



**WaterUK Innovation Hub
Regulatory keynote speech
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Continuity of service is important to customers

Everybody in this room, I know, is acutely aware that the water and waste water sectors provide vital public services, in every sense of that word. The sector provides services on which the entire population relies, and on which our economy and society depend. Which is why our vision for the sector is one of trust and confidence in provision of these services - now and in the long term.

On the one hand, then, saying that the resilience of those services - their continued reliable provision over the long term - matters feels like something of a truism.

But we have evidence that supports it. During PR14 [the [2014 price review](#)] the companies engaged in the biggest customer conversation the sector has ever seen. And number one of customers' priorities was precisely the reliable provision of safe, wholesale drinking water and the taking away of waste.

We also have it built into our legislative framework. The Water Act 2014 gives Ofwat a primary statutory duty to further the '**resilience objective**'. We already had resilience included in one of the priorities set out for us by Government through its strategic policy statement.

But as is so often the case when we talk about something that seems so fundamental - resilience can mean different things to different people. So it is worth unpacking...

What does this mean for the sector?

There are reams of academic research and sector (and further afield) experience on this. It would be very easy to get lost in it all. Or indeed, to reinvent the wheel, which we don't want to do.

But I do want to highlight a couple of points here.

The first is that the 'resilience objective' we have been given in the Water Act includes two elements. The first talks about the resilience of water supply and sewerage systems. **Systems**. Not networks. Not kit. But systems. And the second element of the resilience objective in the Act talks about resilience of **services** - over the long term. Again not networks. Not kit. Services.

So I think it is pretty clear that we - and of course those who actually provide the water and waste water services on which we all rely, are being encouraged to think broadly about the resilience of those services over the long term and about the resilience of the entire system - yes pipes, and other bits of kit, but also ecosystems - that underpins that.

The second point I want to make is that **the concept of resilience has been around a while**, and one of the key government documents on it is '[Keeping the Country Running](#)', which came out in 2011. That document uses the 4 R's to describe the different aspects of resilience.

- **Redundancy**: avoiding dependence on single assets or nodes
- **Resistance**: proofing the system so it is resistant to known risks
- **Reliability**: a system that operates effectively even when known risks materialise
- **Recovery** or response: the ability to recover quickly so that service is not unduly impacted

So again, a definition that includes making sure we have enough kit, and that the kit doesn't fall over unduly... But again that word system, and again an emphasis on service and on mitigating impact on services.

The third point I want to make here is that, unsurprising given the wider public policy debate, **the sector has been on the resilience journey for a while too....**

Back in PR09 [the [2009 price review](#)] customer engagement revealed support for resilience schemes, and we've seen some fantastic examples of things like catchment management going back quite a few years - indeed our Board were visiting Dŵr Cymru's Rainscape scheme a couple of weeks ago.

And in PR14 as I said, the biggest ever customer conversation in the sector showed it to be a clear priority - and our emphasis on outcomes and totex freed companies up to think innovatively about how it is delivered. And companies are doing that - the most recent WRMPs [[water resource management plans](#)] saw a 50-50 split between Opex and capex in contrast to the 10-90 split of previous plans.

Building on this, all this - none of it new - I think the expectations on the sector from us and indeed from customers on resilience are pretty clear.

First, **take ownership**. Our whole philosophy in PR14 was driven by a desire for companies to own their relationship with their customers, and to take responsibility for delivery of the outcomes that customers and society more widely want to see. Resilience is clearly part of this. It is an outcome the sector needs to own.

Second, **talk to your customers**. I talked earlier about the importance of resilience for trust and confidence in the sector. And that's true. But you need to take care. It can and will mean different things to different people. And there is no obvious level of resilience we should universally strive for. So there is considerable risk that if we take the concept for granted, if we assume 'we all know what it means' we will end up delivering something that doesn't reflect expectations of customers and society. And - albeit with the best of intentions - trust and confidence will be undermined. Talk to your customers.

Third, **think creatively**. Innovate. Be flexible. Think services, think systems. Really understand and manage risk. I know this sounds self-evident, but one of the things I learned in PR14 is that the sector has some way to go in understanding the value of outcomes, the risks to outcomes, and appraising options for risk mitigation according to that value. And this is something we will come back to for sure in PR19.

Ofwat's role

I have talked about what we expect from the sector. What can the sector expect from us?

Well of course we don't provide water and waste water services, or look after the systems on which those services depend. But what you will see us doing over the next few months is thinking about how the framework we set - through the allocation of risk and reward - informs, enables and incentivises the resilience that customers and society want to see, and encourages efficiency and creative thinking.

Indeed, in the next few weeks we will be publishing a consultation document with some early thoughts on this.

Our document will also set out some examples of good practice across the sector on the resilience of water and wastewater services – and link to more on the website. Catchment management, demand management, trading, new schemes etc.

It is probably worth being clear about what we will **not** be doing...

- Taking ownership of or responsibility for the delivery of resilient services
- Mandating a single approach
- Setting universal targets or regulatory requirements. Which in our view would involve us taking ownership and whittling away at the responsibility that sits with companies to do the right thing for their customers - now and over the long term.

Task and finish group on resilience

We have established an independent group to consider what resilience means for the sector, and to share its views with us on what that means for economic regulation.

This group has an important role in informing our own work but I also very much hope it will help to further the debate in the sector about in considering what resilience means and the challenges and opportunities the sector faces in relation to it.

The group is chaired by Jacob Tompkins, MD of Waterwise and includes representatives from across the sector and academia - one or two of whom I know are around today!

And I want to take the opportunity now to thank everyone on the group and all those who are supporting it more widely. It really is **doing some great work**, which not only includes looking at what resilience means, but also:

- reviewing the current UK structures for resilience;
- considering resilience (and the risks to it) from a variety of perspectives, including economic, social, environmental, customer, regulatory, security;
- I know it is also looking at things like skills and training, and supply chain issues, and the linkage and interdependencies between ownership and responsibility!

So far the group has met twice and will meet again tomorrow.

Some questions for the sector

Having talked about what you can expect from us, and indeed from the Task and Finish Group, I want to bring my remarks to a close by throwing a few questions out to the sector... Which I'm sure will be well grappled with by the end of today!

- What are the **services** that matter to customers and society? Right the way through the value chain?

- What are the **risks** to the provision of those services? Risks at every stage of the system
- How can we think more creatively about the options for mitigating those risks, to make sure we have the most **cost effective** option?
- A general question with all of this about whether we are thinking sufficiently **long term**... And that might change what we think of as the cost effective mitigation portion...
- And last - very much last - **how can regulation help to inform, enable and incentivise** this?

Next steps

If you would like to feed any of this thinking into our process... Here are the opportunities... Basically you have until the end of the year!

And thank you in anticipation of your input.