agency to develop an effective abstractions trading market.
Our sustainability principles

1. A safe and reliable water and sewerage service for consumers that minimises the impacts on the environment now and in the future

Delivering water and removing sewage are fundamental expectations of a developed society. As this requirement will never change, the companies need to manage their resources carefully. They should also minimise any activity that will make this objective more difficult to deliver in the future. This includes making sure that minimal damage is done to the environment, the water supply is wholesome, sewerage services are safe and delivery mechanisms are resilient.

2. Consumers continue to get a fair deal and receive a level of service that consistently meets their needs

All businesses need to make sure they are aware of their customers’ needs. The current structure of the water and sewerage sectors means that regulation remains key in protecting both the services consumers receive and the prices they pay. At the same time, we expect the companies to take ownership for delivering proportionate and timely solutions that take account of the wider benefits and costs experienced by consumers.

3. Financially robust sectors that are able to meet consumers’ needs at a fair cost, into the future

Financially robust companies are best placed to deliver a good service to consumers and to cope with and prepare for the challenges ahead. We have a duty to ensure that the companies we regulate can finance their functions adequately. Long-term planning enables the companies to be more resilient to fluctuating economic conditions. We need both short- and long-term perspectives to ensure delivery in the future that is financially viable and equitable to the consumer and the environment. This includes making sure the companies have the right incentives to put in place appropriate charges and to collect revenues due to them.
Our sustainability principles (continued)

4. Companies that remain accountable to their consumers

We expect the companies to be accountable to their consumers. They should take steps to understand consumers’ expectations and to reflect them in the way they plan and carry out their business. They should be able to fully account for and justify their investments and actions. We protect consumers in this area by scrutinising companies’ business plans and their performance. We also make sure that they report reliable, accurate and complete data on how they are delivering for consumers.

5. Using the best available information to support decision making

It is important that the best information available is used when attempting to balance the needs of consumers, companies and the environment. We challenge the companies to seek new ways to achieve their outputs. We also challenge ourselves to deliver an improved regulatory framework. Addressing these challenges should drive and make use of improved knowledge. This includes improvements in scientific understanding, the latest economic information and information from consumers.
5. Delivering sustainable water and sewerage services

We aim to provide the companies with a framework that enables sustainable behaviours. However, it is up to them to deliver sustainable water and sewerage services to their consumers.

The companies have made significant improvements in recent years. As part of the 2009 price review process, each water company published a 25-year strategic direction statement. The statements presented the companies’ long-term views for their business. Many placed sustainability at their core.

The companies have also collaborated through Water UK to produce the ‘Sustainable water – state of the water sector’ report (November 2008) and an updated set of sustainability indicators. This is a welcome development that plots progress made in the recent past.

Individual companies also report on their performance in this area in a specific sustainability, stakeholder or corporate responsibility report. The level of development and understanding varies considerably between companies. Most show performance against their own targets; some present future targets and others are more aspirational and higher level. Most companies place responsibility for delivering sustainable outcomes at board level.

We are pleased to see that some companies are trying to show leadership in this area. However, we believe that the challenge for

the future is to embed sustainability within the planning and operation of the companies’ business – rather than assessing how their existing policies have performed retrospectively.

We do not offer a specific approach to sustainability for the companies to follow. This is because they are responsible for managing their own business. However, we think that the companies should be constantly challenging themselves to respond proactively. They should also make sure that their actions are leading to the delivery of sustainable services to consumers.

For example, we are encouraged by the progress the companies have made in measuring their own sustainability. They must now challenge the robustness of the data they collect, and how and why they collect it. The companies also need meaningful targets – and get on with the challenge of delivering improved sustainability – if they are to show where they have made progress.

We believe that sustainable companies will be successful companies and will deliver benefits to all stakeholders and the environment. For our part, we will continually improve our regulatory framework to contribute to sustainability.
6. Case studies: contributing to sustainability

The following case studies set out examples of how our policies have contributed to sustainability, and how we continue to improve our approach.

Case study 1: Achieving a sustainable level of leakage

High-quality drinking water is essential for life. However, it takes a lot of energy, materials and funding to collect, store, treat and distribute it to consumers.

When the water companies were privatised, they had comparatively little knowledge about how much water they lost through leakage or what work they needed to do to manage it. This contributed to a situation in the mid-1990s when serious droughts led to severe restrictions on consumers’ supplies in some areas of England and Wales.

Clearly this was unsustainable, but what was the right level of leakage? Eliminating leakage entirely would not be practical or sustainable. In addition to cost, leakage control also has its own social and environmental impacts that must be taken into account. But we had to find a way to identify how much work the companies needed to do to control leakage, which also took account of social and environmental costs and benefits.

Following the mid-1990s drought, we developed an approach to leakage control – the ‘economic level of leakage’. Since the companies adopted this approach, the amount of water lost through leakage has been reduced by more than a third. This has meant:

- reduced costs to customers;
- less need to build new water resources; and
- fewer risks to businesses and customers of interruptions to their water supply.

The companies now face new challenges. For example, climate change is likely to alter our weather patterns in ways that we are only just beginning to realise. We need to adapt to cope with future weather patterns while reducing our impact on the climate.

This is one of the reasons why we have been reviewing our approach to leakage. Our revised approach focuses on the ‘sustainable economic level of leakage’, which we believe will deliver further benefits to consumers and the environment over the long term.

Further information about our approach to water resources can be found on our website.
Leakage is down by more than a third since its peak in the mid-1990s.

**London to Auckland**

Between 2005 and 2010 water and sewerage companies in England and Wales will have laid, renewed or relined approximately 20,000 km of water mains – more than enough pipes to stretch from London to Auckland, New Zealand.

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<thead>
<tr>
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<tr>
<td><strong>1.</strong> A safe and reliable water and sewerage service for consumers that minimises the impacts on the environment now and in the future.</td>
<td>Our methodology is sensitive to the changing availability of water and therefore its value.</td>
</tr>
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<td><strong>2.</strong> Consumers continue to get a fair deal and receive a level of service that consistently meets their needs.</td>
<td>The process makes sure that consumers receive the service they expect, delivered in the most cost-effective manner.</td>
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<tr>
<td><strong>3.</strong> Financially robust sectors that are able to meet consumers’ needs at a fair cost, into the future.</td>
<td>We make an allowance in price limits for the companies to maintain the economic level of leakage where they provide proper justification and a balanced view of risk.</td>
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<td><strong>4.</strong> Companies that remain accountable to their consumers.</td>
<td>We take action when companies fail their targets.</td>
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<td><strong>5.</strong> Using the best available information to support decision making.</td>
<td>We recently completed a review of different approaches to setting leakage targets. This included improving the way that the companies take account of social and environmental costs when they calculate the sustainable economic level of leakage.</td>
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Case study 2: Managing surface water drainage

Managing rainwater that flows off customers’ property into the public sewer systems, called surface water drainage (SWD), is probably the least well-known service that water and sewerage companies provide. But it is an essential service.

If the drainage system is not adequately maintained, the likelihood of surface water flooding and sewer flooding would increase dramatically. Maintaining this essential service comes at a significant cost. Providing SWD services across England and Wales costs about £600 million a year.

As our weather patterns are likely to become more volatile because of climate change, it will be increasingly important to manage surface water flows. Heavier storms may mean that our existing sewers are unable to cope. Building bigger sewers may be part of the solution. But it would be expensive for customers, disruptive to our way of life because of widespread building works and have significant environmental costs from construction. In addition, it will never be possible to build sewers big enough to cope with all eventualities.

Therefore, we need to find new ways of dealing with this surface water. One way is to encourage consumers to use services in a more sustainable way through the charges they pay.

We consider that charging in relation to the customer’s site area is the fairest approach. This is because customers pay broadly for the service they receive. The larger the site area, the more surface water is likely to drain from it. Therefore, charging by site area better reflects the actual costs imposed on the system. Permeable areas, or areas that do not drain to the public sewer, are not charged for. Four companies now use this method to charge non-household customers.

As well as being the fairest approach, we believe that charging by site area is also the most environmentally responsible approach. It offers financial incentives for all organisations to reduce their SWD. This would include, for example, installing soakaways, and replacing an asphalt car park with a gravel one or replacing concrete with grass. This will reduce the likelihood of flooding from overloaded sewers.

The approach to charging reflects our customer charges strategy. We believe that companies’ charges to their customers should reflect the long-term costs of providing a particular service.

By making sure that the charges we approve increasingly meet the criteria set out in our charges strategy, we can help the companies promote sustainable behaviour by their customers.

Further information about customer charges can be found on our website.
Ofwat – Protecting consumers, promoting value and safeguarding the future

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<td>1. A safe and reliable water and sewerage service for consumers that minimises the impacts on the environment now and in the future.</td>
<td>Charges encourage customers to manage their surface water run-off. They are rewarded for maintaining grassy areas, which can also have other benefits. Charges are based on the ‘polluter pays’ principle.</td>
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<tr>
<td>2. Consumers continue to get a fair deal and receive a level of service that consistently meets their needs.</td>
<td>Companies make no additional revenue from the system of charging. Customers are rewarded for sustainable behaviour and only pay for what they use.</td>
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<tr>
<td>3. Financially robust sectors that are able to meet consumers’ needs at a fair cost, into the future.</td>
<td>Companies are able to reduce costs through customers being encouraged to divert surface water away from public sewers.</td>
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<td>4. Companies that remain accountable to their consumers.</td>
<td>Companies must be able to demonstrate that the charges they implement are phased in gradually, transparent and are explained to customers.</td>
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<tr>
<td>5. Using the best available information to support decision making.</td>
<td>Charges are more cost reflective.</td>
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75%
The proportion of properties at highest risk of sewer flooding has reduced by about 75% in the past ten years.

£0
The amount a customer pays in surface water drainage charges if they can show their company that they have permanently diverted rainwater away from public sewers.
Between privatisation and 2010 the companies will have invested about £80 billion in services. Consumers have received many benefits from this investment, including safe and reliable services. In addition, the improved quality of our rivers and bathing waters also means that we have seen the return of species like salmon and otter.

Not all of this investment was recovered from customers in the year it was spent. If it had been, customers’ bills would be many times their current level. Customers would also have experienced steep increases and decreases in their bills from year to year as investment programmes started and finished. In addition, today’s customers would be paying the entire cost of infrastructure that, in some cases, could be used by future consumers for hundreds of years. Clearly this would not be reasonable, practical or fair.

The companies have funded a large proportion of their investment from competitive financial markets either from borrowing (debt) or from investment by shareholders (equity). In order to borrow finance or attract investment the companies must provide a reasonable rate of return to finance providers. But what is a ‘reasonable rate of return’?

Therefore, we need to assume an amount in setting price limits (the ‘cost of capital’) for companies to raise the finance necessary from the financial markets. If we set this amount too high, companies access finance but make excess profits. Set it too low and companies will be unable to maintain the credit quality required to secure the capital necessary to deliver investment.

We set the cost of capital at a level that allows efficient and well-managed companies to earn a reasonable, and predictable, rate of return. Poorly-managed companies that fail to outperform our efficiency targets earn a lower rate of return. They (or their shareholders and owners) must meet the extra costs of accessing the finance necessary to ensure investment in services.

Since privatisation, our approach has meant that the water and sewerage sectors have been perceived as low risk, with a commensurate cost of capital. This has allowed the companies to invest in services and the environment, while keeping customers’ bills as low as they can be.

Our overall approach to setting price limits for all companies for the 2010-15 period builds on this success. It uses new incentives, such as the capital expenditure incentive scheme, and new tools, such as cost-benefit analysis, to encourage the companies to deliver the right solutions to future challenges. It also uses tried and tested methods to deal with uncertainties, such as the condition of financial markets.

Further information about our approach to the 2009 price review, including setting the cost of capital, can be found on our website.
1. A safe and reliable water and sewerage service for consumers that minimises the impacts on the environment now and in the future. Companies need to invest to safeguard services and the environment. In allowing a reasonable cost of capital, companies are best placed to secure the capital required to invest in assets that will deliver long-term sustainable solutions.

2. Consumers continue to get a fair deal and receive a level of service that consistently meets their needs. The way in which we set the cost of capital incentivises the companies to strive constantly for efficiency. This in turn is passed on to consumers.

3. Financially robust sectors that are able to meet consumers’ needs at a fair cost, into the future. The availability and cost of finance is related directly to a company’s financial position and prospects.

4. Companies that remain accountable to their consumers. The cost of capital makes provision for the companies to finance their functions. In return, we can expect the companies to provide a good level of service for consumers.

5. Using the best available information to support decision making. Our judgements on the cost of capital are based on up-to-date market evidence. We re-evaluate and cross-check our approach regularly.

94p The average amount water and sewerage services cost each customer a day.

£10.7 million The average amount the companies will have invested every day between privatisation and 2010.
Case study 4: Driving improvements in customer service

The services consumers receive have improved significantly since privatisation. Twenty years ago customers, as they do now, expected safe, reliable, high-quality water and sewerage services at a fair price. But what they actually received was very different.

For example, large areas of England and Wales were at significant risk of supply interruptions. Many more properties experienced low water pressure and incidents of sewer flooding. In addition, when customers complained about service failures they received a response that fell well short of today’s standards.

Since the mid-1990s we have used the overall performance assessment (OPA) as one of our regulatory tools. This has incentivised the companies to improve performance across a broad range of services provided to consumers and the environment. It has allowed us to compare the quality of the overall service and tells consumers and other interested parties how their local company has performed relative to other companies.

The current OPA incentivises the companies because we publish a league table each year and take account of the relative performance of individual companies when we set their price limits. It measures company performance against a wide range of indicators. These include reducing incidents of low water pressure, responding to complaints and environmental impact. While it has evolved over time, the companies’ performance has improved. For example, between 1996 and 1999 the companies achieved on average about 70% of the maximum OPA score. In 2007-08, they achieved 88%.

However, in addition to other challenges like climate change, the companies now face rising expectations from consumers for the services they provide. Consumers expect the choice, quality and responsiveness that match their 21st century lives – as well as meeting their more basic needs. This is why we are reviewing the way we incentivise the companies to drive forward continuing improvements in customer service.

We want customers to continue to receive the safe, reliable, high-quality and sustainable services at a fair price they expect now and in the future. But we also want the companies to continue seeking ways to improve the quality of the service they provide. Since last year, we have been piloting new consumer experience measures, which will be central to a revised ‘service incentive mechanism’. This is so that we can encourage the companies to focus on the quality of their customers’ experiences and meet their expectations, reduce service failures and resolve more complaints first time.

As well as improving customer satisfaction, this will help reduce bills as the companies incur lower costs arising from poor service.

Further information on how we protect basic services and drive further improvements to customer service can be found in our ‘Service and delivery’ report for 2007-08. More details of our plans to change customer service incentives will be available when we publish our consultation on this subject in summer 2009.
### Principle

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### Explanation

| 1. | The OPA has incentivised companies to improve the core drinking water, environmental and customer services they provide. |
| 2. | Recent research shows that about 90% of consumers are very or fairly satisfied with the service they currently receive. We are introducing new experience measures and reviewing the incentive mechanism to keep the companies focused on meeting their consumers’ changing expectations. |
| 3. | Price limits are set to allow the companies to deliver core water, environmental and other services to their consumers at a fair cost. The OPA provides an additional reputational and financial incentive on the companies to provide good service. |
| 4. | The revised incentive mechanism will focus more directly on measures of consumers’ experience, including satisfaction and customer contacts resulting from poor service. |
| 5. | Our work on the consumer experience and incentives reflects developing thinking and evidence on customer service. Consumer Focus welcomed it as innovative good practice in its recent ‘Rating Regulators’ report. |

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**0.02%**

Percentage of properties in England and Wales with low water pressure in 2007-08.

**99.96%**

Overall compliance with the drinking water standards in England and Wales in 2007 continued to be very high at 99.96%.
Case study 5: Encouraging sustainable approaches

At privatisation the UK as a whole was seen as the ‘dirty man of Europe’ for the poor quality of its natural environment. Inland and bathing water quality were extremely low. In some waters, widespread pollution affected even the most resilient eco-systems.

Over the past twenty years the companies have successfully employed a range of expertise to improve services to consumers and the environment. Improvements include:

• 97% of bathing waters in England and Wales met the minimum standards in 2008, compared with 78% in 1990; and
• 72% of English rivers were rated either good or excellent in 2007 compared with 55% in 1990; in Wales the figure was 87%, compared with 79% in 1990.

However, while the companies’ approaches have been successful in improving standards, the challenges of the future mean we cannot rely on those approaches in the long term. The complex interactions between our changing climate, the drive to be more sustainable and our need for water and sewerage services mean we have to harness new technologies to meet the long-term challenge. This is why we are committed to using the latest thinking and techniques to enable the companies to deliver joined-up, sustainable solutions.

Therefore, as part of the 2009 price review, we are asking the companies to include social, environmental and economic values when choosing between competing solutions, using cost-benefit analysis. By including these benefits in the decision-making process, those options which are more sustainable become economically attractive.

For example, the companies have focused traditionally on capital-intensive engineering solutions to meet environmental standards. While successful, they are relatively expensive, use a lot of energy and have impacts upon the environment and consumers. They do little, however, to tackle the root cause of the pollution.

This requires the companies to invest in further capital-intensive solutions to meet drinking water quality treatment standards, driving up costs to customers and impacts on the environment. As a result of using cost-benefit analysis, more companies have put forward a greater number of catchment management schemes in their draft business plans for the period 2010-15.

Catchment management schemes, in general, involve working with landowners and land users in river catchments to adopt more sustainable approaches to living and working on the land. They have the potential to ensure a safe and reliable service for consumers now and in the future, at lower cost and with a lower impact on the environment. The other benefits that they deliver include:

• contributing to climate change mitigation by emitting less carbon than hard engineering and treatment options;
• protecting upland carbon sinks such as peat bogs;
• encouraging biodiversity; and
• reducing surface water flooding.

Further information about our approach to catchment management schemes as part of the 2009 price review can be found in ‘Setting price limits for 2010-15: Framework and approach’.
Salmon
Breeding salmon have returned to the River Mersey – once known as Western Europe’s most polluted river – after an absence of more than 80 years.

90%
The number of beaches in England and Wales recommended for excellent water quality by the Marine Conservation Society’s ‘Good Beach Guide’ has increased by almost 90% compared with a decade ago.

<table>
<thead>
<tr>
<th>Principle</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> A safe and reliable water and sewerage service for consumers that minimises the impacts on the environment now and in the future.</td>
<td>Catchment management processes add to, rather than degrade, the environment.</td>
</tr>
<tr>
<td><strong>2.</strong> Consumers continue to get a fair deal and receive a level of service that consistently meets their needs.</td>
<td>The quantification of social benefits ensures that values previously not considered are given weight. There is also the potential that they could prove to be better value.</td>
</tr>
<tr>
<td><strong>3.</strong> Financially robust sectors that are able to meet consumers’ needs at a fair cost, into the future.</td>
<td>Catchment management addresses upfront some of the larger risks that face the companies in the future. This makes costs more predictable.</td>
</tr>
<tr>
<td><strong>4.</strong> Companies that remain accountable to their consumers.</td>
<td>We stipulated that the companies need to gain the support of stakeholders as they develop their business plans for the 2009 price review. Our rigorous analysis ensures that proposals are open and considered.</td>
</tr>
<tr>
<td><strong>5.</strong> Using the best available information to support decision making.</td>
<td>The companies have to demonstrate a detailed understanding of how their actions interact with wider societal and environmental considerations.</td>
</tr>
</tbody>
</table>
Appendix 1: Progress in delivering our sustainable development action plan

We published our sustainable development action plan in 2006 in ‘A sustainable water industry – taking a long-term view’. We plan to update our plan in 2010-11.

<table>
<thead>
<tr>
<th>Section</th>
<th>Outputs achieved</th>
<th>Outputs continuing</th>
<th>Outputs modified</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Living within environmental limits</td>
<td>6 from 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieving a strong, healthy and just society</td>
<td>6 from 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieving a sustainable economy</td>
<td>4 from 4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promoting good governance</td>
<td>4 from 4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using sound science responsibly</td>
<td>6 from 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In dealing with stakeholders, consumers and the public</td>
<td>5 from 6</td>
<td>1</td>
<td></td>
<td>Continuing: We have jointly signed Memoranda of Understanding with two of our key stakeholders. We hope that others will be signed shortly.</td>
</tr>
<tr>
<td>In contributing to wider policy</td>
<td>3 from 5</td>
<td>1</td>
<td>1</td>
<td>Continuing: We will continue to work with the Government on competition. Modified: The DTI project on innovation did not occur. But we are currently exploring the possibility of setting up a Technology Strategy Board for water.</td>
</tr>
<tr>
<td>Internal operations</td>
<td>1 from 2</td>
<td>1</td>
<td></td>
<td>Continuing: We are continuing to look at reducing our carbon footprint.</td>
</tr>
<tr>
<td>As an employer</td>
<td>2 from 2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide customers with a good quality and efficient service at a fair price.