Speech

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Keynote: This changes everything: Looking ahead and acting now.

Good morning, and thank you for inviting me to speak with you today. I want to speak both about both the pressing need for transformation of the water sector and the growing opportunities to do so. If we look ahead to 2050, we know that a step change in outcomes is required: significantly increased drought resilience and reduced abstraction from overstressed sources such as chalk streams; leakage reduced by 50% or more and per capita consumption turning from a steady increase overtime to reduction to 110 l/per day by 2050. All of this will be in a sector that has transitioned to net zero, not just for operational carbon but for embedded too. I think together these ambitions means that the sector needs to fundamentally change the way it delivers for customers and the environment.

While this event is focused on water, I am also going to talk about the wastewater sector, not just because this is over half of the sector that I regulate, but also because addressing our future water challenges requires an integrated approach. The clue is not in the title, we need to stop thinking about the sector as waste and rather as source of renewable energy and clean water.

Standing back in 2020, the scale of change required is vast. This looks larger than any change the sector has been through before in a similar period of time. But, we know a lot can be achieved over 30 years, if we look back thirty years, pollution and leakage have both reduced significantly, customers are 8 times less likely to suffer from sewer flooding and asset health has been much improved. Beyond the sector, we can see even larger changes.

But much more is required in the next 30 years. In addition changes outside the sector, will impact too. For example, mass electrification, embracing hydrogen, the shift in transport systems, industry and agriculture will impact on the water sector.

I am also cautious about our ability to predict the future. One example is the impact of climate change, while it is often assumed this will mean drier summers and wetter winters, this is just the central forecast from broad range of possible outcomes, the reverse could also be true too. The experience of the global pandemic since 2019 has been of dramatic change and we can be confident that the next 30 years will also spring some epic surprises too. This underlines the need for resilience and an adaptive approach.

The transformation of the sector over the next 30 years (or the next 5 price reviews) will require significant new investment, but in many senses, this is the easy part, transforming culture and ways of working are also central to a successful transformation. We cannot simply build our way out of the challenges. Firstly, this is likely to be unaffordable, but leaving that aside, the carbon impacts of massive concrete and steel capital programme would be very large and such construction may well be net negative for the environment.

So we need transformational change. What does that mean for companies? And what does this mean for Ofwat and how we regulate?

I think there are six areas which can really help drive and deliver change at scale.

Firstly, we need to see mass scale consumer behavioural shift as part of addressing climate change. 30 years ago, few recycled – but now it is second nature to all of us. So this cultural change is needed with water customers too. And at a time when consumption is still going up. The way we consume water and what we put down our sinks and drains needs to change. Only through making the emotional connection to the behaviour change needed in water use, will we be able to make the cultural and practical shifts needed here.

Secondly, alongside customer behavioural shift, we need to see community engagement and nature based solutions come from the margins to a mainstream approach that provides for most of the solutions in the next ten years. In my recent visits around the country looking at storm overflows, I have been struck by the importance of managing water flows in catchments. And that the best means of doing so may lie with the communities who live in, love these places and know best how to effect these changes.

Thirdly, smart networks and open data – harnessing the power of the fourth industrial revolution to operate and maintain networks intelligently and by enrolling citizens as monitors and working with them to help achieve our shared aims. We are already seeing increasing use of artificial intelligence to aid our understanding and real innovations, for example using unexploited telecoms cables to detect leaks, but there is more, much more that can be done.

Fourthly, a renewable energy revolution in wastewater – we are seeing good progress in this regard with some companies forging a path, but there is much further to go. We also need to make much better use of the valuable water resources that flow out of the wastewater system, which leads to my next point.

Next, long term and adaptive planning – we have a sophisticated water resource planning process with increasing regional and national focus, which we will hear more about at this event, but too often the sector seems to start afresh at a price review. We need to see the next five price reviews as incremental steps to deliver a 30 year plan. This is not to pretend that the future is certain, so planning needs to be adaptive, recognising both the value of delaying decisions to learn more and to take near term decisions with long term goals in mind. It also needs to look beyond public water supply to other sectors.

And finally, innovate, innovate and innovate. I am always stuck by the abundance of ideas and opportunities to transform what we do. However, the sector needs to become much more effective at turning ideas into action effectively, efficiently and at pace.

So that's what it means for the sector, what about Ofwat? We need to play our role in enabling and encouraging the transformation of the sector. And that means change for us too. I have been in my role for the less than 3 months, but it is clear that we need to change too. Looking back 30 years, my predecessors established a regulatory framework that secured substantial new investment and drove efficiency improvements for customers. Customers have benefited from better service and environmental improvements made.

Looking ahead to the future, Ofwat has a key role to play in promoting the sector to deliver greater value – for customers, communities and the environment. Too often Ofwat has the seen the environment as "extra" on top of service to customers. Whereas it is at the centre of the sector and companies have huge ability to enable gains - and there may well be direct benefits to customers too. This approach is reflected in our strategy with focus on companies delivering greater social and environmental value.

Investment and efficiency and improving asset health will remain important but transformation lies in working effectively with customers and communities, innovation and harnessing the power of digital and technology. So how do we move from a regulator of prices, investment and service to innovation, data and customer and community co-working?

Well, the good news is that progress is underway. In May, we announced £2.8 billion innovative green recovery programme. These proposals will reduce the risk of flooding, protect habitats, cut pollution, reduce energy and chemical usage, and save water. They also trail and showcase new ways to delivery such as partnering with local government to prevent surface water run off into sewers and with farmers to reduce run off of pollutants into rivers.

We have established RAPID, a collaboration between Ofwat, EA and DWI to promote integrated approach to new water resources. This will help ensure that we have a range of sustainable and deliverable projects to improve drought resilience at PR24. RAPID is also working to ensure that the regulatory and commercial frameworks enable multi sector solutions and open up participation to wider range of players beyond water companies.

A £200 million innovation fund is beginning to bear fruit. Encouraging companies to collaborate with other sectors to address the challenges we are facing. This fund sits alongside the stretching targets to improve performance set in PR19 and more powerful incentives. Companies that successful innovate to improve service will be rewarded, those that fail will see an impact on their returns – directly linking investor interests to a better sector.

The WINEP reform programme and storm overflows taskforce are underway and have set big ambitions for change. A shift to an outcome based approach will better enable nature based solutions and a whole system approach.

Our PR24 discussion paper clearly set out our intent to promote a long term focus with the price review. We see PR24 as a stepping stone to achieving ambitious long term goals.

We will consult on our approach to open data later in the summer to set how we can help the sector shift towards an open data approach and enable greater use of citizen science.

On water efficiency, while we have accepted that the impact of Covid means that PR19 per capita consumption performance commitments should not be assessed to the end of the 2020-2025 period to allow more time to understand impacts of Covid. We have also signalled the sector needs to do more and this will be taken into account in our future assessment.

These examples are very much the beginning, but I hope this provides examples of how we can work with sector to both support and challenge it to transform.

Looking ahead, the transition to net zero and the ambition to make major improvements to the environment and resilience require the sector to transform. Innovation, data, customer and community participation must be right at the heart what water companies do.

I am optimistic. It can be done. It must be done. But it is time to start now.

Thank you.