

12 February 2021

Public Value  
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Dear Ofwat,

### **Discussion Paper on Public Value in the Water Sector**

Thank you for the opportunity to share our views regarding public value in the water sector.

**Water companies already do much to support wider ‘public value’ and any further intervention by the regulator should be reflective of this and the high degree of trust which customers already have in the sector – at most we would advocate a ‘risk based’ approach**

As Ofwat recognises in its strategy, water companies are in a unique position to deliver significant public value<sup>1</sup>. On a comparative basis there are likely to be very few industries which:

- Have a such a firm regional footprint for employment and community support and focus;
- Have such a strong connection with and dependence upon the environment; and
- Have such a strong public service focus - indeed internationally very few water utilities are privately owned.

This places utility companies, and water companies in particular, in a unique position to deliver public value. In our view it is something that water companies have always done and is embedded in our DNA and culture. Reading the external report commissioned<sup>2</sup>, it would be easy to forget this comparative position either because the authors by their own admission have not engaged with the sector or because they focus on the fact that the sector’s reporting of this work could be better. Indeed, we consider that the material elements of what Ofwat highlights in its strategy as ‘Features of a company working with a strong public purpose’ are already working well at Northumbrian Water. In annex 1 we describe the significant work that we are already undertaking in this regard, including a significant project this year – as signposted in our 2019-20 Annual Report – to take forward our purpose through a re-articulation of our purpose statement and strengthened approach to measuring and reporting implementation.

Conversely the focus by the regulator on public value appears to emerge from a suggestion that the sector needs to ‘rebuild legitimacy’ with its customers in the face of past failures. At the outset we would comment that we don’t recognise this as a characterisation of the sector and certainly not our own company.

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<sup>1</sup> As set out in section 1 of Ofwat’s discussion document

<sup>2</sup> Report by Purpose Union and Impact Institute

This view is supported by a range of evidence which demonstrates that:

- Business as a whole is trusted more than government, media and NGOs – being the only institution seen as both competent and ethical – key drivers of trust<sup>3</sup>; and
- At a UK water sector level, 82 per cent of adults trust their company<sup>4</sup>, and that trust in water companies has grown over the last nine years<sup>5</sup>; and
- At a company level NWL performs better than average in the sector on trust<sup>6</sup>, and continues to achieve high trust scores from our local customers<sup>7</sup>.

This evidence suggests there is certainly no sector specific or sector wide issue here and even if there may be for specific individual companies this is not the case for us. Whilst the trust of customers in water companies is something that should never be taken for granted (and we never will), similarly our continued focus on this should not be seen as evidence that we accept the diagnosis of Ofwat that there is a need to rebuild legitimacy. In this context any further intervention by the economic regulator should, at most, be light touch and ‘risk based’ focusing on those companies for whom clear evidence exists of public concern.

**These concepts are challenging to grasp but the existing regulatory framework already provides the right incentives for authentic and legitimate focus on what the public values – we should not forget our central purposes and have faith in the current system of incentive-based regulation**

Concepts of public value are hard to grasp concretely; definitional questions arise immediately but there are also measurement and outcome-based questions - what are we trying to achieve and how can we best measure that? This challenge is compounded by a clear transience in any definition of public value as public perceptions move and respond to the ever evolving political, economic and environmental landscape. The definition of public value will also differ from region to region depending on what that ‘public’ group value. Finally, there are also critical questions in this context of how to align these objectives and arrangements with the regulatory framework and what the role of regulation should be in driving public value. This is self-evident from Ofwat’s discussion paper and the accompanying report, which offers a number of wide-ranging observations.

Ofwat and water companies should not forget our central purposes. As stated, these already helpfully provide an incidental and strong ‘public value’ focus. For Ofwat its central purpose is meeting its statutory duties which are first and foremost about the delivery of what water and wastewater customers want from us and are willing to pay for. For companies this is about meeting the needs of water and wastewater customers. Indeed, the need for this focus and ‘legitimacy’ is also a strong feature of the literature on public value that Ofwat cites<sup>8</sup>. We should not seek to act as though we are a branch of local government or that we are a social and environmental Non-Governmental

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<sup>3</sup> Edelman trust barometer <https://www.edelman.com/sites/g/files/aatuss191/files/2021-01/2021-edelman-trust-barometer.pdf>

<sup>4</sup> Comres polling for Water UK in 2019 <https://comresglobal.com/polls/water-uk-public-polling-2> demonstrated that four in five GB adults (82%) say that thinking generally, they trust their water company.

<sup>5</sup> CC Water’s annual tracking survey shows trust in water companies has grown over the last nine years, see: <https://www.ccwater.org.uk/wp-content/uploads/2020/08/Water-Matters-Data-report-2019-2020.pdf>, p.12

<sup>6</sup> CC Water’s annual tracking survey p30 also shows a 9 year average trust score for NWL of 7.86 vs WaSC average of 7.55

<sup>7</sup> NWL’s own domestic tracking research shows our customers score us at 8.8/10 for ‘a company I trust’, and in our brand values research, 87% report positive perceptions

<sup>8</sup> As set out on p12 of Ofwat’s discussion document for example and see also for example Moore, M, 1995, ‘Creating Public Value, Strategic Management in Government’, (which Ofwat describes as a seminal text in its working paper). See for example Part 2 or pp.30-31 which describe the role of democracy and self determination in providing ‘legitimacy’ in public service provision.

Organisation - that is not legitimately what we are or the role we play. Our principal relationship is with customers and bill payers, not citizens and tax payers, and our legitimacy is intrinsically linked to doing what customers want from us specifically, in exchange for the bills that they pay.<sup>9</sup> This does not mean that we do not focus on social and environmental issues, but that we do this to the extent that our customers and stakeholders demand or support it. If we deviate from this materially without customers' consent then we place greater not less risk on the legitimacy of the sector.

We should also recognise the evolution of regulation to better and more directly incentivise companies to deliver what customers want and the enormous strengths of the current model, which is clear and empirically observable in terms of its benefits compared to alternative experiments of public value. This framework already aligns customer preferences with shareholder returns through a series of cost, outcome and other incentive regimes. Moreover, recent evolutions in terms of the focus on direct and ever-deeper customer engagement, coupled with the shift to outcomes-based regulation, has meant that now more than ever companies are able to reflect customer preferences in the round, even where those preferences go beyond the 'core' job of water and wastewater services. We provide specific examples in annex 2.

These regulatory arrangements have evolved over 30 years. They clearly work and exhibit much greater longevity than relatively novel and immature concepts of public value in regulation. They are therefore much more robust and tangible than these concepts of public value - they should be added to rather than completely reassessed.

### **What should Ofwat do about public value in line with its strategy?**

Firstly recognise, protect and enhance the important elements of the existing regulatory framework that support and drive public value:

- in the context of the (largest) enduring monopoly price control regulation this is about the ability of companies to engage directly with their customers (rather than through centralised research<sup>10</sup>) and reflect those preferences in bespoke outcomes. It is also critically about the preservation of the incentive-based regulatory regime that continues to drive the delivery of those outcomes and cost and service improvement for customers over multiple control periods, This is increasingly aligned with the preferences of customers even where those preferences go beyond the 'core' service provision;
- in the context of 'for the market' competition regimes such as New Appointees, Self-lay regimes, Direct Procurement and other regimes this is about the extent to which proposals take a 'net gain' focus in line with the NIC's recent work on this subject<sup>11</sup>; and
- in the context of 'in the market' competition such as the NHH retail market this is about the ability of customers to request, and retailers to offer through the rivalry in that market, wider 'value-added' services - are the margins sufficient under the default tariffs to allow this?

Secondly, build on these strengths and improve the regulatory framework by examining and removing any aspects that act as barriers to companies delivering wider public value. Such a review could usefully examine:

- Regulatory treatment of the interactions and boundaries between 'regulated' and 'non-regulated' and 'appointed' and 'non-appointed' business, including transfer pricing arrangements, which may

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<sup>9</sup> We set out these arguments initially in our response to Ofwat's Emerging Strategy, September 2019.

<sup>10</sup> As set out in Ofwat's 'PR24 and beyond: Reflecting customer preferences in future price reviews'

<sup>11</sup> As set out in recent NIC Study <https://nic.org.uk/studies-reports/natural-capital-environmental-net-gain/>

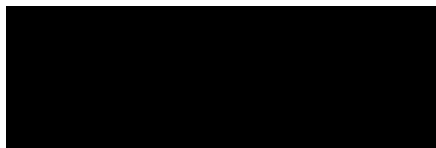
not always fully incentivise companies to make maximum use of opportunities to deliver public value - especially in relation to achieving 'Net-Zero'. These existing rules may be creating a constraint at the margins for new activities that could go forward but cannot return a positive cost benefit analysis under the current arrangements. We recognize that those rules may be considered to have a legitimate purpose besides supporting public value which should also be considered.

- Ofwat's price review cost assessment process – which does not currently take much account of the wider public value of proposals, and customer support for those proposals, and is more focused on the impacts on customer bills and the benefits in terms of service delivery. This limitation became particularly apparent in Ofwat's recent approach to assessing additional Green Recovery investment proposals<sup>12</sup>. As well as Ofwat updating the process and its guidance, clearly it would be for companies to undertake better assessments of these things, for example as part of any enhancement cases, cost adjustment claims or other work. We would not see these wider public benefits as being substitutes for the existing focus on bills and service improvements but could be an enhancement to the existing process in line with the recent NIC guidance on the matter.<sup>13</sup> In effect these wider public value concepts could help, for example, to identify the best option between two competing alternatives with marginal differences.

Finally, resist the inevitable temptation to standardise reporting, improve comparability and then introduce benchmarking into this area. The evolution of monopoly regulation, and particularly in a water sector context, has been benchmarking, benchmarking and more benchmarking. Public value in this context is not about providing a standard and core service and driving efficiency in the provision of that service, it is a more marginal and certainly more regionally differentiated concept that is about meeting more bespoke customer preferences beyond the core service and price offering (which is already well served by existing benchmarks). It is about more straightforward delivery of what customers said they wanted and for individual companies to track that and 'walk the talk' as Ofwat puts it. At the same time, as is self-evident from the Ofwat documents, there isn't yet a common approach to reporting public value, but many companies are experimenting with new models. It would make sense for that experimentation to continue for a time until some consensus emerges - as is normal with public reporting. We elaborate on these points in Annex 2.

We would urge Ofwat to focus on building on the strengths of the existing regulatory framework and the opportunities for improvement to that framework at the margins. We should resist the temptation to further complicate the regulatory reporting arrangements unnecessarily where the case appears weak. If Ofwat does choose to intervene then it should be risk based, blanket sector-wide approaches are not justified and have the potential to drive perverse outcomes, including potentially undermining trust.

Yours sincerely,



**Andrew Beaver**  
**Regulation and Assurance Director**

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<sup>12</sup> We elaborated on the weaknesses in using this approach to assess Green Recovery proposals in our letter to Tim Griffiths dated 6<sup>th</sup> January 2021

<sup>13</sup> As set out in recent NIC Study <https://nic.org.uk/studies-reports/natural-capital-environmental-net-gain/>

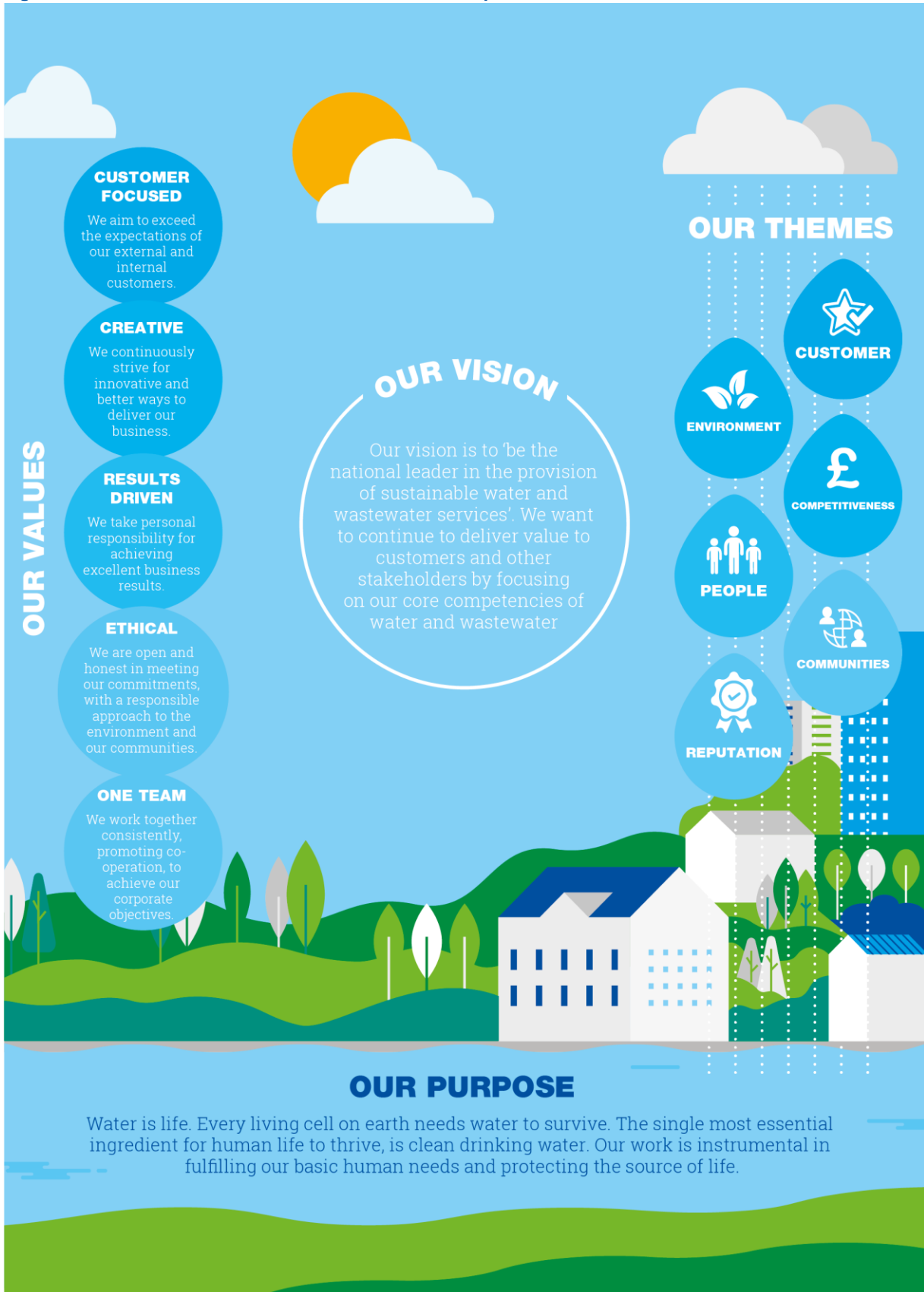
## **Annex 1 – Delivering Public Value at NWL**

In their strategy Ofwat sets out that features of a company working with a strong public purpose might include the following:

- *Every part of the business and every business decision is seen as an opportunity to add value to society. Over time, there is a sustained culture and mind-set shift that stretches from boardroom to frontline employees.*
- *The company strives to find win-win solutions that are lower or equivalent cost to traditional methods, but that deliver greater public benefits. The company places a stronger focus on the long-term business case; uses partnerships to bring in new sources of funds and expertise; and forms commercial arrangements with landowners, local government, businesses and others.*
- *The company aims to go beyond the standards and norms set by regulators where this is the right thing to do. It is proactive in engaging with regulators and policy makers to highlight and help remove regulatory barriers.*

At NWL we have a track record of working with a strong public purpose, going well beyond the core requirements of our operating licence. This guides us on why we operate, and interacts with our vision, which sets out what we do, and our values, which describe how we do it. This is illustrated in Figure 1.

Figure 1: Our vision, taken from NWL 2019-20 annual report



Below we describe some examples of how our purpose is put into practice, consistent with the above points, and how we plan to further strengthen our approach in future.

In our recent employee survey, conducted with Great Place to Work, 81 per cent of our employees agreed with the statement 'I feel good about the ways we contribute to the community'. This is indicative of a sustained culture throughout the business, including among our frontline employees. We have recently learned that for the 10th year we will be listed in Ethisphere's World's Most Ethical Companies list, having completed a detailed assessment covering areas including our governance, employment practices, commitment to inclusion and environmental practices. This provides a rigorous, independent and objective test of the way that all parts of the business identify and take opportunities to add public value.

To help us deliver public value, we have developed a series of strong partnerships and commercial arrangements including with local government, government bodies and charities. These include the award-winning Northumbrian Integrated Drainage Partnership, through which we co-ordinate planning and funding with all local authorities in our Northern operating area, along with the Environment Agency. This enables us to identify win-win solutions making best use of public and private funds. We established and funded a groundbreaking three-year research partnership with National Energy Action to investigate how to eradicate water poverty, building on a long-standing partnership that continues with StepChange, the debt advice charity, to support customers encountering financial challenges. We work with Wildlife Trusts to manage conservation work on our sites – including at Lound Lakes in Suffolk and Hanningfield Reservoir in Essex. Our partnership project on the expansion of Abberton Reservoir, that created the Abberton Reservoir Nature Discovery Park, was recently awarded the Chartered Institute of Ecology and Environmental Management's (CIEEM) prestigious NGO Impact Award for its impact on nature and society.

As a business, we have made commitments to public benefit that go beyond regulatory requirements and proactively approached regulators to develop the mechanisms that will support this and incentivise us to go further. We have committed to be Net Zero for Carbon by 2027, ahead of both industry and Government goals, as well as being the first, and only, water company in the UK to use 100 per cent of the sludge from its sewage treatment to create energy through Advanced Anaerobic Digestion (AAD). We proposed a bespoke ODI in our 2020-25 business plan for making improvements to areas of accessible water environment, including working through partnerships. This approach and our success to date was recognised last year as being named a Responsible Business Champion, receiving the UPS Environmental Sustainability Leadership Award, from Business in the Community. Our commitment to the environment effectively runs through the heart of our business.

As mentioned above, we were the first water company to commit to eradicating water poverty in our operating area by 2030, and have already made substantial progress in delivering this. We have also set the goal of spending 60p in every £1 with suppliers in our operating areas, and are on track to achieve this within the current AMP.

A series of community activities are built in to our business operations to ensure we continue to provide community benefit. Through our Just an Hour volunteering programme, we enable our employees to carry out community volunteering in work time, with a target that 50% of our people will engage in this programme each year.

Our Branch Out scheme has provided £530,000 worth of funding for organisations and individuals delivering projects to benefit the natural environment.

We engage with education in our region through a series of initiatives, including sponsoring Castle View Enterprise Academy in Sunderland. Further educational activities include our 'Powered by Water' water for health programme delivered with sporting partners including Newcastle Eagles Community Foundation, Sunderland AFC Foundation of Light, and Middlesbrough FC Foundation. We have used our Innovation Festivals as an opportunity to provide STEM education experiences for school students, with 1,800 young people attending our 2019 Festival (the last time we had opportunity to stage it as a physical event). The three museums operating on some of our historic sites offer a range of education opportunities. We are also about to launch our new digital e-learning education programme, Ripple Effect, immediately after February half-term, supporting teachers with the delivery of topics around the water cycle.

Most recently, we have worked with partners to create the Laptops for Kids and Cash for Connectivity initiatives in North East England, donating computer hardware and 4G dongles to families who require them to aid with home schooling during lockdown, and have used our extensive connections in the local business community to encourage significant additional donations.

All this activity is underpinned by a strong understanding of customer and community needs, though our customer engagement programme and strong relationships built with local stakeholders.

We will be implementing a major project this year to embed this culture even further within our business through re-articulating our purpose statement, and considering how we strengthen reporting against delivery of our purpose. The intention is not to fundamentally change our purpose as described in previous annual reports. However – and as we specified in our most recent annual report – in order to take our purpose forward we wish to look again at our purpose statement to ensure it fully encapsulates and communicates our ethos, and to keep it powerful and relevant. This will begin with an intensive engagement programme involving board members, senior leaders, employees, customers and external stakeholders including the Water Forum (our Customer Challenge Group) in order to re-develop our purpose statement. This will then be the subject of a major communication programme to help our employees recognise how they contribute to delivering our purpose. Finally, we will examine a strengthened process for measuring and transparently reporting against how effectively we implement our purpose, in a way that is accessible for customers and a broad range of stakeholders. Through this we will track how we fulfil our ambitious goal to be the most socially responsible water company. In doing this we are already building on strong employee engagement, with 91 per cent of our people agreeing with the statement 'I support our organisation's vision and values' in our recent employee survey.



## **Annex 2 – Public Value and the Regulatory Framework: Strengths and Improvements**

In response to Ofwat’s recent consultation on PR14<sup>14</sup>, we highlighted the effectiveness of the current regulatory framework in delivering for customers across the 2015-20 period; in particular how at PR14 the combination of a focus on outcomes, strong incentives on service and efficiency, and improved customer engagement, applied in a well calibrated manner, delivered significant improvements for customers as well as a balanced approach to risk and return. Specifically:

- Across the industry, bills were on average 5% lower in 2019-20 compared with 2014-15 <sup>15</sup>.

And on average the sector delivered:

- A 36% reduction in supply interruption minutes <sup>16</sup>.
- A 26% reduction in water quality contacts performance <sup>17</sup>.
- A 21% reduction in sewer flooding incidents <sup>18</sup>.
- A 21% reduction in pollution incidents <sup>19</sup>.

Such results can only strengthen the legitimacy of the sector in delivering its core business, and provide a sound basis for further improvements.

Such improvements occurred at PR19 where further strengthening of the approach to customer engagement in particular, and the direct relationship between companies and customers, incentivised a stronger focus on public value in those areas consistent with customer preferences. This is evident in examples of outcomes and performance commitments which companies have committed to. It is likely that inclusion of these outcomes in previous plans at much earlier price controls would have been inconceivable – where regulators may have said “this is not the role of the water company”:

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<sup>14</sup> Ofwat’s PR14 review/Call for input, December 2019.

<sup>15</sup> As set out on p12-15 of Ofwat’s “Setting price controls for 2015-20 – Overview” December 2014

<sup>16</sup> As set out on p20 of Ofwat’s “Service Delivery 2019-20” report – reduction quoted from 12/13 to 19/20.

<sup>17</sup> As set out on p22 of Ofwat’s “Service Delivery 2019-20” report – reduction quoted from 12/13 to 19/20.

<sup>18</sup> As set out on p24 of Ofwat’s “Service Delivery 2019-20” report – reduction quoted from 12/13 to 19/20.

<sup>19</sup> As set out on p26 of Ofwat’s “Service Delivery 2019-20” report – reduction quoted from 12/13 to 19/20.

**Table 1: Examples of Social/Public Value Outcomes at PR19**

Company	Outcome/Measure	Purpose	Benefit
Northumbrian Water	Wider Water Environments	The measure incentivises the company to work with its partners to further improve the water environment within its regions beyond its statutory requirements.	This performance commitment helps to deliver multiple benefits for the environment, including enhancing aspects of access, facilities and recreation, water quality, wildlife and biodiversity at targeted sites across the water environment.
Anglian Water	Community Investment	This performance commitment enables the company to understand how many people benefit from its corporate community investment. It captures the community investment programmes through which the company and its alliances make a positive difference, and through which it adds social value to its communities.	This performance commitment tracks the beneficiaries of the company's community investment programme and supports the drive towards reaching greater numbers of people.
Welsh Water	Energy self-sufficiency	This performance commitment incentivises the company to generate energy from renewable sources.	Increasing the total amount of energy generated from renewable sources helps mitigate the negative effects of climate change. The production of more renewable energy also protects customers from price volatility by making the company more energy self-sufficient.
Welsh Water	Community Education	This performance commitment incentivises the company to engage with its customers and local communities to increase their awareness of its water and wastewater services.	This performance commitment increases customer awareness of the provision of water and wastewater services, contributing to reduced water usage and risk of internal sewer blockages.
Severn Trent	Biodiversity (Water)	This performance commitment will incentivise the company to improve the biodiversity of land.	Improved land management delivers biodiversity and environmental improvements as well as cost-effective protection against raw water deterioration.
United Utilities	Better air quality	This performance commitment incentivises the company to meet and maintain Medium Combustion Plant Directive nitrous oxide limits by 2020 and across 2020-25.	This performance commitment improves air quality by reducing the nitrous oxide (NOx) emissions per unit of renewable electricity generated from bioresources activities.
South East Water	Protecting wildlife and increasing biodiversity	This performance commitment is designed to incentivise the company to measure its levels of biodiversity and implement actions to improve biodiversity.	This performance commitment will help the company increase the area of land where it proactively monitors and manages its levels of biodiversity.

(Source: NWL analysis of company business plans and final determinations)

It is vital that Ofwat retains the core aspects of the regulatory framework that have enabled these improvements at PR14 and PR19 including the focus on outcomes, strong incentives for service delivery and efficiency, and a focus on customer engagement.

In our recent response to Ofwat<sup>20</sup> we described why we strongly support the direction of travel on customer engagement at PR14 and PR19 – which encouraged companies to own the relationship with their customers and reflect their preferences in their service offerings and future plans, and rightly kept companies fully accountable for delivering for their customers. In the context of this response, that same approach resulted in a great number of public value commitments being made by companies at PR19 in areas valued by customers.

It is vital that any evolution of the customer engagement approach at PR24 happens in a way which does not undermine the direct relationship between companies and customers. Our own engagement with customers at PR19, not only demonstrated customer support for our goal to be the most socially responsible water company, it strongly evidenced the fact that our customers value the environment very highly<sup>21</sup>.

This was reflected in our PR19 business plan in the form of a number of environmental commitments and deliverables in relation to the environment which go significantly beyond our regulatory and statutory commitments to deliver significant broader public value in this area<sup>22</sup>. These include:

- Our goal to become carbon neutral by 2027 ('net zero'), supported by a performance commitment.
- A further performance commitment regarding delivering wider improvements to the water environment, for public benefit.
- An objective to achieve net gain for biodiversity, via habitat improvements on our land holdings.

Goals and objectives of this nature are new and innovative for the water sector, and there are aspects of the regulatory framework, albeit around the margins, which either act as constraints, or do not incentivise companies as strongly as they might, to deliver this type of objective. There would be merit in Ofwat examining these areas and interactions, for example:

- In order to achieve our carbon neutral goal for the benefit of customers and society, there are non-regulated activities we have identified which could make a significant contribution. A recent example is the development of solar arrays on third party land, which could be used to export energy to the grid and offset emissions elsewhere. However, under the current framework, non-regulated activities of this nature would not contribute to our performance commitment, thus weakening the associated business case.
- Similarly, there are broader activities we could undertake using the appointed asset base, to support delivery of these objectives either in relation to net zero, or to wider environmental improvements for the benefit of the public, where incentives could be strengthened. For example:

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<sup>20</sup> NWL response to PR24 and beyond: Reflecting customer outcomes in future price reviews.

<sup>21</sup> As described in chapter 3.5 of NWLs PR19 business plan

<sup>22</sup> See chapter 3.5 as above

- Income from any surplus energy generation, for example from a renewables project in the appointed business, and exported to the grid, is treated as “negative opex” for the appointed business. Ultimately via totex sharing mechanisms results in companies only keeping 50 per cent of the benefit.
- Any income from broader non-appointed activities conducted using the appointed asset base to achieve these objectives are treated as “disposals of interests in land”<sup>23</sup> which again results in a 50:50 share between companies and customers.

These rules generally ensure that companies are not able to benefit from assets that customers have paid for in their bills which is understandable. However, this draws a finite boundary around the regulated company which might not always support the ‘optimum’ public value arrangement if for example customers supported doing more. Hence, these rules may be creating a constraint at the margins for new activities that could go forward but cannot return a positive cost benefit analysis under the current arrangements.

Owat’s cost assessment process in the price review does not currently take much account of the wider public value of proposals and is more focused on the costs to bills and the benefits in terms of service delivery. At PR19 enhancement cases were required to meet a series of tests or ‘gates’ including, inter alia:

- A needs case, with associated tests largely focusing on demonstrating a clear need, or mitigation of a quantified future risk, with regards to core service delivery.
- An assessment of efficient costs. As part of which any additional costs associated with companies seeking to deliver broader public value from a scheme might be likely to contribute to any perceived ‘inefficiency’. When combined with the sustained efficiency pressure applied to these schemes via shallow and deep dives, and assumptions on productivity improvements etc., this may result in activities around the margins of such schemes to deliver broader value no longer being viable.
- An assessment of customer and stakeholder support, a test which while more likely to be compatible with delivering public value in areas valued by customers, appears secondary to (and certainly cannot override) the above two tests.

This challenge has been recognised in the recent report from the National Infrastructure Commission<sup>24</sup>, in particular that:

*“the reliance on benefit-cost ratios for option selection in appraisal can come at the expense of clearly defined strategic direction, meaning projects’ contribution to the delivery of government’s strategic goals, such as environmental net gain or net zero, is not considered.”*

An improved approach to cost assessment in this regard, with associated guidance, would be beneficial for PR24. We would encourage Ofwat to use the above report to inform such a review.

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<sup>23</sup> As reported via data table App9.

<sup>24</sup> “Natural Capital and Net Gain – a discussion paper” p22.

As set out in the opening letter, we would urge Ofwat not to stipulate additional reporting requirements in relation to Public Value. This will only add to the regulatory burden within what is already an excessively complex framework.

Further, reporting arrangements are currently immature with many companies currently innovating in this space, which is to be encouraged.

As a minimum, we would suggest that Ofwat waits until PR24, at which point clarity on the best approach may emerge.

We would also urge Ofwat to remain mindful that rigid/standardised regulatory reporting may never be appropriate, as any attempt to measure public value will need to be adaptive and change rapidly as public perceptions move. Professor Mark H. Moore, the effective originator of public value theory, notes that:

*'the idea of public value creation calls on individuals to pursue the good and right, and to do so with respect to principles of democratic governance.'*<sup>25</sup>

This approach offers opportunities but also significant challenges to any structural attempt to prescribe public value. By its nature it requires some form of democratic consent – which comes either from Government or the customer base directly. Both of these represent a transience that does not neatly align with a rigid regulatory approach.

For example, the UK Climate Resilience Programme, a joint initiative from the Met Office and various research councils, regularly surveys public perceptions of the risks of climate change and the need for action.<sup>26</sup> Their research indicates that that the public concern over climate change has doubled since 2016, with 40 per cent of respondents now saying they were now, 'very or extremely worried'. This indicates a large scale shift in public value for action over climate change – in fact a doubling of the return in public value. Of note – it had moved ahead of concerns regarding the economic situation facing the country – so targets or frameworks that sought to target this set in 2016, would have had lower real value by 2019.

The detail of this climate change perception research also showed some remarkable trends – such as the concern over heatwaves and long hot summers having more than trebled. This means public value of various environmental measures has flexed rapidly in only three years.

If public value is to be a key measure or useful tool for improving outcomes for customers, in line with their needs, then judgement that looks back misses the fact that long term public value needs to look forward. There is a clear transience in public value that needs to be considered and makes any standardisation of metrics and reporting highly challenging.

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<sup>25</sup> Benington, John, and Mark H. Moore, eds. Public value: Theory and practice. Macmillan International Higher Education, 2010.

<sup>26</sup> Steentjes, Katharine, Christina Demski, Abigail Seabrook, Adam Corner, and Nick Pidgeon. "British public perceptions of climate risk, adaptation options and resilience (RESiL RISK): topline findings of a GB survey conducted in October 2019." (2020).