

Improving water and wastewater services: how Ofwat's Water2020 initial proposal will help customers

Water and wastewater services are vital for public health, for our economy and society. Across England and Wales, we all rely on them every day. But challenges like our growing population, changing weather patterns and rising customer expectations, mean that, if we are to continue to have trust and confidence in these services, the way they are delivered needs to evolve. Our proposals are designed to protect current and future generations' interests beyond 2020. It will make sure the services you need and want can continue to be delivered in a way that represents good value for money. We welcome your views.

Key proposals

As the economic regulator, it is our job is to hold water and sewerage companies accountable for delivering services to their customers. The two main ways we do this are:

- deciding the price, service and investment package ('price controls') that the monopoly companies must deliver to customers that are unable to choose their supplier; and
- making sure that where markets exist for water and wastewater services they work fairly and in consumers' best interests.

It is important that we get it right because these things affect:

- the bills that customers pay and the services they receive; and
- the services that companies deliver to the environment and wider society.

A number of challenges now mean the way that water and wastewater services are delivered needs to change. For example, the number of people is forecast to increase by 20% in the next 20 years. More volatile weather could mean our rainfall could be less predictable and more extreme. And customers increasingly expect better services for less. So that's why we have been looking at how the sector needs to change— so that we can continue to get the best deal for customers to 2020 and beyond.

We plan to build on our 2014 price review approach, which kept bills down and drove service up through...

Customer engagement

Conversations with a quarter of a million people

Outcomes for customers

522 tailored performance commitments

That won't be enough if we are to meet new challenges...



Stretched water resources and rising population

Forecast 20% population rise over 20 years, much of it in drier areas

Protecting environmental water quality

Four out of five water bodies do not meet appropriate environmental standards

Developing and maintaining resilience

Services and systems – such as financial and ecosystems – need to be able to anticipate trends and withstand and recover from shocks now and in the future

Tackling affordability

Bills will drop 5% in real terms by 2020, yet one in five customers do not feel their bill is affordable

Smarter water use

Potential benefits of £1 billion from encouraging water trading – better sharing of resources across company boundaries benefits customers and the environment

Releasing power from waste

Treated sewage produces sludge which can create energy and other things. A sludge market could unleash more sustainable energy generation and lower bills

Targeted intervention

Stepped in to reduce time lost to supply interruptions by a third

Encouraging innovation

Totex led to new approaches and helped deliver £3 billion savings

...and if we carry on regulating the same way, we will not drive the efficiencies we need

-£39

2000 to 2005

-£18

2005 to 2010

-£11

2010 to 2015

Value of efficiency savings (bill)
(2012-13 prices)

When we set prices in 2019, we propose to keep what works well, while making changes to help the sector meet the long-term needs of customers, society, the environment and investors...

A better, more legitimate measure of inflation

Bills and company returns are linked to RPI inflation. A phased move to CPI will help maintain trust and confidence and reduce bill volatility

Better customer conversations and a long-term approach

Encouraging companies to move to a deeper understanding of what customers want, including over the short and long term

...but stability in this sector is vital so certain changes will require a managed transition. That is why we are continuing to protect investment made (the RCV) as at the end of 2020

In our draft [Water2020 plans](#), which we published on 10 December 2015, we are seeking your views on how we can improve water and wastewater services. Our plans could mean:

- water companies will need to listen harder to what you want;
- changes to your water and wastewater bills will be more fairly linked to changes in everyday prices ('inflation'); and
- your water and wastewater bills are lower in the future by water companies sharing more water and using the power of waste.

What our plans mean for customers

Companies that listen harder to what you want

In the past, water companies tended to focus on listening and responding to what the Government and watchdogs ('regulators') told them to do – instead of genuinely engaging with their customers. This sometimes meant water companies did not always deliver best value or think of new and better ways to deliver what customers want and are willing to pay for.

We are encouraging water companies to listen more closely to their customers both on day-to-day services and long term plans for services. We also want customers to feel their views are listened to. So when we next set price controls in 2019, we plan to more closely link our decisions on monopoly companies' price controls with how

well they have listened and responded to their customers.

Fairer changes to bills

Unexpected changes to bills can be stressful, especially if you cannot shop around and get a better deal. At the moment, your water and wastewater bills change every year depending on the retail price index (RPI) inflation. But increasingly Government and employers are using a better measure of inflation called the consumer price index (CPI) to decide pay and benefits. Using CPI instead of RPI could mean your bill will move up and down less each year. So our plan is to link water and wastewater bills from 1 April 2020 to CPI rather than RPI.

Lower bills from sharing water

In future, more volatile weather could mean we get more floods and droughts, especially in the south east of England where water is already scarce. Building new reservoirs could help, but our water bills would quickly go up a lot if we did nothing else. So, we propose to get water companies to publish information to show where they could share water. This will help make sure water continues to come out of our taps, without us breaking the bank. We will also make sure that the prices we say monopoly companies can charge you reflect the most efficient sources of water, so you don't pay more than you have to.

Lower bills from using the power of waste

Household and businesses budgets are increasingly stretched and we all like to get more for less. At the moment, after we flush the toilet, water companies are left with a pile of sludge. This could be used to do a lot

of good – from powering our homes to fertilising fields to grow crops. And the money raised could help lower our wastewater bills. So, our draft plans are to get water companies to publish information to show where they could work with other industries, work together and use the power of waste.

If you want to find out more and tell us what you think, please read and respond to our consultation by 10 February 2016.

More information

[Water 2020: Regulatory framework for wholesale markets and the 2019 price review](#)

[Towards resilience: how we will embed resilience in our work](#)

[UK Consumer Price Statistics: A Review, Paul Johnson, January 2015](#)

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.

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