



Date: 09 August 2018

Dear

Building resilient water supplies – a joint letter

We - Defra, the Environment Agency, the Drinking Water Inspectorate and Ofwat - are writing to you to set out what we are doing, and what you need to do, to put us on track to build resilience in water resources management in England.

Customers' water needs must be met in a safe, resilient and efficient way, while protecting the environment and respecting good supply practice and the needs of other water users. This is becoming ever more challenging as water resources face increasing pressures from climate change, population growth, societal expectations and increasing environmental aspirations.

To meet this challenge we need ambitious and co-ordinated leadership across industry, government and regulatory bodies. While we think water companies need to own this challenge, we will work jointly to support and facilitate your efforts. We think there is a need for:

- 1. Increased ambition in the forthcoming company business plans for the 2020 to 2025 period.**
- 2. Regional water resource planning** that transcends company boundaries and identifies optimum solutions for the region, and the nation as a whole.
- 3. Greater use of markets and competition** to ensure solutions are delivered efficiently.
- 4. Clear, joined up direction from government and regulators.**
- 5. A responsive regulatory approach** to deal with issues as they arise.

Increased ambition in forthcoming business plans: Following discussions on draft water resource management plans, water companies should begin work now on projects

and transfers to enhance resilience. We want companies and regional groups to use the PR19 regulatory period to demonstrate tangible progress in increasing collaboration and developing creative strategic water supply solutions.

On the demand side, Ofwat has already set out an expectation that water companies will set ambitious targets to reduce their leakage significantly and provide the tools to help customers use water efficiently. The government has provided guidance to water companies about this and has committed to work with you to set an ambitious personal consumption target and agree cost-effective measures to meet it.

Regional water resource planning: Greater coordination of water resource management plans is required to meet the challenges we face. We recognise that the sector has been thinking about better ways to co-ordinate. For example, WRSE is exploring the potential role of a regional coordinator and Wessex Water is thinking about the ‘open system model’. WRE has demonstrated innovation by taking a cross-sector approach and is making important links with the initial priority catchments identified in the Abstraction Plan.

The industry now needs to turn thinking into action. Water companies should take a genuinely regional approach to producing plans that transcend company boundaries and identify optimum solutions for the region as a whole. This planning should then provide the basis for individual water company plans. Regional groups currently exist in the South East, the East, the West Country and the North. We expect these groups to:

- Produce regional plans that feed directly into individual water company plans and explore inter regional transfers as part of the planning process¹
- Engage with other water users to develop cross-sector solutions
- Work with regional groups such as the Northern Powerhouse and Local Economic Partnerships (LEPs) to understand regional economic and population forecasts.

We accept that one size will not fit all. Regional groups will have the flexibility to tailor their organisation and governance structures, as well as the plans they produce, to match the challenges they face.

We expect water companies to commit time and money to regional planning and assessing the feasibility of regional and inter-regional solutions in the forthcoming regulatory period. This includes considering strategic transfers and strategic water storage infrastructure.

Greater use of competition and markets: We will be looking for regional groups to fully explore the role of markets in delivering their strategic water resource solutions. Competition can reduce the cost of developing new resources and help deliver strategic and innovative solutions. The potential of markets will be maximised within environmental constraints and subject to safeguards to protect public health, wholesomeness and

¹ Note, water company plans will remain the statutory requirement for the next planning round. We expect regional plans to feed directly into these and will challenge where this is not the case. The sophistication of the regional plan should be linked to the challenges faced.

consumer acceptability. Ofwat will lead work to facilitate new markets to support improved water resilience.

Clear direction from government and regulators: The government is developing a national policy statement (NPS) for water resources. This will streamline the delivery of, and set out the need for, nationally significant water resources infrastructure such as reservoirs, water transfers and desalination projects.

The Environment Agency will lead the development of a National Framework for water resources. This will develop and present agreed evidence on water deficits which will inform specific expectations and set clear challenges to the industry in advance of the next water resource management plans. Draft water company plans will then be challenged where they do not meet the expectations set out.

It will also develop tools to support collaboration between companies and with other sectors. This includes defining what is necessary to ensure regional models and water company plans can communicate and are compatible.

A responsive regulatory approach: Our ambition is to enter the 2024 planning period with a regulatory framework that fully supports strategic, ambitious and collaborative water resource plans that make sure we have resilient water supplies for the long term.

Greater co-operation within PR19 and through regional groups, as well as greater use of markets, may identify issues relating to regulatory processes, the need for new institutions or commercial frameworks, or the need to resolve potentially conflicting objectives. We will listen to the issues raised by the sector and work in a joined up way with companies to help overcome any real challenges identified.

We are already working to refine the water resources management planning process and other regulatory incentives. Since autumn last year, the Environment Agency has engaged with regulators, water companies, academics, consultants and other stakeholders to identify where improvements can be made. The emerging themes from this work include:

- Making sure the planning timeline fits with other planning processes such as drought plans
- Improving the focus on resilience to both drought and other hazards
- Ensuring that the water resources planning process supports innovative techniques and collaboration
- Making plans easier to understand to improve engagement with customers and other water users

We fully expect that you will meet our challenge to be more ambitious, more collaborative and embrace markets. In support of this, we commit to providing clear direction and appropriate regulation. We all need to maintain focus on these issues to get us where we need to be by 2025. We will give thought to the high level timetable for this work with

milestones to help us achieve this goals. We will step in, using the different regulatory levers we have, to encourage the sector to go further if we have concerns that outcomes may not meet the above expectations.

Yours sincerely



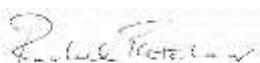
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