
How do our customers benefit from collaboration? Cathryn Ross speech

Institute of Water Annual Conference 2017, 'Together We Achieve More'

Good morning. Thank you very much to the Institute for inviting me here today. And thanks too for organising such an inspirational conference.

Collaboration is at the heart of Ofwat's strategy

I was delighted when I saw the title of the conference - together we achieve more - because that really is the essence of Ofwat's strategy.

Our strategy is all about Trust in Water. It is about ensuring that customers and wider society have trust and confidence in water and waste water services, services that are genuinely vital for all of us. And the first thing we say when we talk about that vision is that it is not a vision Ofwat can deliver alone. It is necessarily a shared vision.

Which is entirely appropriate because those water and waste water services on which we all depend are produced by complex systems that involve many different people and organisations. Yes water and waste water companies, but also those in the supply chain, retailers in the newly competitive market, customers, communities, NGOs, and all the different levels of government.

So the whole idea of collaboration - that idea that 'together we can achieve more' is absolutely at the heart of everything we are trying to do.

But in talking to you today I want to pick up on a couple of aspects of this in particular.

I want to start by talking a bit about what I see as one of the main area of opportunity for collaboration across the sector - and I don't just mean across the water and waste

water companies we regulate, I mean across the whole sector - and that is innovation.

And then I want to talk a bit about one of the things that I often hear cited as a challenge to collaboration, which is competition and the extent to which that is increasing in the sector. You can probably pick up from the way I have put that that I don't accept the idea that competition is a barrier to collaboration - but we'll come back to that later.

Collaboration for innovation

So let's talk about innovation.

A couple of months ago we set out the **themes that we want to run through our next price review** - PR19. There are four of them.

The first is great **customer service** - customer service that goes beyond getting the basics right (which remains very important!) and really delivers against the expectations of customers in the 21st century. Customers who expect a more personalised, more targeted service that puts them first and works to make their lives, as they live them, easier.

The second is **resilience** - which is based on identification and management of all of the many and various risks to the provision of those vital water and waste water services on which we all depend. What we call resilience in the round - not only about operational resilience but also making sure companies's financing is resilient and that companies themselves make good decisions on the basis of good quality information, systems, processes and governance.

The third is **affordability** - and that means, yes specific and targeted support for those who are struggling to pay their bills, but means affordability for everyone, including those who are paying their bills, but who are really up against the competing demands for their income.

And the fourth theme is **innovation**. And it is different to the other three - which are about what customers and society experience - because it underpins all of them.

Great customer service requires innovation - in the products and services that companies offer to their customers, in the channels used to access those services and to communicate with customers more broadly. Innovation in how companies can better understand customers needs, wants and priorities - which will include getting better customer data and making smarter use of it.

Resilience requires innovation too. There is no way, in the face of climate change and population growth that water and waste water companies can keep doing things in the way they always have and expect to continue to provide the standards of service provision we have come to expect. No way.

And affordability requires innovation too. Now, I don't accept that great customer service always costs more - empathy for example isn't expensive! And similarly I don't accept that resilience always costs more either - we have all seen the introduction of catchment management working in recent years that is both more resilient and more efficient.

But... I can see the potential for credible business cases for incremental improvements in customer service and resilience that could well involve additional investment. And at the same time I can also see an increasingly challenging environment for a lot of customers - facing inflation that exceeds wage growth. And the only way we square that circle is by delivering a step change in efficiency, which means finding new and better ways of doing things.

And all of this amounts to a tough challenge. Innovation isn't easy.

I completely accept that there have been regulatory barriers to innovation in the past. I think our move to an approach based on outcomes and totex really helps here. And I think our encouragement for multi-period outcomes provides scope to deal with longer pay back periods that may be merited by some innovations. I have heard people talk about the five year control periods a barrier to innovation - but I just don't accept this. I think water companies have easily enough certainty over what they need to do and over at least the vast majority of the costs we will allow them to recover from their customers to plan sensibly over the long term - they have a good deal more certainty than companies in competitive markets where there is more innovation.

But, notwithstanding the fact that I don't think there are regulatory barriers, innovation isn't easy. And collaborative working is a key ingredient for success and I want to highlight three aspects of that.

First, nobody has a monopoly on good ideas. This is one reason why in developing our thinking for the next price review in our Water2020 programme we used the 'marketplace for ideas' and many of the ideas that you see in our policy document in May last year and will see in our methodology consultation in July come from other people, not us. And even if it isn't other people generating the ideas, testing, challenging and building on them from different perspectives all makes for better solutions.

Secondly, collaborative working reflects the reality of this sector. Water and waste water services are the product of complex systems that extend way beyond what individual water companies own and control. Robust, efficient solutions in this sector require systems thinking. And that requires collaboration. And those systems solutions require implementation by different players. And co-delivery becomes much easier if what you are co-delivering has been co-created.

Thirdly collaboration reduces risk. If we have lots of companies in the sector all trying to solve the same problem, I don't see why a bunch of them wouldn't come together to try to solve it jointly. Redefining the scope of the problem across a wider area or set of activities could lead to a different feasible set of options for its solution. And pooling funding, sharing risk and reward, could change the economics of some innovations dramatically.

That could be about water companies coming together to do this. I know we, the Environment Agency and Defra are encouraging WRSE and WRE for example to see the next round of WRMPs more as a collective problem solving exercise.

It could be about water companies working more closely with the supply chain to harness their creativity in delivering outcomes. And I know that some companies - I was talking to Southern Water about this earlier this week - are making great use of technology exchanges to do just that. I've also been impressed with what Anglian has done through its 'shop window' and I'm sure there are other examples too.

Or it could be about water companies working much more closely with customers and communities. Moving beyond customer engagement to customer participation - with customers helping to co-create a vision of the future that they are then involved in co-delivering. And I would urge those of you who haven't seen our Tapped In report from earlier this year, which provides a framework for thinking about customer participation, to seek it out.

Competition is no barrier

So... having explained why I think working together goes to the very heart of trust and confidence in water and waste water services... and how it is key to delivering against those four themes for PR19... and why I think it is particularly important if we are to get the innovation we need... I want to cover off one last point.

I do hear from time to time that the greater use we are making of markets in the sector is somehow at odds with collaboration. And I just want to debunk that.

Yes, we are looking to encourage the development of markets for water resources and bioresources in PR19. We want to establish markets here so potential buyers can meet potential sellers, and as a result have a wider set of options about how they provide their services, and think more carefully about their 'make or buy' decisions. Yes, we want companies to consider testing the market for network projects of more than £100mn whole-life totex to see if there are better, more efficient, innovative ways of delivering them out there. All things that will introduce a bit of competition among those who could supply those services to companies.

And yes, we do now have head to head competition among retailers for business customers in England.

And by the way we have had competition in the sector for very large users, for developer services and with new appointees able to supply certain sites, for many years.

And yes, where there are markets and a degree of competition, firms need to be mindful of their obligations under competition law.

But that is not a barrier to collaborative working.

I know the extent to which we have competition in the sector today is greater than before, and I know that people are getting scared by the competition law risk. And I'm not going to stand here and say 'don't worry about it' because I would expect to see a healthy concern.

But there are plenty of very competitive sectors where companies manage to cooperate successfully on issues of common interest. At our Tapped In event back in March we had Mike Barry who leads on sustainable development for Marks and Spencer speak to us. And he pointed out that even supermarkets, who compete vigorously, have identified issues of common interest such as the sustainability of soy bean production, and the need to reduce use of palm oil, where collaboration was essential, and have managed to agree and implement protocols among themselves to make a real difference.

So please don't view markets and competition as barrier to collaboration. In fact you may well find that markets reveal a whole different set of potential partners and opportunities for collaborative working...

Conclusion

So to sum up...

Collaboration is not some fluffy 'nice to have'. In my view it is an integral part of how this sector will continue to deliver for customers and society over the long term.

And yes it brings challenges. And *maybe* learning how to collaborate in a more competitive environment is one of them. But it certainly isn't a barrier. And I don't even think it is the biggest challenge - I think the bigger challenges are about mindset. About getting over that 'water company knows best' or 'not invented here' culture. And understanding that in giving up a degree of control you could benefit from a wealth of fresh ideas and new solutions.

But the good news is that one of the essential ingredients of successful collaboration - a sense of common purpose - is something this sector has in spades. It goes back to that shared vision of trust and confidence in the vital public services it provides.

And with that common purpose - and the sort of open, curious attitude that I'm seeing more and more of - I have great confidence that - together - the sector can achieve new frontiers to the benefit of customers and society.

Thank you.