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It's what we're made of.

Public Value
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Dear Ofwat,

A discussion paper on public value in the water sector

Thank you for the opportunity to respond to this discussion paper.

Bristol Water was set up in 1846 by a group of social philanthropists who wanted to deal with a public health crisis as Cholera was rampant in Bristol at the time. The cause of Cholera at the time was not known, but a local physician, Dr William Budd, believed the source was from water supplied from wells within the city. Together with other local leaders, they persuaded Parliament to pass the Bristol Waterworks Act, a plan to bring a fresh supply of clean water, gravity fed, from springs in the Mendip Hills. Parliament chose this plan because they would supply the whole city, against a rival bid to only supply the rich areas of Clifton. Parliament recognised, on behalf of the citizens, the importance of a social purpose and addressing the changing needs of society, because of the economic and environmental consequences of not doing so.

This story of public value still has resonance today, and not just to the water supply to Bristol. If we are to address the complex issues we face, in particular the sustainability challenges of the climate and ecological emergencies, then current and future citizens need to trust those who deliver public service on their behalf. If we are impacting on citizen's wellbeing at a time of change, then how we engage and deliver services will matter, as it did in 1846. This concept lay behind our "Bristol Water Clearly" long term ambition which set the scene for our PR19 business plan, and our social contract which accompanied it. We do not repeat our background development in this response, but our social contract update report provides public value evidence which may be helpful¹.

It is Bristol Water's 175th anniversary this year and trust and public value is enshrined in our social purpose statement – "Our purpose is to have a positive impact on the lives of our customers, our communities, our colleagues, and on the environment beyond the delivery of pure and reliable water".

We strongly welcome Ofwat's focus on public value and the snapshot insight in the report from the Purpose Union and the Impact Institute report, which highlighted how the benefits of our social contract and wider work with the community we serve feeds into our service delivery, but also wider

¹ https://f.hubspotusercontent30.net/hubfs/7850638/Site%20Assets/Offline%20docs/Social-Contract-Benefits-and-Transparency-Report-2020_21-1.pdf



societal wellbeing.

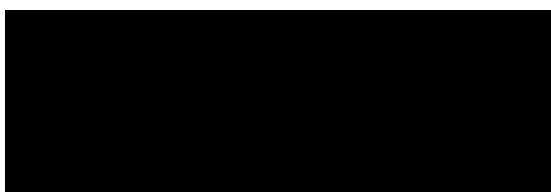
In our view Ofwat's regulatory framework should encourage the local aspects of public value. Building public value into a more complex regulatory framework will risk crowding out the trust benefits of a social purpose. In our view, a social contract should go beyond the standard requirements of law, regulation and corporate governance, if it is to succeed in building trust. Ofwat's regulatory focus at PR19 relied much more on comparative financial incentives and targets than at PR14, which is not a development we welcome. If Ofwat is serious about developing a public value ethos, then there needs to be space in its decision-making framework for building consensus, and therefore trust, with local communities. Ofwat should continue to shine a light on good and bad practice but should be wary of stepping into public value without a radical change in regulation away from top-down decision making. Our response to the recent customer engagement and PR14 lessons learned responses provide more thoughts on this.

We would welcome the opportunity to work with Ofwat on a Future Ideas Lab piece that explores further how the regulatory framework, in particular at price reviews, may move to reflect local requirements and consensus within the national policy framework. We think this is essential, as we risk losing public value and trust if the top down interventions made by Ofwat (such as some of those made at PR19) work against local plans, and lost the opportunity to build consensus. Where interventions are made, they must be for a reason that is easy to explain to customers, rather than from a perspective of regulatory incentives. We have the opportunity before PR24 to reshape how local communities engage on public value, building their confidence in a regulatory framework that can support the water sector playing a full role in tackling the societal, climate and ecological challenges.

The public value discussion paper recognised that public service was in the water sector's DNA. This is not just a matter of a "proud heritage and history", but why people want to work in the water sector. We include our regulators and policy makers in this as well, with the "Why we pay for water" educational worksheet developed with Ofwat and published as part of our new Bristol Water Foundation careers and educational website, was our attempt to build this same passion for the future. Bristol Water may be 175 years old, but we see the same passion and commitment across the industry, whether this is the Water UK Public Interest Commitments or through the range of companies taking part in the wider purposeful company debates, such as the British Academy's "Future of the Corporation" project.

Our response to the questions included in the discussion paper can be found overleaf. In the meantime, please do not hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours faithfully,



Iain McGuffog

Director of Strategy and Regulation



Scope and Ambition

a) What factors – outside regulation – impact on water companies' ability to deliver 'optimal' public value outcomes when delivering their core services? What are the constraints to meeting ambitions in this area?

Understanding what optimal looks like

Companies firstly need to understand the wellbeing and public value outcomes which are priorities within the area which they serve. To do this they need to be an active participant in local stakeholder networks and in the development of local plans. Companies need to listen – not only to customers but to charities, interest groups, partnerships and other businesses who have the closest connections to the needs of our communities.

An example of this working in practice is Bristol Water's contributions towards the Bristol One City Plan, including being an active member of the One City Environmental Sustainability Board, as well our contributions to One City Stakeholder gatherings, Carbon Strategy development and ecological emergency response publication. We have also run a joint stakeholder event to explore what citizens and employees of the future could be like and how we could contribute to the cultural shifts required to achieve the sustainability visions set out in the One City Plan.

Working in partnership

Companies can only achieve optimal public value outcomes by developing partnerships will connect company skills and resources to public value goals. Each partner brings something unique to the mix, which in combination delivers public value.

An example is our work with City to Sea to develop to reduce single use plastic reduction. City to Sea bring to the table a passionate network of volunteers and supporters, as well as some innovative media campaigns. We provide financial support, water fountains and our trusted brand to encourage consumers to use tap water rather than bottled water when on the go. This partnership delivered our award-winning Refill campaign and our network of water fountains – which have together saved countless plastic bottles from going to landfill.

Another example is our partnership with the charity Ablaze Bristol. Ablaze has developed a network of schools and many years of experience in raising aspirations and providing skills for young people with fewer opportunities. We offer enthusiastic and experienced employees as mentors, as well as our office and lakeside facilities to provide real life experience in the workplace.

Prioritising where to invest time and money

There are many opportunities for water companies to deliver public value, with effort required to invest in relationships and alternative ways of working to extract this value. The optimum solutions are those which deliver core services in a way which both maximises benefit to communities and reduces cost in the long term.

Companies need a way of identifying these opportunities and prioritising them based on both their contribution to core services and the additional value which they bring to communities. This requires a valuation framework.

Currently our approach to maximising our public value contribution is two pronged. Firstly, we have set a clear social purpose of the company. This is regularly communicated to employees and stakeholders and is accompanied by a guide on how we intend to deliver this social purpose.



Through this purpose our objective is to develop a culture which puts social value at the forefront of everything we do through empowering our employees to think differently and challenge the everyday decisions which we make within our organisation. Secondly, we have developed our social contract, which groups a discrete set of public value projects, overseen by our executive steering group and our Bristol Water Challenge Panel.

We are developing our valuation framework to enable our approach to be objectively applied to investment decisions, to ensure that social value is a measurable factor within in our decision-making process.

Accountability and transparency

Companies need to be accountable to the communities which they serve. To do this there needs to be transparency of reporting including lessons learnt. Bristol Water has put an accountability framework in place through an ODI which measures stakeholder satisfaction with our contribution to local communities, together with a voluntary sharing mechanism for our social contract. We report on progress regularly and honestly, including through the use of our interactive performance graphic.

b) What are the risks in the pursuit of greater public value; and what could companies, and/or Ofwat, do to mitigate these risks?

Key risks are:

Additional costs – An approach which prioritises outcomes based on total value provided (to the company as well as public value) versus the cost, will sometimes favour higher cost – higher public value schemes. Picking these schemes will add cost to the business, at least in the short term.

Added complexity – projects and investments which deliver additional public value tend to involve working with a number of stakeholders which makes them more complicated and time consuming to deliver, as well as potentially higher risk.

Unfulfilled increased expectations that local decisions and views count – a major challenge in delivering public value is the centralised nature of decision making in England, in public services in general. Policies and funding often come top down, and on short term initiative timescales that require “bidding” processes. This makes long term planning, and gaining long term stakeholder commitment very difficult. The water sector has a long track record of providing such stability, and has also seen an evolution in its regulatory framework over time to support this. The development of catchment management is a good example of this.

The Defra Strategic Policy Statement has been successful in providing a flexible and high-level steer to Ofwat and the water sector. Future challenges are more complex, and national frameworks, including for the water sector, will need to adapt to allow them to be tackled in a way that gives confidence to local stakeholders that they can rely on them. Without local accountability and decision making, there may well be disappointment in the decisions made centrally, and a risk to public value. Greater public value requires more local decision making and accountability, and a flexible national framework that provides a long term steer.



We have a broader concern – a risk that the regulatory narrative that describes Ofwat as battling on consumers behalf against high bills/water sector investment returns does not sit easily with a public value narrative. This risks confusion for customers and stakeholders about the water sector. Ofwat needs to be clear about its role, and whether it is interested in national or local views (or both), and how deep and detailed its role is. This helps to understand where the focus on public value should sit, recognising that the public value in water comes from it being, fundamentally, a local public service even as it delivers national infrastructure.

If Ofwat are keen to boost public value, this will require a move to principles-based regulatory tools rather than rules-based tools, something that Ofwat has focused on and described in its strategy in the past.

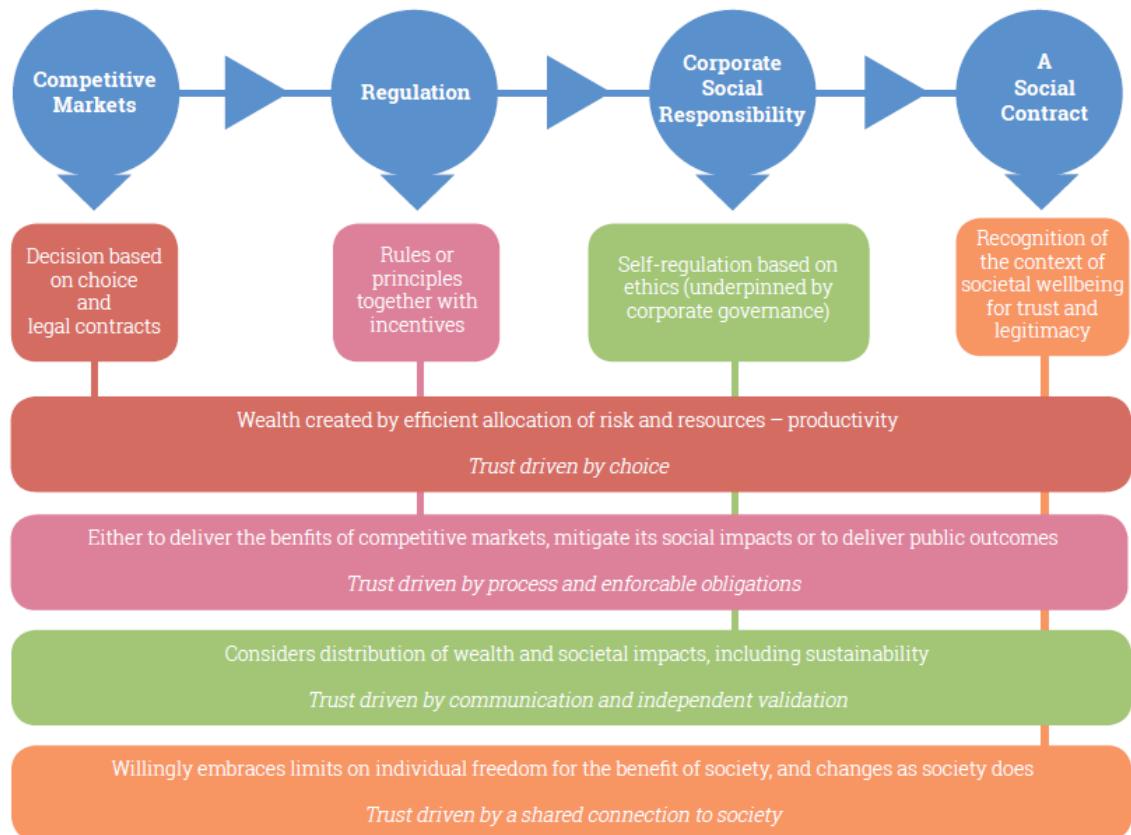
c) In pursuit of better public value outcomes, to what extent should companies focus on an enabling culture that drives public value holistically; versus a more discrete, targeted approach?

In our view there is a place for both approaches. We have adopted our social contract, which allows for a discrete, targeted approach whilst we develop the culture and mechanisms to assess and deliver public value holistically. A discrete targeted approach is easier to engage more directly on with stakeholders and to drive accountability through readily measurable outputs. It also reflects commitment, transparency and accountability.

However, you do not get to trust through a targeted approach without an enabling culture. That is why our social contract forms part of our values as an organisation, and there is an overriding infrastructure and process to ensure it thrives. We talk about how we balance holistic culture and tangible actions in our “Guide to our Social Purpose”, which acts as a reference to how we balance the two.² It describes how a focus on public value helps to deliver our regulatory outcomes, and the way we deliver these outcomes creates public value. This sits alongside our annual social contract initiative programme and transparency reporting. Although this is cross referred to in our annual reporting, it is deliberately separate, but is no less important to our Board – the separate reporting being part of the culture in it being the DNA of the organisation, rather than merely being a response to corporate reporting or regulatory requirements. It reduces the risk of “purpose-washing” which disengages both employees and stakeholders in a healthy culture. However, this requires regulators to not just emphasise on corporate reporting as the measurement of holistic public value.

A culture of public value must be holistic, with our social contract we saw as trust and legitimacy as a precursor to public value. Public value is created by changing how we deliver (and perhaps what we deliver), in a way that benefits wider society beyond our basic requirements. We described this social contract concept in the diagram reproduced below:

² [A guide to Delivering our Social Purpose](#), April 2020, see for example our annual process diagram on page 14



Source: [Bristol Water for All – our purpose and social contract to build trust beyond water](#)

Diversity of thought and inclusivity and equality of participation and engagement is important to staff and the community we serve. This is an emerging theme within our social purpose. It is essential for trust and will have public value benefits as well.

Incentives and Barriers

d) How does the regulatory framework contribute to, or limit, companies' ability to deliver better public value outcomes?

The regulatory framework at a strategic level encourages companies to deliver public value outcomes. However, the price review process at PR19 was overly focussed on comparators and incentives, both least cost planning through comparing company efficiency and outcome interventions, without considering its social value contribution.

There were aspects of PR19 however that did recognise public value, such as our biodiversity index and the local community stakeholder satisfaction ODI. Our concerns were more with the overall balance of the regulatory framework, particularly the interventions on the common ODIs. We also had a holistic approach to resilience investment, and a community led resilience ODI which was a long term approach, which relied mostly on small rather than large interventions. Whilst welcoming the concept from a resilience perspective, the opportunity to build a long term community led approach was, for the time being, partly lost.

To be clear, Ofwat has strongly supported our ability to deliver better public value outcomes, and this was very important in the development of our social contract. There was space allowed in regulation for this to happen, and an appropriate level of engagement. We are less clear about the



direction of travel for PR24, reflecting our concerns about how Ofwat's strategy and ambition translate into price reviews. Ultimately our concerns are not about the objectives, and we support Ofwat's focus on public value outcomes, but on whether the focus is on the tools of regulation, rather than building the trust in public value.

In part, Ofwat are a national economic regulator, but we note the recommendation in the NIC strategic regulation study of the need to engage with devolved and local authority decision makers. We think Ofwat should do this by rethinking how the regulatory framework can recognise local consensus. Ofwat can also help to encourage cross-sector solutions by working with other regulators and Government to overcome barriers. There is an opportunity in the innovation fund, that Ofwat have recognised, for projects that may help to do this.

Our other plea is for a greater strategic dialogue between Ofwat and company Boards. Ofwat are right to focus on corporate governance but given our view that CSR and corporate governance is unlikely to do little to build trust with local stakeholders and current and future citizens, there is no substitute for senior discussion and sharing of challenges, concerns and idea. We also see scope for cultural shifts in cross-working between younger professionals, and those who bring new ideas (how are we developing the water and economic regulation experts of the, what is influencing them and what ideas are they bringing).

We note from the paper that there had been a suggestion to Ofwat that public value should be enshrined in a licence condition. In practice we do not see what this would deliver in terms of trust. Similarly B-Corp and BSI standards might have some value, perhaps as part of Corporate Governance, but do not themselves drive value. They may drive trust from stakeholders and some customers, but we believe this is the vast minority based on our trust and social contract research prior to PR19. The social contract and social purpose, and changing our corporate governance code to make it clear how this drove the Board, with transparency and reporting on this commitment, was the right outcome for us based on the objective of building trust in our delivery of public value.

Regulatory tools will need to evolve, and we see this evolving in terms of a reduction in trust that competitive markets, even where there are clear technology dynamics for this such as digital and social media. The establishment of the Digital Markets Unit in the CMA is one example. We have described the emerging societal concern as "social impact monopolies", which is a focus where there is a lack of transparency on the impact of markets on social wellbeing as well as consumer rights. The water sector is very different, despite being a "pipes and wires" monopoly as a whole, there is less risk of a hidden social impact monopoly that requires new regulatory tools. Ofwat has a role to play in keeping on top of emerging regulatory practice, and working with water companies to allow them to consider how their plans should adapt in advance of regulatory action being required.

e) What role, if any, should the price review play in encouraging or incentivising companies' delivery of public value?

As we describe above, we are concerned that Ofwat's regulatory strategy is too focused on price reviews and the economic regulation tools that supports them. As we describe in our PR14 lessons learned and customer engagement discussion paper responses, experience suggest this results in companies overly focusing on what Ofwat wants and thinks, rather than customers and stakeholders. This is something that was a clear message from the David Gray review of Ofwat in 2011, which we think resonates today. In our view, this is something that Ofwat and the water



sector should focus on now, before we embed the PR24 approach. It will need to reflect on the findings, observations and learning from the CMA process currently underway. We would encourage Ofwat to support an independent review that focuses on this very issue – what regulatory approach will encourage companies to deliver public value in the future, what does Ofwat and the water sector need from Government others to support this, and then how does the price review design accommodate this.

As we suggest earlier, the priority should be to consider how trust and consensus can be built, and then Ofwat consider whether it needs to intervene, supported by the tools of economic regulation that protect consumers. The risk otherwise is that we try and make the tools of economic regulation and price reviews work better, at the potential expense of public value.

Understanding Impact

f) What are the markers of progress on public value, both in the context of enabling culture and outcomes?

We think there are a range of markers of process, which are captured in our view in our social contract. We recognise this will evolve over time. Progress can be measured in tangible outcomes, with the water sector featuring and active in local plans. Outcomes can include water sector measures (ODIs), and local community stakeholder satisfaction, and measures such as UKCSI, provide a good overall indication.

We also believe that the UN Sustainable Development Goals (UNSDGs) provide a helpful framework to target public value progress, something that features in both the Bristol One City Plan and our social contract reporting.

The markers also include the adoption of new innovations. For instance, our conservation initiatives, alongside ODIs such as the biodiversity index (which ensures net biodiversity gain on sites we own), should help to shape future environmental programmes and WINEP. This comes from understanding the best solution locally, to shape national delivery. We are confident this will work given the relatively modest programmes. The same may apply to drinking water projects and regulatory requirements (such as lead pipe replacement as part of local housing improvements). Ultimately, customer, stakeholder and regulator support for a long-term plan that can adapt as circumstances change is a good way of delivering public value. The question is whether it can do this with a price review framework using cost benchmarking and other comparative tools. These tools are needed but cannot be used in isolation of the wider context of public value. If they are, they force the culture of planning in the water sector, and within companies. We do not want to repeat that lesson from past water regulation.

g) What role, if any, should Ofwat have in monitoring progress? How else can we, customers and other stakeholders be assured that genuine and meaningful progress continues to be made?

Our view is that Ofwat should not play any role in monitoring progress, at least not in a standardised way using Ofwat's current regulatory toolkit. To do so would imply a standardised reporting framework, with evaluations undertaken by Ofwat (or another third-party organisation). Such a framework would suffer from the same disadvantages of the existing regulatory framework. Namely, that this assumes regulators are ultimately responsible for maintaining trust and legitimacy via top-down regulatory oversight (and therefore a reporting framework is used to



evaluate progress in improving such trust) when instead, it should be the responsibility of water companies to maintain trust and legitimacy and be accountable to the local communities that they serve.

Ofwat can observe what happens. For instance, if public value and social purpose deliver is just described by companies in the form of regulatory targets or language, or only in terms of top down corporate governance, then whilst this has value in its own right, public value progress is not being made. This approach could move companies' behaviour from purposeful to tick box, and whilst monitoring progress, may miss the key aspects of trust and societal wellbeing as the world outside of economic regulation changes. For us, the social contract was in part making sure there was a stronger understanding and voice of the water sector in public policy and changes, which is much weaker because energy is seen as a much bigger issue for climate change. This is true in what can easily be measured, but we think the water sector has a much bigger role than can be measured through water sector metrics (including water consumption or carbon use).

As stated within the discussion paper "at this stage it's not clear whether a unifying or standardised framework for public value that encompasses both these dimensions is necessary (or even desirable)." We agree with this statement.

We think Ofwat should enable trust and consensus to be built, engage in strategic debate and dialogue, and observe the outcome. As an anecdotal example, during our PR19 business plan presentation to Ofwat we played a video that included the customers who had engaged in developing the plan and social contract concept. We were challenged as to whether this was genuinely how customers would describe a water company. There is a question as to whether having engaged communities, following the decisions and interventions that Ofwat have to make, we describe and justify these decisions having engaged local communities and citizens, particularly if we are asking them to make changes because of the climate and ecological emergency challenges.

Other

h) Is there anything else Ofwat should be considering in order to meet our objectives on public value?

On delivering public value, this is potentially an area where less is more. What we mean by that is that the delivery of public value is being achieved by the water industry acting on their own accord, through the absence of direct regulation, but with positive interest, strategic challenge and (as much as is appropriate for a regulator) support from Ofwat. Indeed, regulatory intervention may hinder such delivery. We would for example note that the consultation celebrates the inception of the Public Interest Commitment (PIC). But the objectives of the PIC were created by the water industry following companies' ongoing dialogue with customers, which revealed that they would like the water industry to do more, not just to improve services, but also to play a full role in tackling wider social and environmental challenges, and the industry proactively committed to undertaking these commitments. In other words, these public value objectives grew organically and were prioritised without any need for regulation or regulatory monitoring. It is the insistence on monitoring such organic growth (for example via the proposals for operational and embedded emissions) that could potentially stifle the progress of such commitments.³

³ [Consultation on regulatory reporting for 2020-21 – Responses document](#)



There are a range of views within water companies about the PICs – they may not all chime with local stakeholders in all areas, and they will evolve. Ofwat should be mindful of this, supporting ambition, balancing challenge with understanding the risk that the direction of travel needs to change, and reflecting what you hear from your stakeholders in a way that it helps to build trust and consensus so that accountability for local water service decisions can remain local.