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Dear Amit

Ofwat's discussion paper on public value in the water sector

Many thanks for the opportunity to respond to the above discussion paper issued in December 2020. We also appreciated the opportunity last year to speak with you and your colleagues directly about our many achievements already in this area, as well as our ongoing plans for becoming a more purposeful company.

Overall, we are supportive of Ofwat's focus in this area as part of your strategy and hope that our response assists in your considerations for PR24 and beyond.

We agree that this is not a new area for our industry but delivering enhanced public value as part of a water company's core activity needs to be funded, prioritised and scrutinised as such.

While the regulatory framework already contributes towards the delivery of public value in many ways, as requested we have summarised some areas where Ofwat and the industry could achieve even greater ambition.

As always, we are very happy to clarify or discuss any matters noted in this response further with you.

Yours sincerely



Kate Thornton
Chief Customer Officer

SES Water's response to Ofwat's consultation on public value in the water sector

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?**

The key to delivering public value is having a shared understanding of what our customers believe public value is for them. This could be different depending on what our customers believe as responsible local citizens and what they are willing to pay for their water company to provide, in addition to a reliable supply of high-quality water.

In addition to this is a shared understanding of what a water company's 'core service' actually is. Arguably the greatest public value that a water company can provide is the world's most precious resource but is water supply the only core service of the industry going forward? This is an important point in defining funding, priorities and resources for PR24 and beyond which would be the key constraints in delivering greater ambitions. A current example of this slight disconnect is the delivery of performance commitments and public interest commitments.

One area for further consideration is the need to work in partnership with different types of organisations across sectors in order to drive change at pace and at scale. Different organisations will have different priorities and if the right partnerships are not found and parties' expectations are not aligned it could hinder delivery. This would be a real issue when it comes to delivery of core services. For example, it is necessary to build strong partnerships with environmental groups in delivery of the Water Industry National Environment Programme (WINEP) projects.

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

There is a risk that the pursuit of public value could be seen as separate from, or in competition with, the overall business strategy of a company, resulting in sub-optimal outcomes and conflicting priorities. Ensuring that a wide range of internal and external stakeholders are involved in the evolution of a company's purpose and that this is fully integrated into the company's overall business strategy and culture will help guard against this.

When it comes to prioritising areas where companies should concentrate, it is important that companies are able to fully understand and weight/prioritise the views of diverse stakeholders. The consultation must be representative of the area covered to avoid the risk that specific special interest groups dominate the narrative. Customer engagement could help with this via a focus on people as citizens rather than bill payers so they determine where the added value is being delivered. Those conversations could be informed by the priorities identified by stakeholders but determined by customers. The engagement should be ongoing as the relative importance of issues can change and new ones emerge.

Unless stakeholders see tangible outcomes that are relevant to them as the result of companies' pursuit of public value, there is a risk of a credibility gap between what the sector says and what it does, with an associated erosion of trust. We believe there is a role for Ofwat here with clear signposting of how priorities have been set, specific action plans and regular, transparent reporting on progress can all help mitigate against this.

We also believe Ofwat could play a greater role in facilitating improved collaboration across different industries and Government in pursuit of greater public value outcomes. For example, sharing data on customers in vulnerable circumstances or elements of the national curriculum that focus on water.

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?

We would advocate a culture that drives public value holistically and we are currently progressing this right across our business with our work to evolve our purpose as a Company.

We believe businesses that lead the way in the areas of sustainability and public value today see a total integration of this and their business strategy. This means fully embedding the thinking across all of their business practices, including culture, and driving genuine action – both alone and together with a broad range of partners. An enabling culture and common frameworks such as the six capitals or others across the organisation are key components within this, and can support the development and ownership of more targeted plans within individual areas aligned to company strategy and the interests of diverse stakeholders.

Incentives and barriers

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

The regulatory framework already contributes to the delivery of public value. Many of the legislative/regulatory requirements that water companies have to meet/deliver result in increased public value, for example delivering environmental improvements.

While some public value outcomes are common and essential to the sector's future viability, the framework must also continue to provide enough flexibility to accommodate outcomes that are specific to local communities and the individual water companies' strategy. This will require the company to be transparent about the choices it has and how/when it does things differently to deliver more public value.

We agree that optimising solutions for the delivery of greater public value does not necessarily equate to greater cost for customers or companies, but a comprehensive view of public value suggests consideration of 'cost' not purely in financial terms. With this in mind we believe that the framework must support the right balance of short-term and long-term objectives, recognising for example that upfront financial investment may be required to build the capabilities required to drive long-term change and transform the way in which companies operate.

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

The discussion paper recognises that public value is not a new concept in the water sector and that there are many reasons why an increased focus on this is relevant to all companies today. For purpose to be authentic, it must come from within the organisation and there must be a genuine commitment to driving public value across all levels of the water company.

Nevertheless, all water companies operate within the context of the price review process and the design of this therefore has the potential to encourage, incentivise and otherwise accelerate the delivery of public value outcomes. It would be desirable for this to be case.

Companies will need to show how more value can be added and at what cost to customers to allow informed decisions to be made. In the Water Resources South East (WRSE) work Ofwat has said they want to see what the traditional 'least cost' plan would look like as well as the 'Best Value' plan that is developed. A framework that provides a systemic approach to decision making and enabling trade-offs between priorities, leading to additional value being delivered is worth considering.

Understanding impact

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

Possible markers include:

- evidence of a purpose that has been developed with a broad group of internal and external stakeholders, led by the Board
- evidence that the purpose is driving strategy, including ESG strategy, and objective setting
- evidence that public value creation is integrated into core business processes e.g. decision-making, investment prioritisation and policies
- a high degree of integration between people strategy and public value outcomes e.g. learning and development, reward and recognition
- clear and regular communication about public value objectives and delivery, both internally and externally e.g. including but not limited to the Annual Report
- a culture of partnership and collaboration to progress the delivery of public value outcomes
- feedback on the impact of delivering greater public value from stakeholders and customers

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?

Ofwat is one of a range of stakeholders who will want to be assured that water companies are making meaningful progress against their public value commitments. Building this thinking into the price review process is one effective way of delivering this, including examples of public value best practice across the industry.

More broadly, companies should set, disclose and regularly report on goals and metrics related to public value alongside their financial targets and other performance commitments. Ideally this reporting should be integrated within the companies' reporting framework and not seen as a standalone activity. As such, it would be subject to internal and independent external assurance, as well as scrutiny from groups such as customer and environmental panels.

Other

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

Ofwat should consider how it continues to encourage cross-sector collaboration in the delivery of public value outcomes, as well as help create a culture in which companies are able to share failures and challenges as well as successes to foster learning. We will go further together.