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Trust in water

**Delivering Water 2020:
consultation on PR19
methodology
Appendix 4: Task and Finish
Group recommendations and
draft resilience planning
principles**

**Appendix to chapter 5:
Securing long-term
resilience**

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1 Task and Finish Group recommendations

In early 2015, a Task and Finish Group was established by Ofwat as part of Ofwat’s new strategy and following the introduction of a new primary duty on resilience. The group provided a report including ten recommendations designed to help co-ordination of work on resilience.¹ Ofwat’s response to the Task and Finish Report, and to the consultation ‘Reliable services for customers’, is set out in “Towards resilience: how we will embed resilience in our work”.²

The Task and Finish Group recommendation are listed below, together with Ofwat’s corresponding responses, including our proposed actions in PR19.

Table 1: Responses to Task and Finish Group Recommendations

| Task and Finish Group Recommendation | Ofwat Action |
|--|---|
| <p>Agree a shared definition of resilience for the sector.</p> <p>When: During 2016</p> <p>Lead: Water and Wastewater Resilience Action Group (see recommendation 10)</p> <p>Involved: All bodies involved in planning and delivering water resilience</p> | <p>We recognise the ‘resilience objective’ has specific legal meaning. However, we consider resilience thinking has a broader application in helping us understand risks to the systems and services that customers rely upon. We consider the definition adopted by the Task and Finish Group – now slightly amended – is a helpful starting point, although the wording of our resilience duty remains paramount for our work.</p> |
| <p>Increase public engagement and education.</p> <p>When: 2015-20</p> <p>Lead: Water companies and governments</p> <p>Involved: All sector and non-sector partners, including stakeholders and third parties</p> | <p>Our strategy places customers at the heart of the sector. Our proposed resilience planning principles emphasise the central role of customer engagement in resilience planning (see section 5.5). Our customer engagement policy statement for PR19 sets out the principles of good customer engagement (see Chapter 2).</p> <p>We see CCGs playing a key role in challenging companies to use approaches to customer engagement that allow them to engage effectively on resilience and take the results into account in their plans. We also expect the CCGs</p> |

¹ [Resilience task & finish group](#), Ofwat, 2015

² [Towards resilience: how we will embed resilience in our work](#), Ofwat, December 2015

| Task and Finish Group Recommendation | Ofwat Action |
|---|--|
| | <p>to provide assurance to us as to the quality of that engagement – in particular, taking account of engagement with customers in the long term and on the resilience of its systems and processes, as well as its services.</p> <p>Our assessment of business plans will consider the quality of a service provider’s customer engagement – including the degree to which companies have effectively engaged with their customers on longer-term issues (see Section 5.6).</p> |
| <p>Ensure clear routes for funding legitimate resilience measures.</p> <p>When: By 2017, in time to inform PR19</p> <p>Lead: Ofwat and water companies</p> <p>Involved: Water companies, investor community, customer bodies, wider water sector stakeholders</p> | <p>The Task and Finish Group report recognises the positive impact our approach to PR14 has had on longer-term planning (and funding) for resilience, including through the introduction of a total expenditure (‘totex’) approach and a focus on outcomes. It also recognises the key role companies and customer groups have played in developing methods to test real customer acceptability of risks and costs, and to develop more partnership approaches.</p> <p>We have built on the PR14 approach at PR19 and propose to make allowance for appropriate levels of resilience investment, where schemes that are clearly justified by cost-benefit analysis.</p> <p>Resilience schemes and programmes will need to be linked to outcomes that deliver real benefits to customers. As with all other spending, we will be seeking to make allowances for efficient costs – so that customers get the maximum level of resilience and other benefits for the level of allowed costs.</p> <p>The Task and Finish Group says we should provide companies with a clear framework and that it is important that companies retain ownership of their plans within this framework. It states a need for:</p> <ul style="list-style-type: none"> • clear guidance from us on our treatment of resilience when we consider business plans; • flexibility to fund innovation against a wide assessment of costs and benefits, with future generational aspects factored into the assessment of business plans; and |

| Task and Finish Group Recommendation | Ofwat Action |
|---|--|
| | <ul style="list-style-type: none"> a clearer framework for developing, regulating, funding and evaluating soft infrastructure (such as community-led projects or sustainable urban drainage systems) and community-based resilience. <p>It also says we should specifically look at how and whether our framework could enable water companies or others to fund distributed assets and/or to manage assets at a community level.</p> <p>Our PR19 methodology proposals help ensure this. They build on the firm foundations of PR14, which gave more space for companies to develop sustainable, innovative approaches in discussion with their customers.</p> <p>Our PR19 proposals take account of (and incentivise) further innovation, including greater use of partnership approaches that bring benefits to customers, the environment and wider society including through the initial assessment of business plans (see Section 5.6). We have been clear in our methodology proposals for PR19 that we see service providers' work to deliver resilience extending beyond what would traditionally have been considered 'investment' – that is, capital expenditure – and into all areas of their activity.</p> <p>In addition, our outcomes regime includes various resilience and asset health metrics, and so will incentivise companies to deliver good resilience (see Chapter 4).</p> <p>We consider our approach enables service providers to:</p> <ul style="list-style-type: none"> share costs as well as benefits with partners; try out new approaches that allow them to tailor their services against a spectrum of customer preferences; and provide a platform for other sectors such as farming and energy to play their part in solutions. |
| <p>Ensure coherent planning for resilience at both a regional and national level</p> | <p>We have been working with Defra, the Welsh Government, the Environment Agency and</p> |

| Task and Finish Group Recommendation | Ofwat Action |
|--|---|
| <p>When: By 2020</p> <p>Who: Water companies, Environment Agency, Natural Resources Wales</p> <p>Involved: Water sector bodies and NGOs</p> | <p>Natural Resources Wales to develop draft WRMP guidelines, which are currently out for consultation. The published draft guidance was accompanied by a joint letter setting out our expectation that companies should integrate the development of their WRMPs into their business planning. Our PR19 methodology proposals also make clear that we will consider the extent of this integration in our assessment of business plans (see Section 5.7.2). To support this, government and regulators been working together to improve these planning processes and to streamline their alignment.</p> |
| <p>Establish wastewater, sewerage and drainage plans</p> <p>When: 2020-25, with a Drainage Road Map produced during 2015-20</p> <p>When: Governments, water companies, local authorities</p> <p>Involved: Regulators</p> | <p>Wastewater services are not subject to a statutory planning framework, and Defra's draft strategic priorities indicates that there needs to be improvement in some areas of long-term wastewater planning. Our proposed assessment of business plans in PR19 encourages service providers to have long-term wastewater, sewerage and drainage strategies in place. We expect wastewater companies to demonstrate that they have been and are adopting the principles and recommended best practice set out in the Drainage Strategy Framework and to give confidence that desired outcomes can be achieved in the long term.</p> |
| <p>Improving the understanding of risk and failure.</p> <p>When: 2015 - 2020</p> <p>Lead: Environment Agency, Natural Resources Wales, water companies</p> | <p>We agree that managing risk is at the heart of delivering resilience of systems and services. Our methodology proposals for PR19 make clear that understanding and managing risks will be something we look for in our initial assessment of business plans (see Section 5.6).</p> |
| <p>Ensure services are resilient under different water sector structures.</p> <p>When: By 2017</p> <p>Lead: Governments and Ofwat</p> | <p>Our methodology proposals in PR19, together with our wider set of tools, should help drive companies to ensure services are resilient (see sections 5.7-5.9).</p> |
| <p>Develop benchmarking, standards and metrics</p> <p>When: By 2017</p> <p>Lead: Ofwat, water companies and governments</p> | <p>We propose that the outcome delivery incentives regime in PR19 include four common asset health metrics and two common resilience metrics which incentivise long-term resilience.</p> |

| Task and Finish Group Recommendation | Ofwat Action |
|---|---|
| <p>Involved: Water companies and wider water sector stakeholders</p> | <p>Further details of our approach in this area can be found in Chapter 4.</p> |
| <p>Ensure existing plans are stress tested When: 2015-20 Lead: Governments to set framework for work Involved: Water companies, regulators, governments, civil society</p> | <p>It is for companies to consider such a framework and build this into their approach to meeting their resilience obligations. We will take account of the extent to companies are meeting these obligations in our initial assessment of business plans (see Section 5.6). We will consider reflecting this in our requirements for annual performance reports.</p> |
| <p>Establish a water and wastewater resilience action group</p> | <p>We welcome the Water and Wastewater Resilience Action Group being established by Water UK.</p> |

2 Resilience planning principles

In section 5.5, we set out our proposed resilience planning principles. These are based upon the draft principles set out in the consultation on the outcomes framework for PR19.³ For reference, those draft principles are set out below.

Box 1: Draft resilience planning principles included in consultation on outcomes framework

Principle 1 - A better and more integrated understanding of service risks

Companies should carry out resilience risk assessments that provide a clear and systematic understanding of service and systems risks across their entire business.

Principle 2 - Customer engagement

Companies' resilience risk assessments should be informed by engagement with their customers.

Principle 3 - A resilience golden thread and greater transparency

The outputs from companies' resilience risk assessments should inform companies' water resources management plans and business plans – i.e. there should be a resilience golden thread. Companies should make clear in their business plans and their engagement on their business plans how they have taken account of their resilience risk assessments.

Principle 4 - Broad consideration of intervention options

Companies' resilience risk assessments should consider a set of mitigating actions and interventions that consider all of the components of resilience including response and recovery. Companies should consider collaborative, innovative and long-term options.

Principle 5 - Cost effective solutions

Companies' resilience risk assessments should consider the most cost effective solutions for mitigating risk, valuing the wider future set of options that some

³ [Consultation on the outcomes framework for PR19](#), Ofwat, November 2016

courses of action allow for. This might involve partnership working with other organisations.

Principle 6 - Outcomes and customer focused approach

Companies' resilience risk assessments should inform resilience outcomes and the associated stretching performance commitments based on future risks and customer preferences.

Principle 7 - Board assurance and sign-off

Company boards will need to assure us that companies' business plans have been informed by:

- a) a robust and systematic assessment of the risks to systems and services facing the company; and
- b) the results from engagement with customers on the relevant risks.