

Preamble

When, in 1996, Wessex Water committed to becoming a genuinely sustainable water company, we were expressing ideals that have had a much longer gestation. Indeed, as this discussion paper notes, we see public service as being in our DNA and the delivery of social and environmental benefit at the heart of our work. It is central to our identity and how we act.

We subsequently launched our sustainability vision in 2005, based around the capitals model with a clear set of stated outcomes for each capital theme; and were pleased to see Ofwat embracing this way of thinking for PR09 and in subsequent price reviews.

More recent discussion around social purpose is an evolution of work to show that social and environmental benefit can be reconciled with, and indeed complementary to, being a profitable business. This was summarised recently in the British Academy's work on the Future of the Corporation: "the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems." Or as noted above referencing Ofwat's strategy, "every part of the business and every business decision is seen as an opportunity to add value to society".

Alongside these developments, the rise in interest amongst the financial community in 'purpose', expressed through engagement in Environment, Society and Governance (ESG) topics is a welcome reinforcement. We are also very aware of wider society's expectations about the role of business, amplified by the increased expectations of the private sector in the light of the Covid-19 pandemic.

We do not believe that regulators should enforce the response of regulated companies. Instead, as private monopolies, we consider it our duty and responsibility to lead in this area.

Indeed, alongside our ongoing work to ensure our core business is delivered to the best of our abilities and the resources available, we have ambitions to

- a. deliver more public value by delivering our core services differently; and also
- b. to leverage our capabilities and reputation to provide additional services to our customers and communities beyond our core offering.

We are going about this in three main ways.

Firstly, we are undertaking a detailed review of our social purpose. Sustainability First are helping us in the first stage, which will be followed by its incorporation in public engagement for our strategic direction statement, and discussion with our colleagues. Our new Environment and Public Value Committee will be the means by which the Board oversees this theme being fully embedded in company activity.

Secondly, we are carrying out demonstration projects that highlight the social and environmental value that can be delivered by a water company, for example through our catchment market green recovery project to establish we can play a greater role in delivering nature based solutions to environmental challenges.

Thirdly, we are advocating reforms regarding infrastructure provision, and economic and environmental regulation that would be needed to facilitate our social purpose.

We will continue to work to ensure that considerable public value can be delivered by privatised water companies. We believe that this can be enabled with these considerations:

- There will need to be continual freedom to innovate if we are to deliver significant further benefits. This should be owned by each company. It should also reflect the collaborative approach to innovation that Ofwat is helping to nurture in the sector.
- Geographical specificity should be recognised as each region has its own characteristics, risks and opportunities – these are reflected in each company's priorities and the ways in which that can create public value most impactfully.
- Avoidance of conventional comparative regulation for public value; Ofwat can encourage new forms of delivery and champion best practice, but not through a standard model of quantified benchmarks and league tables, and certainly not through direct regulation of public value with associated incentives.

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?

We would point to the following as having an impact (positive or negative):

- Strength of partnerships with other agencies. In many cases, successful (and in some cases innovative) delivery of public value has been founded on the willingness of other interests to work with us.
- The receptiveness of our customers, communities, and other local stakeholders. This can be evidenced through ongoing day-to-day service to customers and deeper engagement to understand their priorities and preferences as we prepare our business plans.
- The maturity of technologies, especially those that can enable better social and environmental outcomes.
- The political climate: this can often involve a short-term viewpoint, leading to quick fixes driven by media and stakeholder sentiment, as a supposed cure for complex systemic problems e.g. storm overflows, surface water management.
- The ability to innovate, where this is needed for a more optimal set of approaches.
- Factors that might affect short- and long-term resilience e.g. extreme weather events, which might drive sub-optimal adaptations after they occur.
- Economic capital may be a constraint if there is a need for upfront investment, although this applies more outside the core business, where there may be opportunities to extend our influence, or leverage our knowledge and skills.

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

We would be concerned about any view that public value delivery requires, *a priori*, a rigid set of criteria upon which value is assessed. We agree that public value includes the delivery of our statutory requirements; the Water Industry Act and associated regulation will continue to provide protection. But public value doesn't end there. It should also be about the company pursuing its goals through a range of methods of its own choosing.

As noted earlier, we believe that the companies should take ownership of the public value that they aim to deliver – especially the aspects that are above and beyond regulated requirements. Also, that particular points of focus are going to vary from one company to another – because of geography, local pressures and interests, and issues and opportunities that each company considers the most important.

Ofwat should therefore avoid any temptation to seek comparators for purpose, or universal types of measurement.

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 consider both to be important. An 'enabling culture' – on the part of both the regulators and the regulated – can certainly help more imaginative methods of public value delivery to be explored. At the same time, it is important that we focus efforts on the most material issues and those that have the greatest relevance for our stakeholders; a more bespoke targeted approach can make the broad notion of public value much more real and grounded to the Company and its stakeholders, particularly if underpinned by authentic engagement.

Incentives and barriers

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

The regulatory framework is there to ensure we deliver our core service – part of our social purpose and the public value we deliver, and that which is common across all companies in the industry. As such, it can serve to incentivise companies to deliver greater public value against core outcomes.

If it were to extend beyond those core services, regulation of wider public value outcomes would stifle value, reduce innovation and limit companies' opportunity to be themselves and deliver against their own values.

So, we believe that a regulatory framework is more likely to limit our ability to deliver public value outcomes.

The combination of the inherent caution of a sector that delivers public and a strict regulatory framework, can lead to a dominance of 'tried and tested' methods. Alternative approaches, that could create greater public value by operating within a wider ecosystem of organisations and activities, risk being driven to the sidelines.

This would be counter to our ambitions to both deliver our core activities differently and also go beyond our core offering – in each case through innovations that build on our capabilities, and our relationships with current and potential partners.

Inter-company comparisons as practiced by the regulatory framework could also impose limitations, as they would draw effort away from bespoke, geographically specific methods that are hard to compare with others elsewhere.

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

The price review must continue to focus on the delivery of outcomes related to the regulated parts of the public value that we provide. By doing that, it is inherently helping to deliver public value.

It should end there, acknowledging that in some cases such as net zero carbon there are occasional changes to what are considered core outcomes; and investment will be needed to meet a sector-wide ambition that requires fast and concerted action. In other cases, the

incentives framework of the price review is likely to disincentivise the more imaginative, agile approaches that are likely to be needed to deliver greater public value in the future.

However, the price review should not seek to incentivise those parts of companies' public value which are inherently individual.

Understanding impact

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

We strongly agree that Prof. Mark Moore's original three components of service delivery, social outcomes and maintenance of trust and legitimacy are a good place to start, and ultimately we would agree that the degree of trust and appreciation shown by the public and other stakeholders towards water companies is strongly indicative of progress or success.

However, specific components are bespoke to companies and should be up to them, depending on the type and level of value they wish to deliver beyond their statutory duties.

Other indicative markers might include the presence of projects and programmes that involve multi-agency partnerships; recruitment and retention; diversity in staffing; and sentiment shown through social and conventional media.

Either way, we do not consider this to be an something that is suited to prescriptive performance indicators and price controls.

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?

We would ask Ofwat to not approach this with the standard tools of comparative regulation; it should have a limited role beyond the core services of companies.

There is a potential role involving convening knowledge and case studies of best practice, perhaps using the forthcoming Centre of Excellence for water innovation. Carrying out qualitative research with the sector's stakeholders on core outcomes, and perhaps some international comparisons would also be informative. However, taking a focus on supposedly comparable KPIs would risk creating a set of rather generic responses by the water companies.

Other

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

We have no further comments.