

17th July 2019

By email to: waterstories@ofwat.gov.uk

Dear Ofwat

Re: Ofwat's emerging vision and strategy

We welcome the conversation Ofwat has started around a new shared vision for the sector, which will inform an update to its strategy. We support the vision, and the focus on everyday excellence, stewardship for the future and the value for individuals, and for society. We see parallels between the Ofwat vision and our Bristol Water...Clearly long term strategy, our mission to be a company that our communities trust and are proud of, and our focus on public value and wellbeing. We have found the #waterstories campaign helpful as a route through which we could contribute our own thoughts and stories in a way that focuses on the people we are working on for the future. Our response on the vision focuses on the themes we have contributed during the conversation campaign.

We commit to continuing to prompt a debate through our website blogs and social media on the purpose and potential for the water sector to deliver differently to the past, for the reason that customer's needs and perspectives continue to change. The water sector cannot be passive and rely on customers on telling us what they want. Instead, we think companies work have to work with others to create active customers and citizens whose experience of the water sector is positive. It is for this reason that we believe companies who share a vision for the future, similar to the themes set out by Ofwat, will have to collaborate to make this happen. As a local water company, we think there are bigger opportunities outside of the water sector than within it, and given our size and level of ambition to have a positive impact on public wellbeing it is essential to us that we do so.

For this reason we felt that Ofwat's vision had too much focus on the regulation of the water sector. Our experience suggests that describing a vision as to what it feels like to customers, stakeholders and employees would better capture the purpose of the strategy, rather than the tools of regulation that will help to deliver it. This would then match the conversation behind the #waterstories campaign. If the sector does not focus on this, some of the key cross-sector opportunities for innovation could be missed. We recently ran an event with our local partners from local government, energy, waste, social enterprises and campaigning groups. We focussed on what the future citizens and employees may look like, and how we could take action in areas such as resource efficiency and education to plan for the future. It was clear that all sectors, including the water sector, would deliver much greater public value by working in this way.

We show in our detailed response how, with our local stakeholders, we have started to use the UN Sustainable Development Goals as a way of describing alongside others contributions to local plans. There may be scope for Ofwat to use this as a way of describing the impact of the water sector and your regulation to a wider audience.

Water services are fundamentally local public services. They operate in a national framework and there is a need for national policy and co-ordination, particularly for developing new national water infrastructures. However, for most stakeholders, customers and employees, the water sector must remain a local public service if it is to be “resilient in the round”. The clearer the link that customers see for water services to their local community, environment and quality, the stronger the support they will have for the sector. Accountability to local stakeholders and local authorities even within a national framework should always be the key focus for the water sector, whether this is local economic development plans, education and skills, public health officials. This local accountability and responsiveness of water companies will provide confidence in the national policy framework. This is an area the Ofwat vision and strategy for the sector could explore further, as it will help to describe the strategy from the perspective of current and future customers and employees.

We think that engaging customers and employees in a shared vision is the best way of the building the trust and legitimacy of the sector – it needs to be an exciting and compelling vision from their perspective. This goes beyond a strategy on the big goals for the water sector from national stakeholders and regulators. As an example, if we really want to deliver reduced per capita consumption, it will mean a significant change in people’s lives, rather than something seen as delivered through targets and regulatory incentives. The vision for instance could talk about whether we should innovation should focus on how those in the new development market could also help to improve water efficiency and housing for existing properties. For customers and local stakeholders, we may need to link reduced consumption to what the benefit would be to the local river, rather than talk about abstraction in mass water supply terms. We see the risk that some targets (domestic PCC) could miss out business water use, and the opportunity for a vision that included how wholesalers and retailers could work together to encourage water efficiency to people in the workplace, reflecting that business resource efficiency has to engage people who are also domestic customers.

The Ofwat emerging vision and strategy document tended to talk about customers indirectly, for instance through what insight Ofwat could learn from the research that companies do. One of the key areas that Ofwat have been right to focus on for the sector (e.g. in the Board leadership principles) is the culture within companies and the way this reflects how customers view the organisation that is serving them. Setting out these themes from a customer perspective in a vision would then help to describe what some of the more detailed elements (such as innovation or long term targets) would mean to them, rather than the position of transformational change within the water company. Starting with the themes of customers (citizens) and employees and then describing strategy proposals against this would be compelling, and should also link back to the three key themes in Defra’s Strategic Policy statement – Securing long-term resilience, protecting customers, and making markets work to deliver these two priorities. In the absence of this, we may struggle to describe to customers and employees what will be different if we change strategy on innovation or long term targets.

This is not a criticism of the aim of a strategy to reduce consumption, or of the business retail market, but reflects that a vision will need to relate to people in their everyday lives in order to develop the most effective strategy. Even where some elements of the vision may be outside of Ofwat’s obvious role or duties, this understanding helps to ensure that the water sector isn’t limited in its perspective. As an example, when we consider that the City to Sea as a campaign group remains focused on plastics, but the Refill link to public health and the value of drinking water helped to make it an effective and compelling cross-sector campaign which then extended to sewer blockages, we think this provides a good example of why a vision for the sector could be balanced towards customer and employee

perspectives rather than the nature of regulation. This is an important observation for the development of the companies you regulate that they focus on customer and stakeholder experience (including the supply chain), more than defining success as influencing the regulatory framework.

Many of our perspectives on the vision have been informed by the Bristol Water For All social contract initiatives. This includes the Bristol Water Board's personal commitment to a social purpose to how Bristol Water is run and governed. We believe this statement of our social purpose and how we will be accountable for working in partnership with others who share our aims is consistent with the themes behind Ofwat's vision. Given this alignment, we describe in Appendix 1 to this letter the evidence from our experience of how this can be delivered in practice and how this affects Ofwat's role. Increasingly the focus for the water sector will be on how we deliver, not just what is delivered. Ofwat face a challenge to update regulation given the pace of change that we anticipate in society that should drive the purpose of water companies. We therefore focus, based on this shared vision, on what on-going conversation will be needed to support Ofwat's task. Starting the vision from the local customer and employee perspective will help address this challenge.

In summary, our observations on the vision are:

- The water sector fundamentally remains a local public service. It has and continues to operate within national and international frameworks, but most innovations will continue to develop bottom up to address local needs. We think the approach to sector innovation strategy should continue to reflect this.
- The challenges society faces are complex, and to deliver public value we think cross-sector and cross-utility approaches are likely to be the most efficient and effective. We would encourage Ofwat to consider how it encourages innovation that has wider impact across different sectors, and work with stakeholders and other regulators to enable such opportunities. We think this is likely to produce better outcomes than more intense focus on water sector transformation in isolation of the rest of the system we operate within.
- Financial incentives within the water sector have great power and deliver significant improvements for customers, without dictating how services are delivered. These have often developed by starting with reputational incentives, and then considering the regulatory and market framework that evidence supports. Ofwat should retain confidence in this approach. An increase in Board level dialogue on company strategy and performance with Ofwat, both good and bad equally, is our main suggestion to shape the future regulatory framework in a way that focuses on purpose and public value.

Our own experience and history suggests that innovation in the sector can be identified from local initiatives, where the distinction between private economic and public social and environmental value in the long run is blurred. We are fortunate within Bristol to have an institutional framework emerging with the Bristol City Council "One City" plan and with the West of England Combined Authority that supports our intention. We are using the UN Sustainable Development Goals as a common framework for better planning. As we set out earlier, this is one step in developing the vision and strategy that Ofwat may wish to consider further as it provides both a customer and employee focus when describing the individual areas of strategy such as innovation. Ofwat the consultation document saw priority areas for regulation. We would be happy to discuss this evidence further.

Yours sincerely



Iain McGuffog
Director of Strategy & Regulation

APPENDIX 1: DETAILED CONTRIBUTION TO SPECIFIC QUESTION RAISED IN THE OFWAT VISION AND STRATEGY

What do you think should be included in a shared vision for the sector? What are the collective aspirations it needs to achieve?

We agree with the thrust of the vision – it aligns well with the conversation we have had with customers and stakeholders surrounding our ambition, our outcomes, and our social contract – linking public value to our long term ambitions to what we need to do to deliver both public and private value for the long-term



In developing our vision a key point is that customers and stakeholders did not understand why we should take a lead in developing public value – we had to summarise our approach down as the description of a journey in the picture above. There was also recognition of the need for a significant amount of trust (and therefore legitimacy) as an organisation if we were going to deliver this. We needed both employees and our stakeholders to believe the leadership of Bristol Water did take this mission seriously. For customers, the challenge was how they could influence it and be kept informed, which required awareness and trust in the organisations we worked with, and not just Bristol Water.

We do see a difference in how we describe our vision, which is from a customer and employee perspective, and the greater focus in the consultation vision on regulated companies. In setting out a vision, we found describing it from the perspective of the history of the sector, and its potential future for customers, employees and stakeholders can help bring it to life, and not constrain options to just considering the current water sector role as customers and stakeholders understand it. This may allow for new and greater innovations, whilst still allowing Ofwat to focus on its role in regulating the sector (distinct to other approaches such as cross-sector innovations that may require new forms of policy and regulation)

Our vision development leads us to an important collective aspiration for the sector vision:

- a) It has to allow local frameworks and accountability, but for fairness and legitimacy this has to operate in a strong, ambitious national framework
- b) It must allow for collaboration to be a normal way of working – not just between water companies but across sectors that are part of the communities we operate within.

In many ways we think the vision for the sector can be wider and more ambitious than it is generally currently perceived – the history of the development of public water services means it was one of the first sectors to realise, alongside the worsening ill-health at the start of the industrial revolution, that we existed in a circular economy and environment. At this time “*water meant health and health meant wealth*” applied – something that for the wellbeing of society remains true today and in the future.

Without companies with a social purpose that linked health and wellbeing to wealth and the economy, the technologies and approach to the water industry we have today may never have emerged. Like most public services the driver for change often started in one local area with the most acute problems, where there were social entrepreneurs willing to innovate and be creative. The NHS, with its background in local Welsh mining communities, is a non-water sector example. The water sector prior to the 20th Century was a history of patchy free market provision protected by local government, until social entrepreneurs innovated to deliver both economic and public value. Bristol Water is recognised as an important example of this, and we have used this founding social purpose as a key part of our current vision.

OUR PLAN

Our business plan sets out how we plan to meet the priorities of our customers, through promises and outcomes. It's not just what we deliver that's important to our purpose though but also the way that we deliver, reflecting our role as part of the local communities we serve.

OUR AMBITION

Our vision: "Trust beyond water – providing excellent customer experiences".

It reflects our mission: "To be a company that our communities trust and are proud of. In doing so we will deliver excellent experiences and create social and economic value".

Our purpose drives our long-term ambitions for Bristol Water. This is reflected in our vision and mission.

OUR FOUNDING PURPOSE AND HISTORY

We were founded in 1846 with a strong social purpose to improve public health and to supply water to all, not just the wealthy. We stay true to these roots today.

OUR PURPOSE

To have a positive impact on society and the environment – building trust beyond water

OUR SOCIAL CONTRACT

Our social contract sets out how we are accountable for the social promises we make as we deliver our purpose. Our social contract will evolve as society does and we learn from experience, so through a set of mechanisms and initiatives we build partnerships and relationships to make it meaningful to our customers and stakeholders.

OUR PEOPLE, OUR VALUES, OUR CULTURE

Throughout our history, the people at Bristol Water have been proud to go the extra mile to deliver for our customers, our communities and for each other. Our purpose is important to the people who work at Bristol Water and is reflected in our values.

A LOCAL APPROACH

We benefit from close connections to our communities which means that we can provide excellent experiences. Working in partnership with those who share our purpose builds trust in us as a company that is part of the community.

Alongside the summary of our social contract above, the history of Bristol Water on our [website](#) describes this journey for local public services that have a much wider impact and influence the national framework. We see renewing this “#hydrosocialcontract” for today as an important part of the future. We think the Ofwat vision means that the sector needs a strategy to emphasise the benefits of locally driven, privately financed provision with a social purpose.

We do not think it is sufficient to focus on the scale of investment in the industry or past achievements in improving services and the environment in order to make the case for the future role of privately financed provision and use of markets for the water sector. Comparing the water sector to other countries means that this perspective on private provision is difficult to explain, other than in terms of negative impacts of change from the current status quo.

One perspective is that the challenge in creating public value, rather than a focus on efficient administration of core activities and duties, is arguably easier under private than public finance. There is greater flexibility for how improvements are delivered, as well as greater certainty of commitment of financing in many circumstances. We observe that we often have greater flexibility in consider changing how we work than some of our public or community group partners. Our approach to develop collaboration and partnerships in our social contract was also influenced by three observations:

- The experience described in Mark H. Moore’s book on creating public value, which showed the impact in the public sector of when individuals took a different perspective of their role beyond their public service to consider strategy from a wider social purpose¹. The examples included in

¹ Moore, Mark H (1995); Creating Public Value: Strategic Management in Government (Harvard University Press)

this book focused on how local changes through purposeful individuals could re-shape delivery of public value.

- We identified that there are many shared objectives across a wide range of initiatives that saw businesses, community organisations and local authorities working together – there are many initiatives and pledges but identifying evidence of public value impact was harder, particularly in trying to judge which of the wide range of initiatives should be a focus for water sector contributions.
- Deciding on how to approach shared initiatives across organisations is challenging, because of a rapid pace of change in society, and the challenge of connecting to individual consumers (and not just already engaged citizens) is shared. Time is a shared vulnerability for both consumers, and organisations who worry about wellbeing (e.g. for the water sector how we respond to supply interruptions and who may be vulnerable given that it varies in the circumstances has been an important example in our core service planning, but is shared by other sectors). It is hard to understand wellbeing, and to plan for the long-term effectively in the face of uncertainty and a lack of data. However, just as with planning water pipes and leakage, waiting for improved data before making decisions is not often an effective strategy.

To date, our experience suggests there is significant public value through collaboration with other sectors, and for the water sector the potential to improve customer experience through thinking beyond water services. The story behind the Bristol Refill campaign and the initial support provided by Bristol Water to City to Sea, building on a connection through the Bristol Green Capital Partnership. is a well-known example of how a local campaign, across a range of sectors, but with a shared purpose to reduce single use plastic and promote the public health value and awareness of drinking water.

The approach continues to develop – the recent National Refill Day launch in Bristol of new public fountains included the City Council, Bristol Waste, Bristol Energy and City to Sea with their partners. For some of the partners there is clearly a commercial opportunity (such as SodaStream), but the public purpose remains clear. Each organisation brought a different focus, and perspective to the launch. For Bristol Water this included the people within the organisation who own this purpose, and for them it often extends to their families. These water stories are important to us, and this part of the Ofwat vision discussion helps us to explore and illustrate the strategy points that develop on public value from the conversation.



Bristol Water @BristolWater · Jun 19

★ It's officially open! ★

What an amazing day, thank you to everyone who were involved with the grand opening of our brand new water fountain! Now to carry on refilling! 🌊
 @BristolWaste @SodaStreamUK @Refill @BristolCouncil #refill
 #NationalRefillDay



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This approach is not just about one topic, and the use of a social contract framework to contribute to other local plans is developing, in a way where the innovations and changes identified can produce evidence that influences national policy, particularly for the trickier cross-sector problems. The relationships with the West of England Combined Authority Mayor and the Bristol City Mayor are important in terms of being able to target public value. There are two key aspects that we think are relevant to Ofwat's vision for the sector.

- In looking at public value, the ability to understand the challenges faced by the system as a whole is important for both engagement and prioritisation between participants. The Bristol Council "One City" plan has ambitious targets (e.g. being carbon neutral by 2030), but for some aspects such as water efficiency our long term plans were more ambitious. Based on this experience, for the "One City" plan we have started to use the UN Sustainable Development Goals as a good way to map in a consistent way contributions of different sectors and initiatives to wider public value².
- Long term planning needs to engage the public. In developing the social contract, the greatest support from customers was for initiatives for education, both on topics such as the

² See example of how this aids communication at <https://www.bristolwater.co.uk/social-contract-and-sustainable-development/>

environment and water efficiency, but also to prepare future customers for the work. Our local stakeholders were also concerned about social mobility and the level of aspiration. Because of the range of initiatives that are involved – we are getting stakeholders together to describe a shared vision of two things better – what does the ‘employee for the future’ do (how do they work), and what does the citizen for the future look like.

We see these as essential elements, and these two points should allow better planning. From our perspective, we see this as consistent with a systems-thinking approach, and ultimately is part of long-term resilience. We think this illustrates that public value should always be a core part within the water sector and difficult to effectively plan for the future without. Water is not the only sector this applies to.

As an illustration of this, using the UN Sustainable Development Goals meant our contribution could feature in the recent report on the Bristol Voluntary Local Review of progress prepared by the Cabot Institute³, which was then presented at the United Nations. Bristol was highlighted as a leading city for the UN SDGs, alongside Helsinki, because the framework allowed each sectors contribution to be shown. This highlights the high quality of tap water and security of supply, highlighting the sustainable contribution Bristol Water’s services represent, as well as per capita consumption targets. However it also references our contribution to wider goals, including achievement of zero water poverty, the SUNEX partnership with University of West of England exploring urban agriculture, our contribution to raising aspiration and social mobility with the local charity Ablaze, the Refill campaign, catchment management, developing the Biodiversity Index.



³ <http://www.bristol.ac.uk/media-library/sites/cabot-institute-2018/documents/BRISTOL%20AND%20THE%20SDGS.pdf>

As an example, at an innovation event we held at the University of the West of England, we discussed the challenge of water efficiency for a generation that may not own their own homes. Research suggested the 21-35 age group had the greatest environmental awareness, but had the least sustainable resource efficiency behaviour. In part they were time poor, but it was unrealistic to expect resource efficiency improvements from those in a rented sector without security of tenure. Combined with evidence that lasting behaviour change requires positive and wider benefits for the individual (as negative messages tend to only have one-off or short term impacts), we have started a shared project to explore how to produce an attractive resource-efficient package of measures. This knowledge on tenure and tenant behaviour from landlords could help to reduce water debt, and allow targeting of better ways of meeting future water service challenges (e.g. leakage, new drinking water lead standards etc), alongside regional government plans. We see a role for the water sector in sparking such options, and using its collective weight to influence national frameworks where there is public value reasons to do so.

To test our approach further, we recently ran an event with Bristol Green Capital to explore what the citizen for the future and employee for the future may look like. This also helped to identify what actions we could take now, including through our “Resource West” cross sector resource efficiency approach, to contribute to the Bristol “One City” Plan. We used the UN Sustainable Development Goals and included representatives from Bristol Council. This in part reflects the local approach to planning for a range of public goals where the council chooses to plan in a way that is updated annually for long term goals by aligning plans to those of key stakeholders – for instance we contribute directly through the Environmental Sustainability Board.



Bristol GreenCapital @bgreencapital · Jul 12

Cllr. @nicolabeech (with a sleepy future citizen) talks about the One City Plan and her family's experience participating in @bristolwaste's #wastenothingchallenge





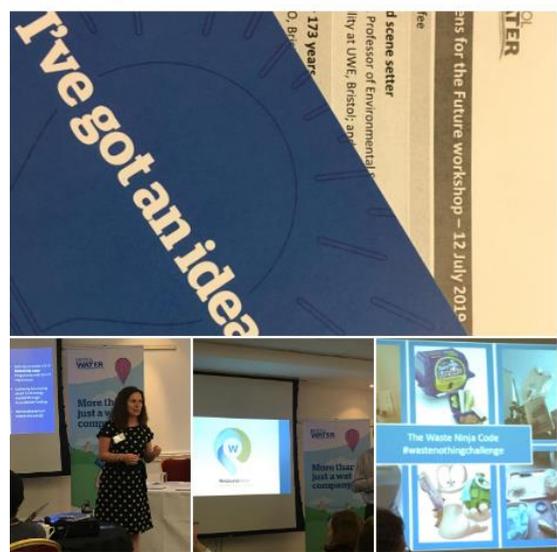
Ben Ross • 1st
Partnerships | Strategy | Business Development
3d • Edited

Talking about citizens for the future...how do we prepare and support current and future generations for social change? to live within environmental limits? and to adapt to our changing climate?

Great introduction to Resource West by [Patric Bulmer](#). Moving on from organisations acting to do what they need to do, to recognising and acting on what actually needs to be done.

Thank you [Bristol Green Capital Partnership](#) [Bristol Water plc](#) for coordinating great speakers [Mel Karam](#) [Iain McGuffog](#) [James Longhurst](#) [Samantha Nicol](#) [Gwen Frost](#) [Sally Melvin](#), stimulus and discussion.

#bristolonecity #collaboration #collectiveaction



We set out in Appendix 3 some of the highlights of the outputs from the event, which results in an agreed set of actions to develop the citizens, employee's and employer of the future, using the UN Sustainable Development Goals as a way of sharing ideas and interests but with a long term goal in mind. Individuals personal experience was the most important item – the experience of the 50 families taking part in Bristol Waste's "Waste Nothing" challenge (contributing to the evidence base for Resource West) had focussed on the frustration of the wormeries, the realisation of our own vulnerability to a changing environment as some worms being used for composting thrived and others died from being too wet or too hot. A vision for a sustainable future was informed by individuals developing their own shared connection, whether sharing ideas on worm-care or frustration with packaging. The learning points about risks to affordability and wellbeing through relying on behavioural nudges in the short term without deeper engagement apply to water as much as other sectors. We see a vision for the water sector therefore that is not inward looking at the sector, but outwards looking at its wider contribution, as the best way to test how it can be more effective.

The key messages was the responsibility of employer's to set out a positive vision of the future, how purposeful organisations were best placed to do this, and that as well as delivering a more sustainable future, a focus on resource use would find new ways of delivering at a lower private and public cost

than working in isolation. We think these are general points that would be also relevant to Ofwat's vision for the sector as a whole.

For Ofwat's strategy and vision therefore:

- We think the challenges, and the public value solutions, apply across different sectors. There are innovative approaches and outcomes that we are developing across public and private sectors, with the opportunities arising out of our social contract, for instance with the Bristol City Mayor, Bristol Waste, Bristol Energy. This lends itself to a) regulation that can adopt to local public, private and social enterprise joint initiatives, and b) emphasises the importance of Ofwat working with a wide range of national and local stakeholders.
- We think there needs to be ongoing dialogue with the water sector participants. We have got great value through the interactions with the Ofwat team on general business purpose and engagement issues, and in conversation were challenged to be ambitious and to innovate in our perspectives of what was possible. We would welcome this to be extended, with both greater Board level (including non-executive) engagement on the main challenges, and for the technical discussions on process and performance to always have a strong theme of "purpose".
- We think Ofwat's vision should reflect the importance to both trust and innovation that locally generated and agreed solutions can have, and recognise the power for these to become national. We have good examples of this (e.g. Refill campaign), and many potential new ideas that arise out of our social contract. From the recent past, catchment management would arguably never have developed without local ambition, innovation and pilots, as national frameworks for many years mitigated against it because regulators could possibly have taken action, as it was (and by some still is) perceived as against the "polluter pays" principle. This is still a challenge as:
 - The distinction between public and private value is not clear, as the benefits are not purely economic.
 - The situation is never static (e.g. with catchment management, farming expectation and pressures change).
 - What appears to work nationally may be the opposite of what would be trusted, or the right solution locally.
 - How outcomes are delivered is often just as important to trust and legitimacy as to what is delivered. This is the relevance of excellent experiences, in our view. An experience requires public, as well as private value.
- One of our key concerns is who represents the sector. Water UK has a role to play, but from Ofwat's perspective the relationship should be direct with companies, to ensure that companies have the focus and purpose on their customers. Water UK should not be seen as an agent in the regulatory process with companies, and should not be described this way with Government and regulators. The pace of change required driven by the challenges society faces and requires more, faster learning through direct relationships and collaboration on specific initiatives, which we think will cross sectoral boundaries. We will encourage Water UK to focus on cross-sectoral links and reflect the diversity of the sector. We will use our other memberships and partners, such as with the CBI or the Bristol Green Capital Partnership, where they provide momentum for change.

Should water companies be encouraged or incentivised to consider wider public value in what they do? What does this phrase mean to you, and should Ofwat take a role in making that change happen

In many ways we do not need to be incentivised to consider wider public value. However, there are things that Ofwat will need to consider to ensure the balance of incentives (both financial and non-financial) support this goal. Ofwat will need to retain its core focus on economic efficiency, and where this is in consumers interests, incentivising outcomes. A framework that leaves space for a long-term perspective that holds companies to account for current delivery and develops evidence for the future, without believing the future can only be planned through data and metrics.

We have found our social purpose to be a powerful tool. As we show in Appendix 3 it can attract new people and organisations to want to work in and with the water sector, and to work in a different way. We also believe public and private value can be generated through positive aspirations and targets. In the long run, the distinction between public and private value is less clear, as if we do nothing, we miss the private value opportunities in water by not considering public value in the solutions we choose. We think this is probably also true in the short run, something we are trying to prove with our social contract, through initiatives such as Resource West.

Depending on location it may be that smaller and/or water only companies have an advantage in social purpose, in part with a local connection. However, larger organisations can do this (and some of the utilities we have been working with exploring social contract initiative opportunities are much larger than us). Speed of decision making / agility is another consideration – bigger companies have more flexibility of resource, but it can take longer to mobilise change and empowerment to respond to local stakeholders.

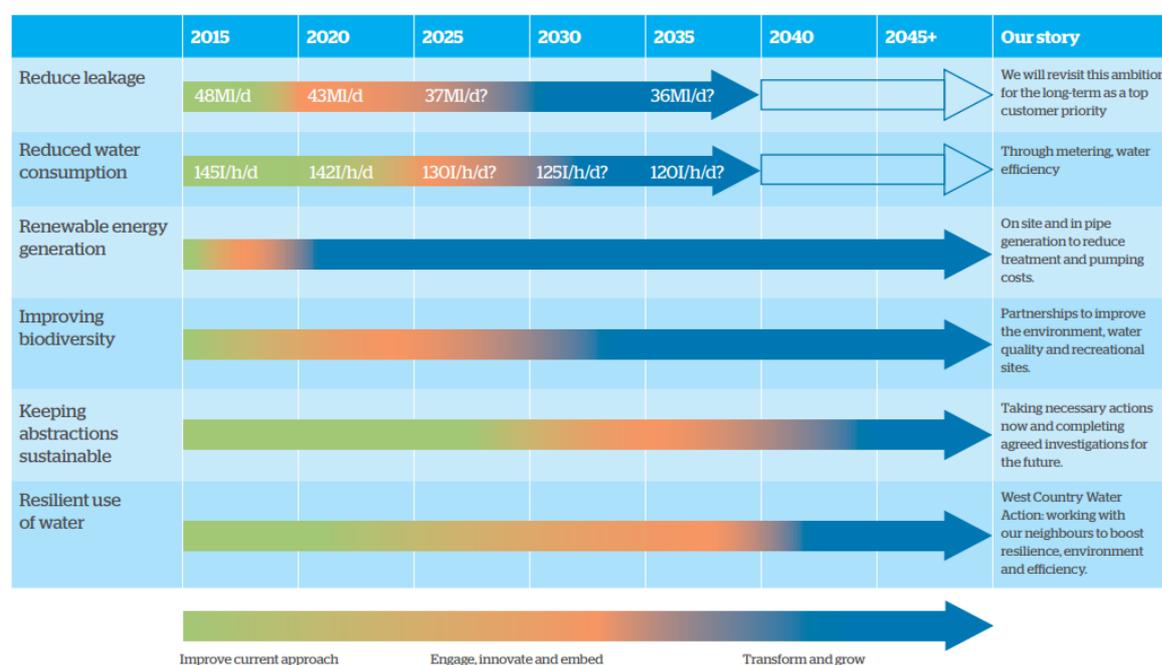
Do you think long term aspirations and targets will be effective in driving the sector forwards? What should they cover and how should they work in practice?

We think that water companies should already use long term targets as part of their planning processes and local engagement on the future. From our experience, customers generally support environmental and service improvements from the perspective of their experience of the impact on them or the environment, and perceptions of bill levels and value for money. We find its important to explore the trade-offs between service improvements and bill levels, and then identify innovations that help to accelerate delivery. The trade-offs from a customer perspective includes trust, which is where better planning for the long term, in our view, comes in. This however is a local view of services, with customer rarely engaging with national picture of service levels that are outside of their experience, other than bills. Much engagement is therefore on the timing of progress towards a vision of the long-term, rather than just the end position.

There is a role for national targets, in part to set the context for local planning. We see that there should be local engagement on strategy, that then helps to inform a debate on what national targets or services may be appropriate. For instance, in our [“Bristol Water...Clearly”](#) long-term ambition we provided indications of long-term targets, but also (see leakage and PCC on page 88 recognised where long term plans may need to be revisited. This certainty of speed of change and transition sat alongside

specific targets, and an exploration of what factors may be set nationally (such as the development of markets), which may impact how we would need to deliver change.

Our journey to achieve local community resilience



We provide more background detail on some of the factors behind our development of “Bristol Water...Clearly” in Appendix 2. In our view:

- Long term targets have a role to play, but will provide little benefit above aspirations without understanding of costs. We would encourage some flexibility, between targets that have a degree of certainty and reflect minimum assumptions, and aspirations. With our own long-term ambition we attempted to distinguish where long-term targets and aspirations might need to be reset as costs and technology change, which is an approach worth considering. The outcome from PR19 will be informative as companies have had the opportunity to set out a long-term direction, for instance we have set out a ten year programme for single supply failure with timing of ambition to be reset. We have customer support for a phased approach, which included dialogue on the long-term aspect for our bespoke resilience ODI.
- We also think there is the challenge with an industry focused on outcomes on the balance between focusing on productive efficiency, and exploring where innovation requires earlier investment to allow for greater potential dynamic efficiencies in the future. We think an industry strategy that reflects local ideas and initiatives that can be used to support local engagement would be helpful. This would help to interpret national targets (e.g. is a 50% leakage reduction by 2045 each company, or an industry average, would be clear based on evidence from potential from local engagement and drivers for change).

- Water companies grew to serve their local communities, and we think other utilities may well head to more decentralised models, in particular linked to changes in energy generation and networks. From Bristol Water's history we observed in our response to the NIC regulation study that major water transfers across the country only stopped when the current regional structure was put in place and central policy changed, which pre-dates economic regulation. Prior to 1973, there was accountability through a mixture of public, private water companies and major industries, with Parliamentary scrutiny on proposals. This model could fit with the current water trading markets and regional groups, and can also be modernised for today's challenges that cross-sectors (e.g. considering local energy generation with water resources). We would recommend that:
 - a) Ofwat think about how cross-sector contributions to the water sector vision can be encouraged (and affect the regulatory framework);
 - b) Ofwat consider whether the framework for long-term targets beyond individual companies could support changes / reductions in individual company regulation, building on the water resource planning and market potential; and
 - c) Consider whether local engagement on long term targets remains the most effective approach, except where a) or b) apply.

Do you think we are focusing on the right areas in which to drive transformational change e.g. innovation, the natural environment, customer relationships?

We recognise that the areas Ofwat identified are important ones to drive transformation change. We expect all companies should focus on them, but to explain why these are right as a group outside the sector will require the purpose being communicated in a different way. Otherwise we risk customers and stakeholders (and potentially companies) interpreting what is expected too narrowly. In our view:

- Transformational change will be enabled through purposeful companies – as our long term ambition found, this includes thinking about the system and our contribution to society. Innovation, the natural environment and customer relationships are factors, as is the operational resilience that is fundamental to trust. The general observation (referenced in our social contract thinking) is that companies with a purpose perform better, are naturally more innovative and have better employee and customer relationships. In the water sector, and certainly for the people who work within it and stakeholders who care about it, their motivation includes public health, natural environment and the wider wellbeing impact on society. We think putting this people focus and purpose at the heart of Board governance then helps to drive transformational change.
- We think it would be useful for Ofwat's strategy to make a specific reference to companies wider public value (social, environmental and economic) purpose, and then explain that innovation, the natural environment and customer relationships are the areas of transformational change that can most readily deliver this purpose. We think this is the intention of the strategy, and Ofwat's approach to Board leadership and legitimacy, which we continue to support. We think it is important to make this link as we believe is intended as specific as possible in the vision and strategy.
- We are not convinced incentives (e.g. for innovation) will be the right approach to address long-term challenges. These risk complicating the regulatory framework, as outcomes would need to be clearly defined to avoid conflicting with existing incentives. Experience suggests this may increase the regulatory burden overall and may shift focus away from their own purpose to the

regulatory framework. Where there is a cross-sector or potential benefit outside of the regulatory framework (e.g. overseas), then there is a much stronger case for financial incentives for innovation. Ofwat should not impose additional costs through customer bills for an innovation levy without research that customers support this option compared to local innovation and investment. Experience in the energy sector of an increasing burden of national policy levies suggest that all alternatives should be explored, and that customer views on this should consider the context of other national and local levies such as for major water resource schemes and social tariffs.

- As much as it shouldn't be necessary (and isn't necessary in order to motivate us), some type of incentive for companies owning their own purpose (local and wider impact) may be helpful – whether this is the balance of local versus nationally set outcomes or a change in licence fee approach to include an element of risk based measure. In addition, for cross-sector and public value benefits, it may be possible to have financial incentives for innovation. Our observation is that for a local water company there is every incentive already to collaborate, but there is a barrier to this occurring. We think this is more likely to be time (and planning), with the intense focus on price reviews / regulatory incentives something difficult to balance within the sector. Our focus on cross-sector and local potential helps us maintain our purpose and priority of innovation.
- The public value framing we suggest for innovation (including natural capital), on its own should be sufficient. We can see local examples of innovation that has had wider application (e.g. catchment management), where piloting allows a change in any specific barriers to innovation and benefits are seen, often by changing the balance between what is seen as public and private value. We assume the same will be true with innovations that arise from “purposeful companies” – we make the case that the regulatory framework should encourage local and voluntary approaches to public value, and reduce the intensity of regulation (but not dialogue), where a company can show trust and accountability is present.
- Our innovation approach starts with people and culture, and goes outside the water sector. For water companies the mindset about the need and urgency of changes is a powerful tool, as we would observe that planning and delivery (e.g. business retail market opening, Brexit planning) works well with a clear focus. This lends itself to a focus on cross-sector innovation to result in better planning on the natural environment, to aid collaboration, and to take a more holistic view of what in the future will influence customer relationships.

How do you think we could evolve price controls?

We consider the evolution of both regulatory relationships and price controls together, recognising that two should be linked closely. Our view is that Board level dialogue on strategy and performance will provide the best insight for Ofwat as to risks to sector resilience. We would observe that reputational incentives at Board level could have even greater power when there is a two-way dialogue in advance of issues arising. Whilst this is at working level for most other regulators, given Ofwat's vision Board level dialogue in a more formal way would appear to us to have value.

As the expectations of customers and society increase, it will be harder for Ofwat to measure performance just through collecting comparative data. Ofwat will need to continue to have a monitoring framework for companies to ensure they meet minimum expectations for delivering performance and for corporate governance. In a more complex world though, particularly one with a greater focus on

public rather than just private value (including regulatory incentives) we will need more dialogue between companies and Ofwat about the challenges that company Boards face, and how they are engaging management and workforce to navigate through the transformation required. We would consider how Ofwat transition to more strategic and performance “in the round” dialogue with Boards. We think this may allow a reduced regulatory compliance burden, assuming that the risk to consumers is low based on company performance and early warning indicators to increase reporting and compliance approaches can be identified.

The current Company Monitoring Framework (CMF) has had a strong reputational framework, but we are keen to explore with Ofwat how to reduce the process and reporting burden for Boards to create more space for dialogue on future performance and strategy. The CMF is largely backwards looking so may need to be amended given the strategy Ofwat set out. We think that a strategic and performance discussion between Boards and companies when companies are performing well, as well as when there are specific governance or performance concerns, may be a good way of revisiting the way Ofwat monitor the industry, and to gain insight from strategy dialogue as well as from comparative data. Purposeful companies rely on relationships as much as data.

There may be opportunities to cut the complexity and burden of process regulation by a focus on purpose and performance. We recognise companies need to prove why this is right for Ofwat’s duties to protect consumers, and to provide evidence for Ofwat’s stakeholders. Transparency on the positive, local opportunities for change that arise from this is, in our view, one of the main potential benefits from companies and their Boards focusing on the wider public value. We think it may be appropriate to reflect on this early in 2010 after PR19 has concluded. In addition:

- Sometimes companies do not always see the wider potential of their local work. Greater use of markets and incentives can be a tool for this, but engagement and routes to communicate and collaborate may be equally as important. Markets and incentives to achieve this efficiently, particularly if they are cross-utility and cross-types of organisation (public, private, social enterprises, community etc), may form better (and quicker) through communication and innovation platforms, more than thriving through formal market frameworks and incentives.
- We see a potential disconnect in some of the potential changes Ofwat may make to its strategy and an objective of building trust and legitimacy – with companies taking ownership through a (we would argue often local) social purpose on wider public value, and some of the example regulatory steps Ofwat could take, such as national willingness to pay surveys or innovation levies. For us, this is not just an issue of turning regulatory information into insight, but more fundamental to the challenges faced of accountability and transparency. Many of the examples used by those who want to change ownership structures to countries where most decisions and accountability are municipally driven. In the UK, local accountability appears key to keeping trust, as it is with other public services, and any strategy for the sector needs to be seen in that context.
- To illustrate this, customers will trust economic regulators to be concerned with prices and service levels. One thing we find with a social contract is that customer support required an ongoing dialogue that explained why customers should trust water companies to deliver wider public value (e.g. even through promoting water efficiency or education). This trust depended on local commitments, and needed to be in the context of local research. Generally comparative service levels did not make much difference to customers’ views, except in the context of bill levels and bill trajectories. Our evidence suggests a) customers views on outcome incentives and incentive design is affected by this overall trust in a company and its performance and b)

this also affects operational and service resilience when performance targets are not met. Whilst national stakeholders need some standard measurements (e.g. leakage, asset health etc.), this on its own is not enough to boost trust, and as we explain before it is trust that enables public value innovations and opportunities to “make sense” as part of our role.

- The perception of the burden of regulation to the outside world is that the cost has increased, but not necessarily the value, in recent years. We think it is useful to consider the national versus local role in the way we describe above, as that can then consider whether the cost of regulation could be applied on a risk based / activity way (e.g. as the DWI does) that would link to agreed outcome, or whether the local versus national boundary debate can be linked to where costs are incurred. It is difficult to judge, as generally the evidence currently supports Ofwat taking a more active national role (e.g. 15% leakage, social purpose, water resource transfers), in the absence of it happening without this intervention. The proposal to make more use of on-going assessments of performance seems a sensible suggestion to address this balance, as well as considering whether collected data adds insight. As we set out earlier, a review of local water company strategies through Board-level dialogue and local input into the national direction for the industry would be our preference.
- It is the nature of innovation that there is some duplication of effort – this helps to reduce risk. We think the potential for greater collaboration to speed up innovation, and to reduce duplication, is something that there is a role for discussing during performance and working level discussions. There could be a role for Ofwat to provide insight in this regard, noting that companies could be judged on their own efforts to identify suitable comparisons, and in our view these go beyond England & Wales water companies to water companies abroad (such as with our European Benchmarking Co-operation (EBC) participation – see Appendix 2) and other utilities.

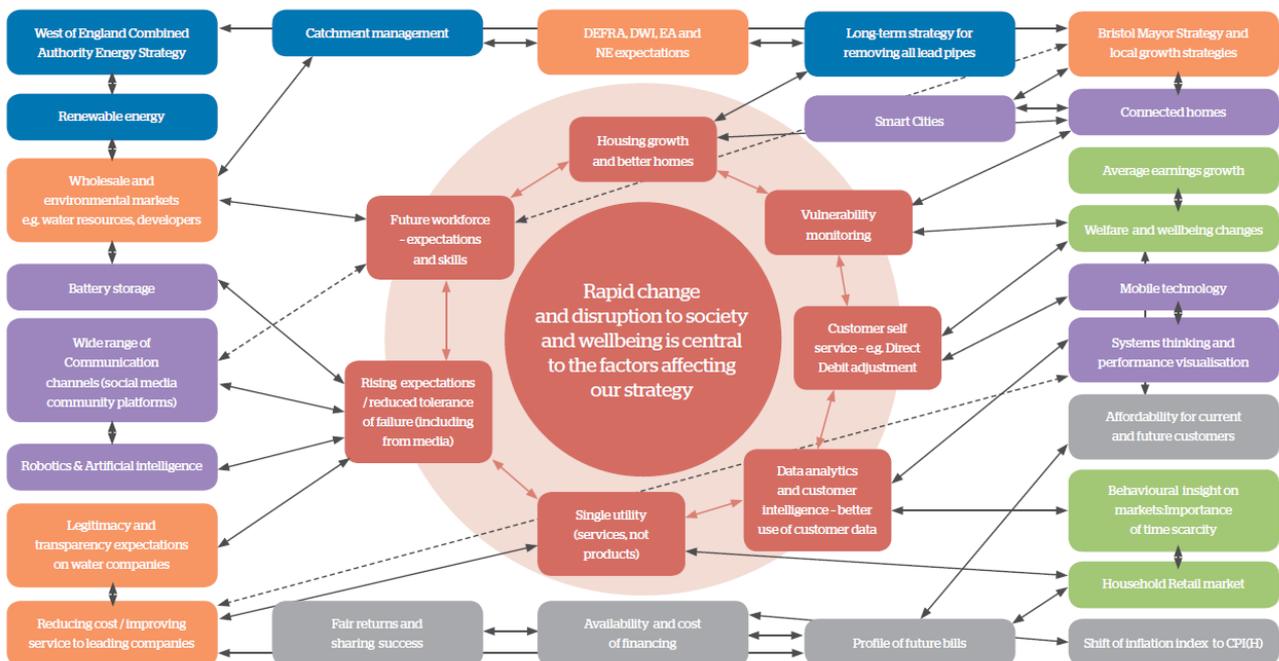
APPENDIX 2: CONTEXT OF LONG TERM PLANNING

We set out below some of the elements from our long term ambition thinking that lay behind our PR19 preparation, and ultimately informed our development of our Social Contract. We have highlighted the elements below which support the specific observations we make about the vision for the water sector, and the need to take a more cross-sector and potentially international view of the future development of the water sector. Whilst we recognise some of this is outside of Ofwat’s remit today, we think the focus on transformation through innovation, the natural environment and customer relationships in the strategy, require this perspective. We set out in Bristol Water... Clearly how this approach reflected the expectations for the water sector in DEFRA’s Strategic Policy Statement to Ofwat, as well as the local stakeholder expectations we set out in the “future ambition” picture at the start of our strategy.

In developing our “Bristol Water... Clearly” strategy, we put the factors that we saw as disrupting society at the heart of developing our future plans. This recognised that innovations such as digital technologies that were seen as global disruptors, could be seen as both causes of a lack of connection between utility providers and customers (e.g. efficiencies and speed of response such as e-billing self-service, social media communication rather than personal contact in a call centre), as well as a potential solution (e.g. vulnerability monitoring using technology).

Future factors and priorities The benefit of a local, resilient, community utility

- Key**
- Political and Regulatory
 - Economic
 - Environmental
 - Social
 - Technology
 - Financial



The challenge raised by our local stakeholders was how to connect those customers disconnected with society (and therefore could be vulnerable to water service issues), how to promote water efficiency and metering, and how to work with other utilities and public service providers such as councils and housing associations, in order to achieve dynamic efficiencies across different sectors. The strategy document set out how we had started to deliver this, using examples from Bristol of elements such as the Refill campaign, which had gone national, where a campaign group City to Sea who had the ambition to reduce plastic waste, had a natural partnership with Bristol Water to promote the quality of drinking water, and to promote water efficiency and the water environment in new ways.

A key challenge we identified with stakeholders was how to deliver resource efficiency messages across different sectors. This led to the establishment of Resource West, a partnership to deliver resource efficiency messages cross-sector, building on the similar initiatives that different sectors were considering. Members of the partnership include Bristol Waste, Bristol Energy and Wessex Water. Consistent and positive communication to consumers, through trusted local organisations, in a way that shows that companies have a wider purpose as it is clear that they are working together for the benefit of customers and wider society. A study undertaken by EY on behalf of Bristol Water and a number of other local water companies provided a review of the evidence as to the evidence that smaller companies can have an advantage and benefit consumers in a market by the necessity of working in this way.⁴

We identified two routes through which future markets could develop – making a distinction of how utilities could adapt to the emerging trends and societal expectations in two ways – either by recognising that companies like Bristol Water would need to adapt to national standards for data, and use technology to provide better automated services, or would have to be distinctive through local choice. The end goal is the same – to provide choice and services that are resilient and can adapt to local circumstances, but recognised that investment choices today had to recognise the need to adapt, as the choice of future markets was to a degree outside of our control.



We note that since publishing this strategy in January 2018, there has been increasing concern about the modern monopolies that go beyond the traditional “pipes and wires” regulated utilities, for instance

⁴ [EY \(2018\) The value of small local water only companies](#)

in the digital technology and service sectors, because of the social impact, data concerns as well as vulnerable consumer protection.

Importance of context

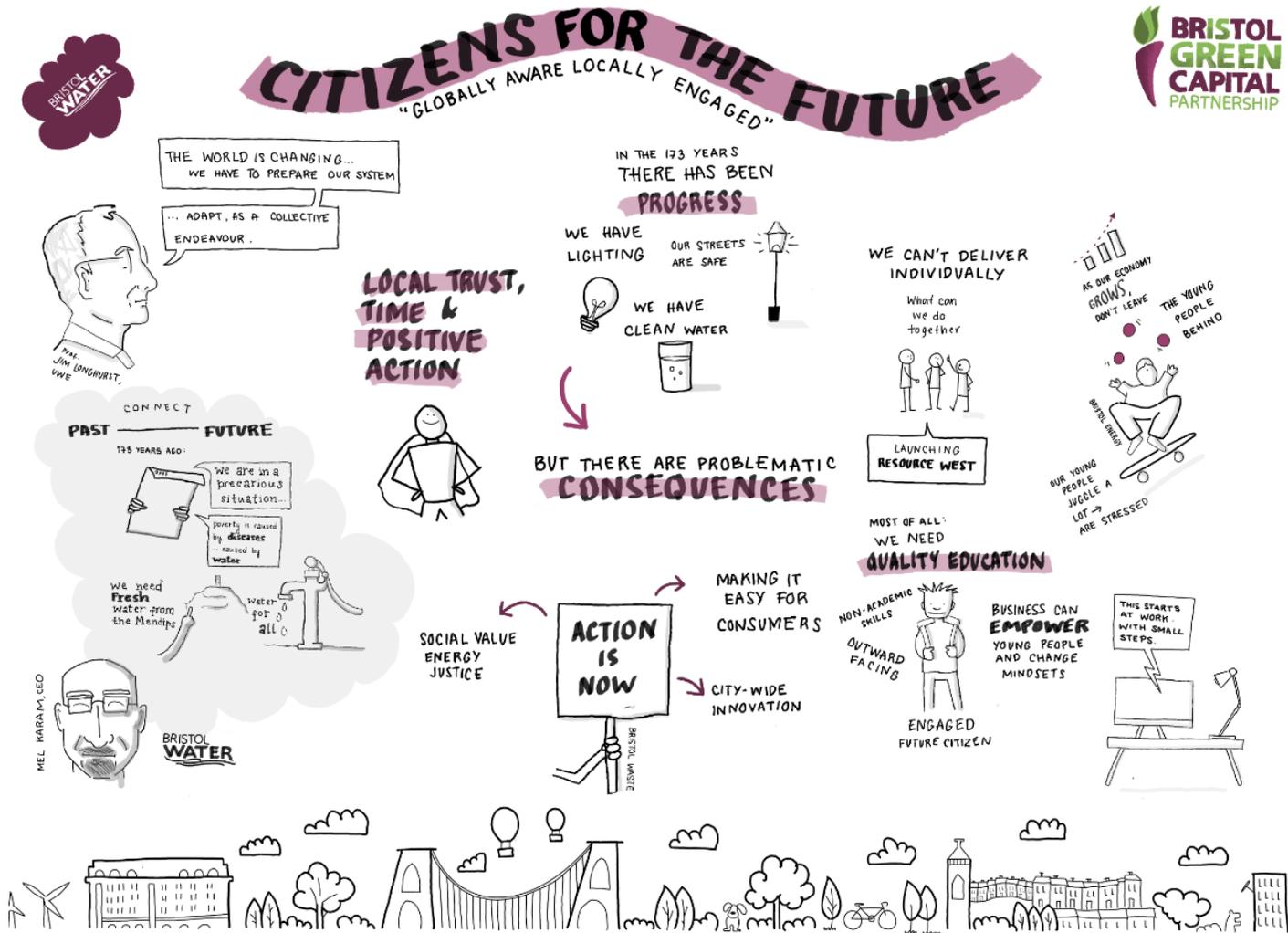
There are a number of additional observations that also informed our planning approach. Many of the recent campaigns for nationalisation have compared the UK water industry as a whole to individual municipalities in Europe. The question is then raised that, particularly for water, the England model of utility regulation of “privatised” shareholders with an independent economic regulator is not used anywhere else. It is also generally true that a single sector specific regulator is equally as unusual. We would observe that this more reflects the centralised nature of water service decisions in England, and the role of the small local water companies such as Bristol Water, which provide diversity and are a distinctive feature compared to other utility sectors, is often not mentioned in the “privatisation” debate.

We think that it is not just the national framework that should provide context for water services in the UK, but international context. This will become increasingly important should climate change require fundamental, rather than incremental, changes to society. The extensive benchmarking data we have with other water utilities helps us to provide a broader context for performance, and collaboration, than just the UK water sector. We compare ourselves to similar organisations across Europe, through the European Benchmarking Co-operation (EBC) Foundation, which helps us to assess the effectiveness and efficiency of the way we work. We are currently the only UK company in the EBC, but we find it useful to compare ourselves to similar organisations elsewhere. As an example, on leakage we perform better than average compared to our European counterparts, despite having an old water network than in other areas. This data reflects that the typical water company in Europe is often municipalities of similar size to Bristol Water, and even when outsourced to larger organisations (such as is typical in France), a local connection and accountability is maintained. We have a rich source of financial and operational data available as part of this benchmarking, which whilst there are issues of data comparability, is still useful evidence of the benefits of the UK regulatory model. For instance, our 15% improvement on leakage builds on performance that is already amongst the better performers in Europe as well as the UK, despite having the oldest average age of mains amongst this comparator group.

We think this type of contextual information will be increasing important for regulators in England, both to provide a context for how efficient, secure and resilient the utilities they are regulating are, but also to show the differences in industry history and current policy context that underlies economic regulation (which cannot realistically start from a blank sheet of paper). Understanding this history then allows a better framework for long-term planning, particularly as we show that the current challenges faced by the industry are not new concerns, and we see similar examples throughout Bristol Water’s history.

Appendix 3: Bristol Water / Bristol Green Capital Citizens for the Future event – a cross-sector vision

We show below the shared vision that was developed for the citizens, employees and employers of the future, together with the actions that would feed into the Bristol “One City” plan. This provides an example of how the UN Sustainable Development goals can link water sector to other sector plans, and be used as a framework for cross-sector collaboration and innovation.





CITIZENS FOR THE FUTURE

"BEHAVIOUR CHANGE IS IMPORTANT, BUT WHAT WE NEED IS CULTURE CHANGE"



WORKING IN PARTNERSHIP TO CHANGE BEHAVIOUR



GUILT AND BLAME DON'T WORK

A SHARED VISION



IS IT POSSIBLE TO WASTE NOTHING??



THERE IS NO REAL DIFFERENCE BETWEEN



... SO, ALIGN VALUES AND CULTURE



BUT THINK ABOUT EQUITY DIFFERENT BENEFITS FOR DIFFERENT WORKPLACES



USE TECHNOLOGY AS AN ENABLER

INCLUDE THOSE OUTSIDE THE ROOM



WHAT CAN WE DO TO MAKE PEOPLE VALUE RESOURCES?

TO UPGRADE YOUR PERFECTLY FUNCTIONING PIPES, SHAPE RIGHT...



UNDERSTAND OUR IMPACT & HOW FAR WE'VE COME



Vision for the citizens for the future	Bristol “One City” Vision	Vision for citizens of the future	Enablers	Link to UN SDGs
Connectivity	By 2050 everyone will be well connected with digital services	<ul style="list-style-type: none"> • Connected at work and home to the community • Engaged and participative • Enabled by technology to identify shared connections and be part of smart community 	<ul style="list-style-type: none"> • Electric vehicles are affordable, lift sharing schemes in operation across the city • Technology for virtual meetings • Overcome cyber security challenges which limit remote working 	
Economy	By 2050 everyone in Bristol will contribute to a sustainable, inclusive and growing economy from which all will benefit	<ul style="list-style-type: none"> • Employed • Financially comfortable • “Water is health and health is wealth” • Do not experience stress or uncertainty about utility bills, where food is coming from, accommodation, movement around the city etc. 	<ul style="list-style-type: none"> • Education, education, education • Greater focus on social mobility • More work experience and apprenticeship opportunities across the city 	  
Environment	By 2050 Bristol will be a sustainable city, with low impact on our planet and a healthy environment for all	<ul style="list-style-type: none"> • Sustainable resource use and local production of food • Conscious of impact – e.g. personal carbon budget • Motivated by responsibility to next generation 	<ul style="list-style-type: none"> • Automatic monitoring of resource use • Local resource/pollution levies – percentage earmarked for lower income households • Move away from using incentives to motivate people – need to change culture not short term nudges to behaviour • Community sharing schemes • Manufactures to supply resource efficient products # Education pack built on UN SDGs 	     
Health and wellbeing	By 2050 everyone in Bristol will have the opportunity to live a life in which they are mentally and physically healthy	<ul style="list-style-type: none"> • Resilient – can adapt to shocks and also changes over time. Personal network adapts to crisis • Active, resource efficient • Make healthy food choices • Strong connections with neighbours 	<ul style="list-style-type: none"> • Water for all – accessible, free, good quality – refill • 4 day working week • City controls its advertising to support citizens for the future – e.g. fast food adverts replaced by local food messages 	  
Homes and community	By 2050 everyone in Bristol will live in a home that meets their needs within a thriving and safe	<ul style="list-style-type: none"> • Smart homes enable consumers to track consumption and measure contributions 	<ul style="list-style-type: none"> • Tapping into Bristol smart city networks • Smart metering 	

	community			
Learning and skills	By 2050 everyone in Bristol will have the best start in life, gaining the support and skills they need to thrive and prosper in adulthood	<ul style="list-style-type: none"> • Empowered by information, technology and skills • Volunteers • Educated and educators 	<ul style="list-style-type: none"> • Joined up approach across Bristol using skills and resources – e.g. research and insight from universities 	

Characteristics of future citizens

Aware	<ul style="list-style-type: none">• Understand how their choices translate to impact• Value natural resources and understand the link to wellbeing
Informed	<ul style="list-style-type: none">• Lifestyle is data led• Demand better labelling e.g. carbon production, air miles of food.• Appreciation of full product journey and provenance
Engaged	<ul style="list-style-type: none">• Want to contribute to local and global sustainability and wellbeing• Supportive and challenging but not critical
Responsible	<ul style="list-style-type: none">• Make it their problem, not somebody else's to resolve• Believe in individual actions and take collective responsibility
Active	<ul style="list-style-type: none">• Make compromises and lifestyle choices which benefit wider society• Low environmental footprint• Consume local produce• Re-use and repair before buying new• In control of resources. Purchases driven by necessity not image

Vision for the employees and employers for the future

Purpose

- Social purpose is at the heart of corporate strategy.
- Social responsibility and consumer trust drive decision making, with societal wellbeing and sustainability dominating corporate air time.
- Trade-offs between short-term financial and long-term societal good are balanced fairly and transparently
- Lessened distinction between work life and home life as both are aligned to core values and working becomes fully flexible

Values

- Act based on a shared purpose and shared values
- Alignment of values between employee and employer - alignment between personal and professional values establishes a sense of belonging, integrity and authenticity
- Health and happiness is more important than earnings
- Strong social conscience, a sense of environmental responsibility, a focus on diversity, human rights and fairness of all kinds with recognition that business has an impact that goes well beyond the financial.
- Trust underpins business and employment
- The company operates to high ethical standards and these are cascaded down to employees; conduct and ethics are taken very seriously at work
- There is a strong focus on creating the right culture and behaviours and on protecting the company brand
- Trust that their employer will treat them fairly in terms of pay, development and conditions and in return are expected to reflect the culture of the company in their approach and behaviour

<p>Way of working</p>	<ul style="list-style-type: none"> • Work place is a place of work and wellbeing – employee and community wellbeing is the number one output. There is no stigma attached to discussing mental health. Wellbeing work is preventative rather than reactive. • Technology is used extensively to replace the need for travel, enabled by rapid innovation in communications technology which allows virtual meetings • Virtual social networks facilitate communication and minimise the need for travel • Digital platforms create mobility and help match skills to demand • Workers are encouraged to take part in socially useful projects • Portfolio working, volunteering – blurs the distinction between work and non-work. • Retired staff retain their connection with the social purpose of the company and continue social delivery outside of work • Flattened management hierarchy and distributed control– role for an employee forum . Employees having a stake in the company. • Connected at work to the community – strong bond between business and local communities to work on solutions • Network of purposeful companies which engage their workforce on environmental and social issues • Work life balance reduces time vulnerability driven resource unsustainability • Demanding sustainability requirements placed on suppliers • Local community hubs allow ‘home’ working in an office environment and facilitate networking with stakeholders • Value the power of local – reversal of centralisation with more local sites to connect with communities from • Family-friendly, flexible hours. Unlimited holiday, outcome driven. Maximum four day working week. Health days rather than sick days. • Roles to suit social situation and age (e.g. semi-retirement)
<p>Measures of success</p>	<ul style="list-style-type: none"> • Performance is assessed against a wide range of measures, including level of contribution to company purpose and efficient use of travel and resources • Career ladder no longer exists in the traditional sense – more about diversity of experience • Businesses strive for zero waste - no need for non-recyclable refuse collection and no food waste collection from businesses