

December 2019

# PR19 final determinations

## Overview of companies' final determinations



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Foreword

Last year, water companies in England and Wales submitted their plans for the future to Ofwat. We checked and challenged those plans, including how much companies planned to spend to deliver them. This document summarises the results of that challenge and the detail of how those plans will become reality. It sets out a £51 billion package that will enable water companies to deliver more for people today, invest for future generations and at the same time operate more efficiently and reduce bills.

The companies' plans, and our decisions, are shaped by the scale of the challenges facing us all. A growing population demands more water, often in areas of the country that are most water stressed. Rapid climate change and extreme weather highlight the need for a service that is resilient over the long term to both drought and flooding, as well as temperature extremes. The natural environment and wildlife habitats which depend on water and from where our water is sourced, are under threat and need protection. As we have scrutinised water companies' plans, we have supported the well justified work companies are doing individually and together to address these challenges, and, in some areas, asked them to do more.

New infrastructure for increased resilience

Our package includes £13 billion for new and improved services that go above and beyond water companies' day-to-day operations. This includes more than £1 billion to reduce the impact of flooding on communities across England and Wales. We are working with the Environment Agency and Drinking Water Inspectorate to ensure companies work together to solve long-term drought resilience challenges. We have allowed almost £500 million to support 17 major resilience schemes, including developing new water resources and the transfer of water across the country.

Protection for the environment

The water sector is taking a step forward with its commitment to achieve net zero carbon emissions by

2030. Our decisions support this, setting standards for water companies on cutting greenhouse gas emissions and increasing renewable energy. At the same time, companies will need to find more ways of helping us all to reduce our water usage from more than 140 litres down to 131 litres of water per person per day.

Communities across England and Wales will benefit from environmental improvements: pollution in rivers and streams will fall as water companies reduce the number of sewage spills and we are putting measures in place to relieve pressure on our chalk streams. We are pushing water companies to use efficient, nature-based solutions, working with farmers and others to reduce pollution going into rivers and lower the cost of providing clean drinking water.

Going further in customer service

We have set stretching performance standards across all companies in important areas like supply interruptions, bursts, leakage, and increasing help for vulnerable customers. We have challenged those lagging behind to match best performance in the industry. Companies also have individual performance standards, responding to the preferences of people in the areas they serve.

More affordable bills

All these improvements will take place alongside an average 12%, or about £50, fall in bills, before inflation. This can be achieved as a result of our £6 billion efficiency challenge and lower financing costs, with the lowest allowed return on capital since privatisation 30 years ago.

The challenges facing the water sector are complex and far-reaching. Our overall package sets new and stretching standards for how water companies should respond: improving performance through efficiency and innovation, while keeping bills affordable and creating a sustainable future for water.

## Our 2019 price review final determinations

# £51 billion

A five-year total package that includes:



**£469 million to address long-term drought challenges**

**More than £1 billion to help protect from flooding**

**Reducing pollution incidents by 30%**

**Improving more than 12,000 km of river**

**Helping customers cut water use by up to 13%**

**Cutting leakage by 16%**

**Reducing mains bursts by 12%**

**Nearly 1.5 million customers getting help with bills**

**At the same time, average bills will fall by 12% before inflation**

**So everyone gets more of what matters**

## What is a price review?

Every five years, water companies create plans with the people and communities they serve, setting out what they will deliver and the money they will collect from customers in return.

Our role at Ofwat is to:

- **set the framework** for companies' plans so that they improve delivery and efficiency;
- **scrutinise and challenge the plans** to make sure that they:
  - are efficient and affordable;
  - provide 'resilience in the round' and great outcomes for customers and the environment; and
  - are based on sound assumptions, methodology and evidence;
- **set the price and service packages** that companies will deliver, and the incentives and penalties they will face, over the next five years; and
- ensure that these packages **provide sufficient funding** to allow an efficient company to deliver great services for customers.

**Water companies consulted with more than 1.5 million customers across England and Wales**

We call this package our 'final determinations'. This document is part of a collection that sets out and explains our final determinations for the 2019 price review. They apply from 1 April 2020.

We require companies to engage with their customers about their wants and needs when developing their plans for the future.

### Fast-track companies

In our initial assessment of companies' plans for the future, three companies stood out: Severn Trent Water, South West Water and United Utilities. Their plans were the most ambitious and well-evidenced in the round, and set a new standard for the water sector. Other than some limited interventions, these plans were already ready to implement, so we awarded these companies with 'fast track' status. This status gives them reputational, procedural and financial benefits.

For the 2019 price review, water companies consulted with more than 1.5 million customers across England and Wales to understand the improvements they expect and the level of bills they are willing to pay.

Companies will report each year on how they are delivering their plans. We will use these reports, along with information from other sources, to drive further

improvements in water company performance and understand the progress they are making towards achieving their long-term aspirations.

### Referrals

If a company does not want to accept our final determination, it can ask us to refer the whole determination to the Competition and Markets Authority (CMA) for review. The companies have two months to decide whether to do this.

## Resilience in the round

**People rely on water and wastewater services every day, so they need services that can avoid, cope with and recover from disruption, and that protect and enhance the natural environment. This means water companies need the right information, systems, processes, governance, capabilities and finances to make decisions about their operations, maintenance and investment in the short and long term. They need operational, financial and corporate resilience – ‘resilience in the round’.**

Our final determinations will significantly increase the resilience of the water sector. As part of the £51 billion package, our final determinations include £13 billion of investment for new and improved services and to tackle the challenges facing the environment (see Environment), above and beyond what companies need to do as part of their day-to-day operations. It will fund solutions to long-term drought resilience challenges in the south and south east, provide protection from flooding and investment in major new infrastructure across England and Wales.

We have also set water companies stretching but achievable performance commitments to meet, with associated financial incentives. Meeting these commitments mean that customers will benefit from better day-to-day services and better maintained infrastructure, including 12% fewer mains bursts and supply interruptions down 41%.

Resilience in the round means more than just improving infrastructure. Companies need to do more to make sure their customers get genuinely resilient water services. We asked companies to show us how they will implement systems-based approaches to resilience. In the years ahead we expect them to work with each other, with us, and with other sectors to learn from best practice and address the gaps in their current approaches.

We are also working with the UK and Welsh Governments, the Environment Agency, Natural Resources Wales and the Drinking Water Inspectorate to develop long-term aspirations and targets for resilience.

### Protecting infrastructure

We allow £643 million to increase the resilience of water and wastewater infrastructure against potential failures.

This includes:

- increasing the reliability of critical aqueducts and water treatment works;
- reducing customers' reliance on a single source of water supply;
- improving resilience where water mains cross roads and railways;
- protecting against power failures at water and sewage treatment works; and
- protecting water and sewage treatment works from extreme flooding.



**£13 billion of investment for new and improved services, and to tackle the challenges facing the environment**

## Financial resilience

If a water company has financial resilience, it means it can carry on running as a going concern, providing customers with services, even if the financial situation changes – for example, if interest rates change or there is a recession in the wider economy. Companies and their investors are responsible for ensuring their financial resilience now and in the long term.

Based on market evidence, we are reducing the amount companies can collect from customers to fund the cost of financing their business (see Risk and return). We expect company Boards to manage and monitor their financial resilience and take steps to improve it where necessary.

Gearing, or the balance between borrowing and shareholder funding, is one aspect of a company's financial resilience. After we challenged their plans for the future, a number of highly-g geared companies are taking steps to improve their financial resilience, such as by reducing debt levels or by reducing dividends. Our determinations introduce a mechanism that means companies with high levels of gearing will share the benefits with customers until gearing levels come down.

South East Water, SES Water and Southern Water have already taken steps to reduce gearing levels with additional equity investment. Other companies with high levels of gearing including Affinity Water, Anglian Water, Thames Water and Yorkshire Water are proposing to take steps to reduce gearing levels.

We will keep monitoring each company's assessment of its financial resilience, and take steps where necessary to make sure customers' interests are protected.

### Case study: reducing the impact of flooding

Flooding can cause damage to homes, businesses and infrastructure, and upheaval and distress for the people affected. Water companies will invest more than £1 billion to protect the environment, homes, business and drinking water supplies from flooding.

Yorkshire Water will work with the Environment Agency, Hull City Council and East Riding of Yorkshire Council, to protect homes and businesses in Hull and Haltemprice from sewer flooding using 'aqua-green' spaces which soak up water like sponges, then release it slowly, reducing the pressure on storm drains and sewers.

### Case study: improving resilience in London

Londoners deserve a better level of water service. It is clear from Thames Water's recent performance that it still needs to improve to provide its level of service effectively and efficiently.

To help tackle this we are allowing Thames Water up to £480 million to improve services for Londoners, provided the company comes up with a clear proposal to improve the water network in the capital. Thames will have to pass a series of tests or the money will be returned to customers. These include having a clear, efficient and measureable plan and the provision of substantial additional funds from Thames' investors.

### Case study: resilience through artificial intelligence

Portsmouth Water plans to develop real-time network monitoring using neural networks to predict and identify leaks. By integrating data about water pressure and flow with information from pressure management valves, pumps and hydraulic models, they should improve water quality and save water, energy and money.

## Drought resilience for customers and the environment

Over the next few decades, there will be more people, businesses and homes. This means we expect demand for water to increase. At the same time, changes to weather patterns as a result of climate change mean that rainfall is less predictable across the country and we expect there will be less water available, particularly in the south and south east of England. Unless we take action, eventually we will put an unsustainable strain on parts of our river environments and we may run out of water where we need it.

That is why we are allowing up to £469 million to help companies work together on solving long-term drought resilience challenges.

This provides companies with the resources they need to explore a selection of robust and practical solutions. These solutions include potential major new water resources, including reservoirs, and national transfers of water from the north west to the south east of England. We are allowing for development work involving nine companies and 17 solutions, and will also require companies to engage with third parties, such as the Canal & River Trust.

At the same time, companies will:

- make better use of existing water supplies by interconnecting their networks;
- develop new sustainable water sources;
- waste less water through leaks; and
- encourage customers to use less water at home.

These activities are supported by over £1.6 billion of funding to install meters and to help balance supply and demand for water.

Taken together, this will mean that companies can reduce unsustainable abstraction, while still ensuring that customers have water in their taps.

### RAPID

We have come together with the Environment Agency and the Drinking Water Inspectorate, to establish RAPID (Regulatory Alliance for Progressing Infrastructure Development) to support companies' work towards solving drought resilience challenges.

RAPID will address any regulatory gaps or barriers, and help progress the complex and joint water resource solutions needed. This will help the water companies to work together to deliver major infrastructure projects more quickly across water company boundaries. These projects will have multiple benefits for both people and wildlife.



## Environment

**The water sector, and society as a whole, depends crucially on a healthy natural environment. Protecting and improving the ecosystem is an integral part of the business of a water company, one that cannot be separated from the services they provide. The challenges facing us – rapid climate change, wildlife loss and environmental degradation – are profound; our ambition for the environment is high.**

Both the UK Government's and the Welsh Government's strategic priorities and objectives include sustainably managed natural resources and a resilient ecosystem. We will work with others including the Environment Agency, Natural Resources Wales and Natural England to help achieve these aims.

Our price review is an important step towards a sustainable and resilient future.

- It includes £4.8 billion to deliver the ambitious National Environment Programme (NEP) for Wales and Water Industry National Environment Programme (WINEP) for England. These programmes will help tackle some of the biggest challenges facing the water environment, from the spread of invasive species to the effects of chemical and nutrient pollution.
- It gives all water companies stretching but achievable performance commitments that will make a real difference for the environment, such as reducing pollution, leakage and water use.
- Water companies have committed to achieving zero net emissions by 2030, and many have bespoke commitments to support this. For example, Yorkshire Water will increase the amount of renewable energy it generates from biogas by 15%, and South East Water will reduce its carbon emissions by 68%.
- It includes up to £469 million for investigating alternative sources of water (see Drought resilience for customers and the environment). This will mean that as well as reducing the amount of water wasted, companies can reduce the amount of water taken from environmentally sensitive sites in the future.

We will keep encouraging companies to use efficiently delivered nature-based (or 'green') solutions, which provide wider environmental benefits, instead of capital (or 'grey') solutions, wherever green solutions are suited to the situation. Water companies will be delivering more green solutions by 2025. We are pleased to see catchment management becoming more of a mainstream activity, with 1,200 schemes by 2025 – but this is still only scratching the surface of what we think is possible.

In keeping with our new strategy, where we commit to making the environment integral to all that we do, and building on this price review, we will continue to play our part in protecting and improving the environment.



**Stretching but achievable performance commitments will make a real difference for the environment**

## Case study: chalk streams

Chalk streams are rare globally, with most found in southern England. They are important habitats for species like otters, kingfishers and trout.

The water that feeds chalk streams comes from underground aquifers. The same aquifers are also an important source of drinking water for millions of customers living in the most heavily populated areas of the country. When too much water is taken from streams and aquifers, or when pollution incidents occur, chalk streams suffer. If the sector does not act, we might all lose this rare and precious feature of our natural landscape forever.

To relieve pressure on its local chalk streams, Affinity Water has committed to reduce the amount of water it takes from environmentally sensitive sites by 27 million litres a day by 2025. It will do this by cutting leakage by 20% and helping customers to cut their water use by 13%, among other strategies. It will also deliver 36 river restoration and habitat enhancement projects, which will improve over 125 km of rivers.

Southern Water will protect the River Itchen, a major chalk stream in Hampshire, by taking 15 million litres a day less when the river is at its most environmentally vulnerable. The company is also expanding its innovative River Itchen Challenge, which gives local communities rewards – such as free swimming lessons – for reducing their water consumption and reducing the burden on the river. Once built, Portsmouth Water's new reservoir in Hampshire will help relieve pressure on local chalk streams (see Innovation).

Our work on strategic, long-term solutions should alleviate the pressure on chalk streams by creating new supplies (see Drought resilience for customers and the environment). Still, more must be done to reduce the damage to chalk streams in the meantime. We

### Leakage

The less water companies waste, the less water needs to be removed from the environment. Companies have new performance commitments to cut leakage; we have set a tougher challenge for companies that have performed worse in the past. By achieving these commitments, the sector will cut leakage by 16% by 2025 – saving enough water to meet the needs of everyone in Cardiff, Birmingham, Leeds, Bristol, Sheffield and Liverpool.

understand how important these natural places are for customers and communities, and we will be working with regulators, companies and local groups to understand what more we can do.

### Water efficiency

The less water customers use, the less water needs to be removed from the environment. Water companies are committing to help customers use up to 13% less water per person by 2025. This will also reduce carbon emissions and help customers on water meters to save money. We will support this by looking into ways to change how people use water.

## Case study: nature-based solutions

Through a partnership with the Norfolk River Trust, Anglian Water has successfully created a natural water treatment plant in the wetlands at Ingoldisthorpe. Millions of litres a day of used but treated water is further filtered and cleaned by the wetland plants before it is returned to the River Ingol. Anglian Water will explore the potential for 34 more such schemes between 2020 and 2027 as part of the company's WINEP activity.

Dŵr Cymru is looking to substantially extend its RainScape programme for sustainable urban drainage solutions, covering priority catchments and reducing external sewer flooding. In central Llanelli, 20% of the urban drainage area has been diverted away from combined sewers and into natural watercourses using an innovative combination of new storm water pipes, storage systems and green infrastructure such as roadside planters, trees, larger basins and swales.

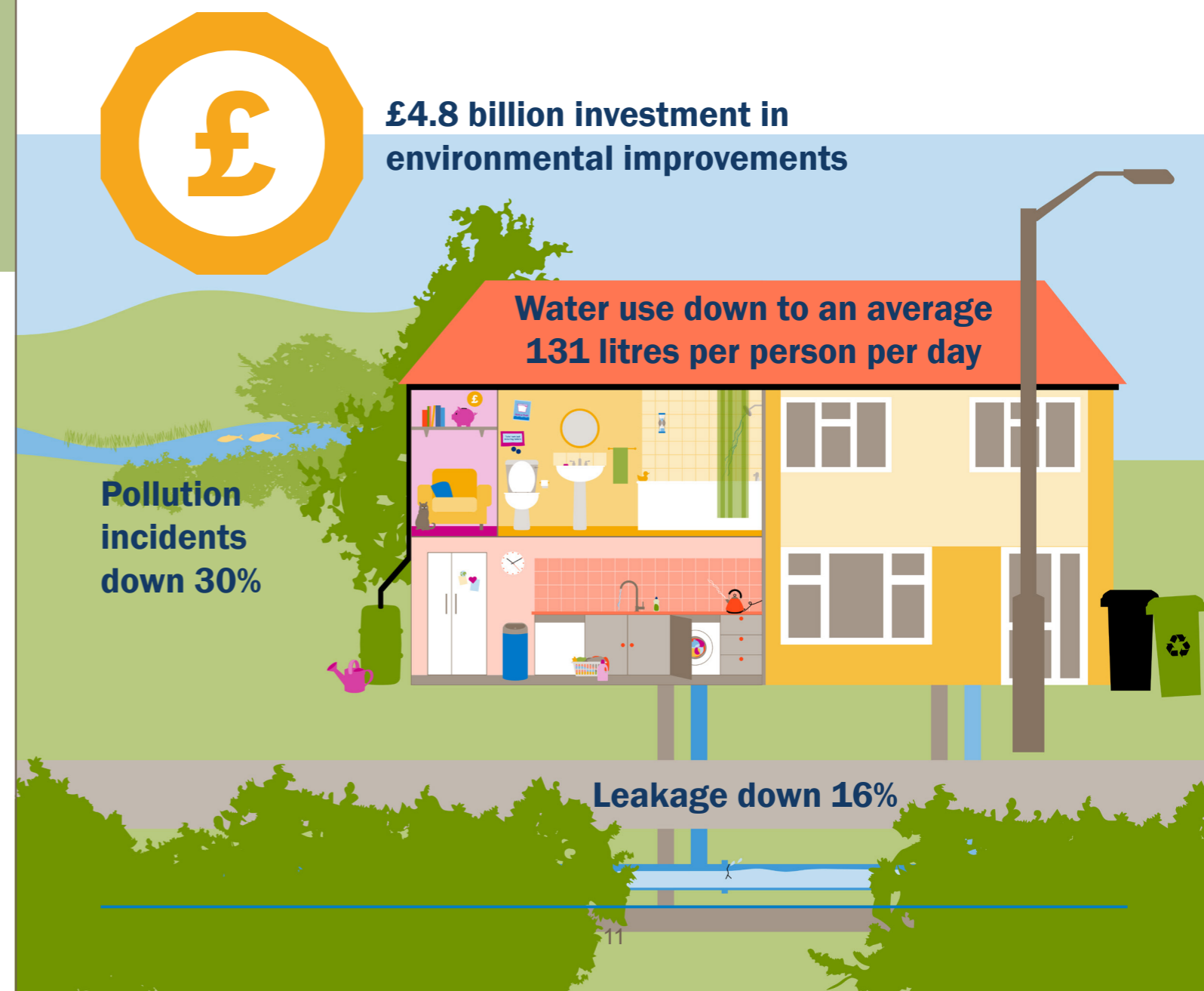


**£4.8 billion investment in environmental improvements**

**Pollution incidents down 30%**

**Water use down to an average 131 litres per person per day**

**Leakage down 16%**



## Great customer service

### We are challenging water companies more than ever before to deliver great customer service.

We want to see water companies transform the service they provide to their customers and to respond to the diverse range of customers' needs. This means starting with an in-depth understanding of customers' preferences and priorities, including where these vary. Through our price review process, most companies have shown they can engage with their customers and involve them in developing their plans for the future – though they still need to improve in some areas. We now want companies to build on this and develop meaningful, trusted relationships with their customers and communities which shape the work they do every day.

Customers' service expectations are changing, and the service water companies deliver needs to keep pace. From 2020 we are changing the way we measure customers' experience of their water companies to make sure everyone is getting the service they expect and deserve.

Our price review also sets stretching but achievable performance commitments in 13 areas that we know are important to all water customers, such as supply interruptions and sewer flooding. Each company also has bespoke performance commitments to meet, based on its specific customers' priorities.

Over the next five years, we will keep challenging companies to deliver these commitments, and pushing them to improve even more. Where companies deliver above and beyond these, setting new standards for the sector, customers support them earning payments that reflect the improvements they achieve. If they fall short, customers will get money back through lower bills.

### Measuring customers' and developers' experiences (C-MeX and D-MeX)

We are introducing a new way of measuring customers' experiences, called C-MeX. This compares the experiences different customers have with their water company, and compares water customers' experiences with those of customers in other sectors. Unlike other measures, it covers the satisfaction of all water company customers, not only those who have contacted their company. It gives leading water companies an incentive to keep improving, and recognises the changing mix of channels customers expect to use to contact their companies.

For the first time, we are also setting an explicit incentive to improve experiences for developer services customers. The new measure, D-MeX, includes a developer satisfaction survey and performance on key service metrics.

### Case study: working with communities

Affinity Water will work with local communities on eight pilot projects to benefit the environment, such as by helping customers use less water.

Wessex Water will work together with community groups to improve local beaches, benefiting the coastal environment and everyone who enjoys using the beach.

### Case study: benchmarking the difference to society

Anglian Water and Southern Water will measure the difference their contributions make to society using a method created by the London Benchmarking Group. When measured in this way, Southern Water commits to contributing more to society than three quarters of other utilities. Anglian Water will increase the number of people supported by community and charitable programmes.

## Helping vulnerable customers

Great customer service includes supporting customers in circumstances that make them vulnerable.

Some customers need extra help to access services. Priority service registers list customers who need extra help, and the kind of extra help they need (for example, Braille bills for blind customers). By 2025, at least 7% of each company's customers will be registered for priority services, two million more than now. Five companies (Anglian Water, Northumbrian Water, South East Water, South Staffs Water and Yorkshire Water) have pledged to go even further than this.

Nine companies (Affinity Water, Bristol Water, Northumbrian Water, SES Water, South East Water, Southern Water, Thames Water, Yorkshire Water and South West Water) have pledged to improve services for vulnerable customers, so that by 2025, the vast majority of vulnerable customers are satisfied with the service they receive.

Yorkshire Water, SES Water and Northumbrian Water will make customers more aware of priority services, and report on their progress.

Hafren Dyfrdwy and South East Water will report their progress towards making sure their customers get the right support in the event of a service outage. Our report '[Out in the Cold](#)' found that this was a particular problem during the cold weather in late February and early March 2018, when councils and voluntary groups had to step in.



**By 2025, two million more customers will be registered for priority services**

## Innovation

**Each water company will need to innovate to successfully address the challenges facing the sector in a cost-effective and sustainable way.**

To drive further innovation, we have given companies stretching but achievable performance commitments, and set strong incentives to do things differently to meet them. We are already seeing changes in behaviour.

Our approach gives companies the chance to earn extra payments if they successfully improve their performance and deliver more for customers. Seven companies have 'enhanced outcome delivery incentive' rates on certain performance commitments, such as supply interruptions, internal sewer flooding, pollution incidents, leakage, and water use per person. This means these companies will receive larger payments if they:

- successfully innovate and perform better than the current best performance in the sector; and
- share how they achieved this with other water companies, so the whole sector can improve, making things better for all customers.

Alongside these incentives, we are making £200 million available through an innovation competition to encourage companies to collaborate with each other and with other companies in their supply chains. We are also using markets and competition to drive improvements and innovation.

In our future work, we will continue to reflect on the ways regulation can make innovation possible.

### Case study: innovation culture

Of all the water companies' plans for the future, United Utilities' plan demonstrates the most deeply embedded innovation culture.

The company recognises and accepts that innovation can involve risk, but learns from successes, from failures, and from others to increase its ability to innovate. It also has the right leadership and support to encourage innovation – for example, by making innovation one of its core values, and linking it to every employee's annual appraisal and bonus process.

United Utilities' innovative ideas include:

- sector-leading flexible payment plans for customers who are struggling to pay;
- Innovation Lab, an incubator for innovative business projects;
- SPIGIT, an app for crowdsourcing innovative ideas;
- a CEO challenge programme for graduates; and
- working with other water companies, the supply chain, small and medium-sized companies, and universities.

Severn Trent Water put forward an innovative set of bespoke performance commitments. The company's culture of innovation also represents best practice in many ways. For example, its Challenge Cup gives anyone in the organisation the chance to submit business cases for innovative solutions to business challenges, with the promise of executive sponsorship and funding to put winning concepts into action. The company also has an internal crowdsourcing platform, #BrightSparks.

## Direct procurement for customers

Direct procurement for customers is where water companies open up the financing, design, construction and operation of large projects to competition. This allows other companies to bring fresh ideas and approaches to the water sector, which encourages innovation, resilience and greater efficiency. Competition can potentially reduce the cost of these large projects, offering customers better value for money. Where this is the case, we want to encourage water companies to use direct procurement for customers.

United Utilities will use direct procurement for customers in a long-term £750 million project to ensure the resilience of Manchester's water supplies. Anglian Water, Affinity Water, Dŵr Cymru, Southern Water and Bristol Water will progress another five projects during 2020-25. We anticipate between three and six projects could be procured by 2025.

## Bioresources

Bioresources services involve turning the by-products of wastewater treatment into valuable energy and fertiliser. We are challenging companies to get the best value out of their bioresources by using markets, rather than spending extra on in-house facilities. To enable this, we are setting a separate price control for bioresources services for the first time.

## Water resources

We want to see water companies making more efficient use of water resources. They can achieve this goal by, for example, taking advantage of opportunities to trade water, and working with third parties with water resources. To enable companies to do this, we are setting a separate price control for water resources for the first time.

## Innovation competition

In July, we [consulted](#) on different ways to drive innovation using funds from customers' bills. We considered the responses we received and, as a result, are launching an innovation competition, with up to £200 million available between 2020 and 2025. We will work with companies and other stakeholders to set this up in a way that benefits customers as much as possible.

We have taken the cost of the innovation competition into account in our final determinations.

**We are also using markets and competition to drive improvements and innovation**



# Affordable bills

**Water and wastewater services must be affordable to customers. This means affordable overall, in the long term and for people struggling – or at risk of struggling – to pay.**

Across England and Wales, customers are facing rising energy, food, and housing costs, putting pressure on household finances. So we are pleased that average water bills across England and Wales will fall by 12% (about £50) before inflation between 2020 and 2025. We have been able to achieve this by ensuring customers do not pay for inefficiency, and because companies will face lower financing costs in future (see Risk and return). This means that customers can have more investment and a better environment today and tomorrow, at the same time as falling bills.

Lower bills for everyone will mean that more customers can afford to pay their bills.

About three million customers say that they struggle to pay their water bills. We asked water companies to offer greater, more targeted financial support so that more people can afford their bills. As a result, companies will increase the number of customers on concessionary tariffs to over 1.4 million by 2025, on top of putting around 70,000 customers on payment matching schemes and giving hardship funds to around 20,000 customers.

As part of their plans for the future, we asked companies to show that they had customers' support for their proposed bills, over the next five years and into the long term. We have listened to the many customers across England and Wales who said that they wanted stability in their water bills. Our decisions mean that, for the next five years, customers can plan their finances safe in the knowledge that water bills will be as stable as possible, even taking inflation into account. This will particularly benefit those on low incomes.

## Ensuring value for money

Our final determinations allow water companies £51 billion from customers over the next five years to maintain existing services and improve resilience, the environment and the services they provide. We want to make sure that customers are getting good value for money, and water companies are not spending more than they need to deliver services.

**We have saved customers £6 billion by challenging inefficiency**

Our price review challenges companies to save money by becoming more efficient, and to pass on those savings to their customers. We compare the proposals in companies' plans to our view of what efficient costs look like, taking into account any evidence they provide to justify why their costs would be different to our estimates.

Our final determinations are based on evidence about best practice in the water sector, efficiency gains from following our guidelines, and productivity gains in the economy as a whole. By challenging inefficiency, we have saved customers £6 billion across England and Wales without compromising the services they expect.

**Average water bills will fall by 12% before inflation**



## Case study: helping customers who struggle to pay

Dŵr Cymru currently has among the highest numbers of customers helped through concessionary tariffs, and will continue to help at least the same number of customers as it does currently. All the other water companies will increase the number of customers they help by 2025.

Southern Water and Hafren Dyfrdwy are putting new measures in place to help them understand what kinds of support work best for customers, and to tailor their support to people's needs. These companies' performance commitments will make sure they learn more about how their support affects their customers, and highlight where their schemes need improvement.

## Average bills for 2020-25 before inflation

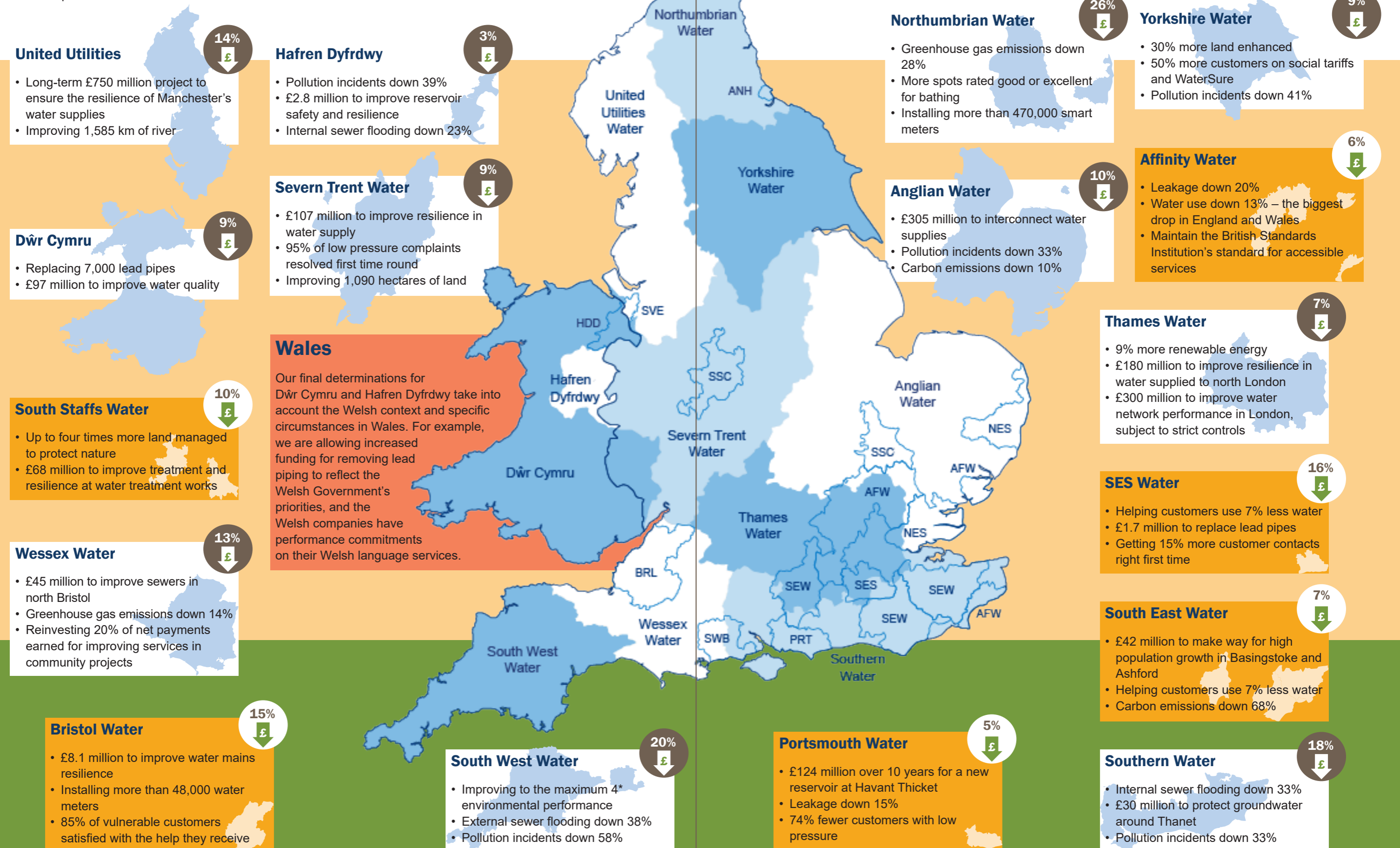
Company		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	% change
Water and sewerage companies	Anglian	422	394	390	386	382	378	-10%
	Dŵr Cymru	441	433	425	416	408	399	-9%
	Hafren Dyfrdwy	300	275	284	287	290	292	-3%
	Northumbrian	429	326	325	323	321	319	-26%
	Severn Trent	343	336	330	324	318	313	-9%
	Southern	420	365	363	357	348	343	-18%
	South West	527	458	449	439	430	422	-20%
	Thames	389	366	371	369	365	361	-7%
	United Utilities	429	401	393	385	377	370	-14%
	Wessex	457	407	405	402	400	398	-13%
	Yorkshire	383	379	372	364	357	349	-9%
Water only companies	Affinity	172	156	158	159	161	162	-6%
	Bristol	182	165	162	160	157	155	-15%
	Portsmouth	101	96	95	96	96	96	-5%
	South East	205	198	196	194	192	190	-7%
	South Staffs	140	136	134	131	128	126	-10%
	SES	194	178	174	171	167	164	-16%

## Inflation

Inflation is the rate at which the price of goods and services changes. It is measured by the Office for National Statistics. We do not allow for inflation when we set price controls. This means that inflation will also affect the amount customers pay, but even after inflation we expect most customers will pay less for water and wastewater services than they do today.

# Highlights across England and Wales

Selected performance commitments and investments



## Risk and return

**It is important for the sector to be able to access capital markets on reasonable terms to ensure investment can be funded and kept affordable for customers. Part of our role is to consider how an efficient company can finance the investments it needs and deliver its services and projects on reasonable terms, while protecting the interests of customers now and in the long term.**

The allowed return on capital provides debt and equity investors with a reasonable return that reflects the risk inherent in the water sector. Setting the allowed return at the right level is important. If it is set too high, customers will pay more for their water bill than they would otherwise have done. They may also feel that companies are making excessive profits, and lose trust in our regulation. If it is set too low, it could jeopardise the ability of efficiently run companies to raise finance on reasonable terms and so provide a high-quality service to customers. We set the allowed return based on market evidence.

In our final determinations, we have set the allowed return on capital at 2.96% for the whole business, and 2.92% for wholesale controls (without retail). This is the lowest allowed return since the privatisation of the water sector. It is based on our analysis of market data up to the end of September 2019.

Efficient companies that meet their service and performance commitments will earn the allowed return. Our determinations include a package of incentives on companies that incentivise them to be efficient and to meet or exceed their commitments. Companies whose performance is better or worse than our benchmarks will earn a return that is higher or lower in practice than our allowed return. We are satisfied that an efficient company would be able to meet its obligations and commitments to customers within the allowances we have set.

### Changing our measure of inflation

At this price review, we are changing our main measure of inflation from the Retail Prices Index (RPI) to the Consumer Prices Index including owner-occupiers' housing costs (CPIH). CPIH is a less volatile and more accurate measure of inflation than RPI. CPIH is generally lower than RPI.

On 1 April 2020, we will index 50% of the regulated capital value of water companies to the existing measure of inflation, RPI. The rest of the regulated capital value, including all new investment, will be linked to CPIH so that bills better reflect the inflation rate that customers face.

1. In CPIH terms, deflated for our long-term assumption of 2.0% CPIH.



**This is the lowest allowed return since the privatisation of the water sector**

### Case study: benefits sharing

We have introduced a gearing outperformance mechanism, which could mean companies sharing up to £210 million of financial benefits from gearing with customers in 2020-25.

United Utilities plans to contribute £71 million to its CommUnity Share scheme and match dividend payments beyond a threshold to its shareholders with further contributions. This scheme will benefit customers and communities in the north west of England. Customers and shareholders will have a say in where the scheme's funds are allocated, with oversight from United Utilities' Customer Challenge Group.

Wessex Water plans to reinvest 20% of net payments it earns from beating performance commitments in community projects. This foundation will provide grants to support schemes in the local community, addressing issues such as debt advice, the environment, diversity, and community cohesion.

### Dividends and performance-related executive pay

The public service nature of the water sector means that companies should be transparent about performance-related executive pay, dividends and financing arrangements, and show how these align to the services customers receive. All companies have taken steps to meet our expectations. Companies will now need to show that the dividend and performance-related executive pay policies they apply in 2020 to 2025 take account of customers' interests.

## Next steps

Companies now need to turn their plans into reality. This will mean delivering the schemes and projects they set out with the money we are allowing, making the changes needed to meet their performance commitments and living within the efficiency envelope we have set.

Alongside other regulators in the sector, such as the Environment Agency and the Drinking Water Inspectorate, we will hold companies to account to make sure they deliver for customers and the environment. Each year we will assess companies' performance. If they deliver above and beyond, they will earn payments that reflect the improvements they achieve. If they fall short, they will need to return money to customers by lowering bills. This will drive improvements that benefit everyone.

We recently published our strategy, ['Time to act together'](#) in which we set out how we will develop our work over the next few years, including by building on what we have done during the 2019 price review.

- We want to see companies build on the research they put into their plans, deepening their understanding of and relationships with their local communities, and improving their ability to meet the needs of the communities they serve.
- We already ask companies to put their plans for the next five years in the context of the longer term, and to make indicative 15-year performance commitments. We will work with the UK Government, the Welsh Government and other water regulators to set a number of strategic long-term targets for the sector.
- Building on the new approaches we have introduced – direct procurement for customers; gated funding for strategic water resources; and the ten-year price control for the Havant Thicket reservoir – we will look at whether and how we can extend these approaches in our next price review in 2024.
- We will encourage companies to make even more use of nature based solutions, including sustainable urban drainage systems, and market mechanisms in key areas such as bioresources and ecosystem services.
- We have been encouraged to see companies showing real ambition on innovation. We will also continue to reflect on the ways regulation can make innovation possible.

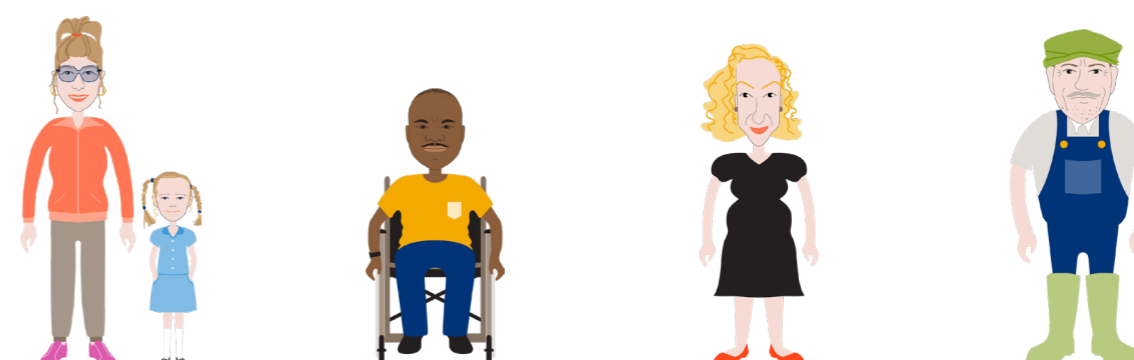


**We want water companies to provide the very best service for their customers, improving the environment and improving life through water, both now and in the future**

Looking further ahead, we want to learn from experiences of this price review to shape our approach to the next one in 2024. Because they are a key part of our strategy, we will keep the core elements of the existing price review framework:

- companies' plans built on a deep understanding of customers' needs;
- an outcomes-based approach with meaningful incentives for outperformance;
- separate price controls (where appropriate) for distinct markets; and
- an allowed return on the regulatory capital value.

We want water companies to provide the very best service for their customers, improving the environment and improving life through water, both now and in the future. Our final determinations are a big step towards achieving this, and provide a good platform for the changes we want to make with the sector over the next five years.



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

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