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9 February 2021

By email: [Strategy@ofwat.gov.uk](mailto:Strategy@ofwat.gov.uk)

Dear Sir/Madam

### **Response to Ofwat's Discussion Paper on Public Value in the Water Sector**

Thank you for the opportunity to respond to the Discussion Paper on Public Value which was published on Ofwat's website in December 2020.

These comments are from Dŵr Cymru Welsh Water, the statutory water and sewerage undertaker that supplies over three million people in Wales and some adjoining parts of England. We are owned by Glas Cymru, a company limited by guarantee. We provide essential public services to our customers by supplying their drinking water and then carrying away and dealing with their wastewater in a sustainable manner, one which protects our environment. Public value is inherent to the delivery of our core services, by making a major contribution to public health and to the protection of the environment. Our services are also essential to the sustainable economic development of Wales.

Where we differ from the rest of the industry is in our structure. We are the only water company in the UK to be structured as a not-for-shareholder entity, with Glas Members, individuals drawn from across our supply area, providing an important governance function in place of shareholders. Our Glas Members ensure our company and the services we provide are firmly grounded in the communities that we serve, further strengthening our contribution to public value.

We place a strong emphasis at the corporate level on our wider purpose and the public value we deliver, and have done since Glas Cymru, as a company limited by guarantee, acquired Welsh Water in May 2001. In December 2019, our Glas Members approved a proposal to amend the Articles of the company to incorporate our purpose.

We are conscious that delivering public value demands a focus not just on our corporate purpose, but on the way in which that purpose is delivered. To that end, we have aligned our Wellbeing Commitments with the core aims of the Well-being of Future Generations (Wales) Act 2015 and published our Commitments and a scorecard to measure progress against them. The Commitments were discussed with our Glas Members, and also align with feedback from our customers in the course of our PR19 customer engagement work. In March 2020 we launched our Wellbeing Commitments at the Senedd in Cardiff, and we will be reporting against these commitments in our 2021 Annual Report and Accounts.

We make an important contribution to the economy in the area that we serve. Uniquely within the sector, our customers and communities have also benefitted from return of value of more than £440m in the years since 2001, through our customer distributions to reduce bills, additional investment for service improvements and to support Social Tariffs for those customers who struggle to pay their bills.

We agree that companies should look to optimise public value by seeking to do things differently. For us, the biggest opportunities lie in a) our contribution to wider long-term infrastructure resilience in Wales, and b) the delivery of investments in a way that enhances the environment and addresses long-term threats such as climate change and biodiversity loss. This is why it is vital that we find ways to evaluate such investment proposals at PR24 in a way that recognises and enhances public value over the long-term. We are seeking to ensure that at PR24, in addition to the primary driver for investments, such as resilience, we are at the same time taking wider social and economic factors into account in our decision making.

In answer to the specific questions raised in the Discussion Paper:

1. *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?*

In the past, procurement legislation has prevented us focusing on local or environmental procurement policies which might have enabled us to provide greater benefits to our communities. An undue focus on meeting short term targets could inhibit the opportunities to progress public value goals.

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

Public value initiatives need to be closely linked to wider Government policy and the outcomes of customer engagement on priorities; otherwise there is a danger that public values could become vague and self-serving without providing tangible support to communities. There is also a risk of over regulating public value, such that companies engage in activities as a ‘tick box’ exercise.

3. *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?*

Culture is hugely important in enabling and empowering colleagues at an individual level to do the “right thing” for customers. We believe therefore that the focus should be on creating a culture of “doing the right thing” for customers in order to build trust and positivity with the public. “To earn the trust of our customers every day” has been our company vision since 2015, and there is ample evidence that customers – both ours and more generally – increasingly expect companies to play a positive and active role in improving society and their communities. In order to build and maintain trust – and wider customer satisfaction – we therefore need to ensure that our culture is focused on driving public value for our customers.

4. *How does the regulatory framework contribute to, or limit, companies’ ability to deliver better public value outcomes?*

An undue focus on meeting narrowly-defined regulatory targets can divert attention away from the wider public value aims of water companies, in delivering core services to customers.

The regulatory framework could enable the creation of public value by ensuring the price review is not an obstacle to investment which optimises public value over the long-term, such as supporting resilience investment and nature-based solutions, even where the outcomes of such investment are harder to measure and emerge over longer timeframes.

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

See answer to 4 above. We have reservations about the concept of incentivising the delivery of public value, for the reasons outlined above, however the price review methodology can ensure that the longer term benefits of delivering public value are recognised and supported in investment decisions.

6. *What are the markers of progress on public value, both in the context of enabling culture and outcomes?*

Building trust with customers is a key indicator of progress in delivering public value, although it naturally does not capture everything. Our experience has been that trust is slow to develop, and reliant on both corporate and individual employee actions, and can be lost very quickly. We also consider that understanding the views of employees is crucial in this context. We have historically tracked our colleagues' views of the company's performance in a wider context through our employee engagement surveys, including performance in relation to impact on the environment and communities, and the personal health, safety and well-being of our workforce.

7. *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?*

As set out above, Ofwat can support the delivery of public value by developing a clear regulatory framework that matches both to ambitious public policy goals, and to resilience investment which can deliver benefits to communities over the longer term, in a sustainable manner. The delivery of these elements of the regulatory settlements could then be monitored in a similar way to other business plan objectives. As an example, our Water Resilient Community projects have involved broadening the focus of our zonal studies programme to undertake largescale mains replacement. Alongside these key capital investment projects, we have undertaken public health and education initiatives working with community groups, and worked with the Princes Trust to grasp the opportunities to support social mobility projects in the area. These are short-term and long-term commitments (particularly where we have offered work experience that may result in employment opportunities) which could be encouraged through the content of business plans for future investment periods.

8. *Is there anything else Ofwat should be considering in order to meet our objectives on public value?*

We very much welcome the contribution of Ofwat to the wider debate on the impact of corporations on communities and individuals. At Welsh Water, we see ourselves as having an important part to play in building public trust in the services we provide, which in turn will manifest in public support for our long term investment in assets and services to benefit future generations.

Yours sincerely



**Eleri Rees**

**Director of Strategy and Regulation**