

Finance and Networks Division
Ofwat
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Setting price controls for 2015-20 - business planning expectations

A response from the Civil Engineering Contractors Association

The Civil Engineering Contractors Association (CECA) provides the voice for those companies who create, improve and maintain the UK's vital transport and utility networks. Our membership of more than 300 companies together delivers an estimated 70-80 per cent of all infrastructure construction work carried out nationwide. Our industry supports the employment of around 200,000 people with annual activity worth up to £25 billion.

Our members include many of the leading companies providing direct contracting services to the UK's water companies, as well as a range of smaller firms working in the water sector supply chain. Our activities in relation to water and waste water are co-ordinated through our Water Group, which meets 3-4 times annually to discuss developing issues in the sector, and to meet with key stakeholders.

CECA welcomes the opportunity to provide feedback on the current consultation considering business planning for the 2015-20 price control period. We believe that effective business planning is not only essential for water companies, but also for the suppliers who work on their behalf.

Discussions by the CECA Water Group have indicated that members' highest priority is to ensure a smoother profile of investment in the sector. These members recognise the considerable inefficiencies that arise as a result of current cyclical investment, which leads to periods of 'boom and bust' in terms of workload.

Given this view, we are strongly supportive of proposals to give water companies greater control over their business planning. We believe they are in the best position to effectively manage the way work is planned and released to suppliers for delivery.

However we are unclear as to whether the proposals outlined in the consultation document will allow water companies to fully address these issues of cyclical investment. We understand that water companies are able to be flexible in the way that they programme their works. However we do not believe there is an incentive to do so, despite the efficiencies and therefore savings to customers that might arise if they

did. In fact, it is our understanding that the current and proposed approach actually discourages this, as water companies are put in a position of financial risk should they attempt to bring forward works from a future price control period.

As a body representing companies working in a range of regulated sectors, we have seen the benefits that arise where investment is allowed to transition between regulatory periods. We believe that it is in the joint interests of consumers, water companies, suppliers and Ofwat as regulator that further efforts are made to address this important issue.

For this reason we welcomed Ofwat and Infrastructure UK's 2012 report *Smoothing Investment Cycles in the Water Sector*, and the resulting opportunity it has created for all parts of the water industry to work together to develop solutions to mitigate cyclicity. We believe that in its planning for the 2015-20 price control period Ofwat can play an important and influential role in ensuring that the regulatory framework acts to reduce cyclicity. We hope that this opportunity will be grasped.

CECA would be happy to provide any further information on behalf of members on this issue, if required.

Kind regards,

A handwritten signature in black ink, appearing to read 'Alasdair', with a horizontal line extending to the right from the end of the signature.

Alasdair Reisner
Director of External Affairs
Civil Engineering Contractors Association