

UNISON response on Ofwat PR24 strategy consultation

We welcome the opportunity to offer comment and reflection on Ofwat's consultation on PR24 and beyond. Overall encouraging companies to prioritise customer engagement and at the same time the notion to continually looking for creative and innovative way to engage with customers is welcome. In as much as customer focus is great for the industry, we would want to see Ofwat incorporate within its strategy job protection in order for companies to put this in their business plans within the next price review cycle, also focusing on pay and other terms and conditions to ensure that these are not eroded whilst maintaining affordability for customers. Furthermore, all companies should be making sure that no employee is paid below the real living wage (London Living Wage in the capital and South East); this will ensure job retention to retain expert knowledge within the industry. In order for the companies to deliver on their objectives, they need the trust and respect of their workers – which can easily be damaged by inadequate pay and reward settlements or erosion of Ts & Cs that have been hard won by unions over the years.

There is also, throughout the document, are gaps where the importance of the people who work in the water industry could be inserted. Adding to this is the fact that these are people in the front line who have worked tirelessly in a global pandemic and we believe they should be reference within the long term focus of this price review; without the dedication of workers, companies would not be able to meet up with their strategies on all the three key themes of this price review - customers, communities and the environment.

In relation to workforce engagement, and the recent grant of £6m awarded to Severn Trent, we understand the grant is for green recovery. We would want to see this replicated across companies to also support recruitment and training which would upskill those who are currently employed. What we have noticed is that the scope of these grants is limited and as yet not widely promoted or awarded across the industry, and we would want to see Ofwat publicise this more.

The long-term strategic proposals for water companies to create value for their communities and the environment requires a very much more directional and assertive approach by Ofwat, prescribing both the outcomes required and the ways in which they should be delivered. For instance, Boards and executives might have had the sense of accountability to the public interest and to their local communities which could have enabled a light touch from the regulator. However, the evidence of recent years shows that this is a fantasy. Clear vision and purpose from Ofwat is needed to deliver on any of its outcomes.

Please see below UNISON's responses, where appropriate, to the questions raised in the consultation – we have combined some of the answers and answered others according to the questions. Our response is based on the vision that Ofwat sets in its PR24 strategy.

Ambitions for PR24 and Ofwat role

We support transparency and collaboration in the vision Ofwat have set for companies in the delivery of their outcomes and also the performance metrics, called performance commitments (PCs) for companies to earn their regulatory return through increased efficiency. However, we would want Ofwat to exercise caution regarding those underperforming companies; penalising companies on lack of efficiency is likely to have a consequential effect on the workforce. The workforce are the bed rock of the organisation and they also support the organisation in the delivery of its strategy. UNISON is concerned about these goals and how they will be measured; we hope that Ofwat would have at the heart of its metrics fairness and equitability across companies. We are not sure if Ofwat was able to demonstrate this in its last price review. There needs to be evidence in support of how the goals will be measured.

We hope the financial consequences of Covid-19 will not have a negative impact on the workers, we would want Ofwat intervention to ensure this is not the case, even as companies look to affordability in the consumption of water by customers and also a renewed focus on investment. We definitely welcome the need for companies to raise awareness of support available to struggling customers such as the financial support which was highlighted by the outcome of CCW research survey that only 15% of customers were aware of such benefits.

Whilst Ofwat must act in accordance with the strategic priorities and objective statements set out by the England and Welsh Governments, this does open the possibility for strategic irregularity as Ministerial preferences changes. We made reference to this fact in our previous submission and would also emphasise that the legislation under which Ofwat operates does not directly refer to the workers who are the real people who implement compliance on the ground and in contact centres. We suggest that Ofwat should be campaigning for a greater level of independence and for the ability to treat public priorities as more significant than Government guidance.

Q2.1: Do you agree that the themes we have suggested for PR24 are appropriate for England and for Wales?

UNISON is pleased that “PR24 and beyond ~ Creating tomorrow, together” begins with a reference to climate change, and customers’ concerns about the environment. This resonates with our members, and with UNISON policy determined by them at both the recent UNISON Special Delegate Conference and UNISON Water Environment & Transport Sector Group conference.

UNISON is encouraged that water companies will be expected to:

- Deliver better, more sustainable outcomes
- Adopt more nature-based solutions
- Increase focus on the long term

Whilst we understand the need to balance complex trade-offs carefully, we would expect that the scales fall firmly on the side of the environment and carbon reduction, rather than business and profit. To do that, Ofwat - as a regulator tasked with implementing government policy – will surely need to draw on funding through DEFRA to cushion consumers from price increases. Doing the right thing is imperative, and should not be stopped under the excuse of affordability to customers. Time is running out at an ever faster rate, and the window in which to prevent irreversible damage to the planet and global catastrophe is getting ever smaller. It is admirable that Ofwat wants to consider how PR24 and future price controls can support companies to meet the challenge of net zero; how the spend on this can be front-loaded to deliver benefits sooner will also be key. A dynamic, improved, Green Recovery process is also essential.

Q2.2: Do you have comments on the considerations we've identified as relevant to the design of PR24?

Initial indications suggest that for many of the water companies to maintain their current level of spend, it would mean a greater than 10% increase in customer bills. The pressing need for new water resources programmes (whether that be new reservoirs, desalination plants or wastewater recycling) would make the number even bigger. This is before adding the cost of the environmental and decarbonisation “net zero” projects that should be made a priority. The level of bill increase needed in total would be unprecedented in the water industry since privatisation - and whilst not impossible, would require water companies’ plans to be exceptionally well evidenced for Ofwat to approve them.

UNISON expects that companies at the bottom of the performance tables, who had very tough determinations for PR19 and who were not in a strong enough situation to appeal Ofwat's decision to the CMA, will be in a very difficult position. Any plans for PR24 may be looked at with disbelief by the regulator from the outset. However these companies are in water-stressed areas and it is important that an overall national plan for water is drawn up, including making collaboration between companies - to work towards a national grid for water, for example - mandatory. Currently Ofwat's model creates an artificial competitive market for the water companies which works counter to this.

Q2.3: How should we evaluate our progress, and how can we best develop or use appropriate metrics to do so?

Environment costs and value, and carbon accounting, should be at the heart of any set up metrics. These should drive what water companies are required to do to protect the planet – rather than as currently, with the companies setting their own seemingly ambitious net-zero targets and effectively marking their own homework. Achieving 'net zero' through offsetting is not real, sustainable, carbon reduction.

3. How we regulate

Q3.1: How can we best regulate the water sector to deliver value for customers, communities and the environment? Do you agree, or have comments on, our proposal to maintain our 'building block' approach based on outcomes, costs and risk and return?

UNISON believes that governance of the water sector might be better served by having a regulator that is not as fixated on the idea that markets are able to solve every problem. It is becoming increasingly clear that market forces have been late in forcing the necessary 'greening' of the water sector. Indeed, much needed environmental legislation has come from the EU, with England and Wales playing catch-up. A system that was more proactive, rather than 'laissez faire' would have taken the climate change threat, and the rapidly degrading non-built environment, seriously decades ago and put in place strong controls that meant civil engineering projects, plant processes and operating regimes were much more ecologically sound and sustainable already today. Effectively there has been a transfer of risk from companies onto the environment which has allowed them to generate excessive profits at the future expense of the customers they serve – with the loss of natural ecosystem services, and damage to the planet.

UNISON is disappointed that "customers and the environment" are bundled together; we see that these two aspects are likely to be in contention with each other. Relying on growth in productivity across the water sector to provide the required money to adequately fund the improvement needed in both these areas may be unrealistic, given the lack of productivity improvement since 2011 (as Ofwat point out themselves). If Ofwat does as it intends - to only reward companies that meet these challenges – then both the environment and customers in some areas of the country are likely to miss out unless the government plugs the gap.

Somehow all water companies need to be allowed to up their game environmentally without directly charging the customer. Aside from the discredited Public-Private Partnership model used so disastrously within the NHS, there are the two other options. State aid (as is often used for key national manufacturing such as steel and automotive), or renationalisation (as per the railways - and as proposed by the Labour Party and other politicians for the water sector) are possibilities that need to be explored seriously. Instead of the money coming directly from bill-paying customers (disproportionally affecting less-well-off households) the funding would come from taxes.

Furthermore, access to clean drinking water and safe wastewater disposal are human rights – and should not be a source of profit for commercial organisations.

Q3.2: To what extent is greater co-ordination required across the sector? In what ways might we promote better co-ordination across companies and with other sectors, and how might this benefit customers?

Coordination within the sector has become increasingly important. It always has been where customers get their water services and wastewater services from different water companies. Bulk water transfer by pipeline from one company to another will become more important when localised water shortages become more frequent as climate change quickens.

UNISON notes that the ‘catchment system operators’ public body idea could go part way towards giving more control of water and wastewater services back to local authorities. However, water catchments and wastewater and drainage catchments often do not completely align – and certainly not with the boundaries of local authorities in most cases. The information around this misalignment should be discussed in the Drainage and Wastewater Management Plans (DWMPs) and the Water Resource Management Plans (WRMPs). For example in many areas of the South East, drainage aligns with river basins whereas the majority of drinking water is sourced from groundwater abstractions taken from the South Downs chalk. Gravity fed water distribution networks have often been constructed in areas here there are no significant watercourses.

The idea of a national system operator alongside these catchment system operators, to co-ordinate and align local interests to national priorities is also similar to part of models for renationalisation of the water sector – which is UNISON’s policy voted for by delegates at national conference. Whilst noting that the decision to put in ‘system operators’ rests with the government rather than Ofwat, UNISON could potentially be in favour if this was a step towards de-privatisation.

With energy use and carbon reduction being inextricably linked, better coordination between water and electric power companies needs to be explored, and also with more localised power generation entities, such as those likely to be run in future by community groups and local authorities.

If the current set of government regulators remains, then much closer collaboration between them will be needed.

Long term focus and Approach in delivering the right outcomes for customers; communities and the environment:

We welcome the idea in principle that there may be areas of common concern to all customers nationwide, which may result in transparency and improve consistency in approach across companies. However, how would Ofwat get all water companies in England and Wales to sign-up to the proposed vision? Bearing in mind that Dŵr Cymru Welsh Water is government owned whilst most English companies are privately owned companies, the set-up on customer base in Wales may also be slightly different from that of England, with no one-size-fits-all in response to customers queries/concerns. Further, in the interaction between Ofwat and the executives of companies responsible, to directors with no particular connection to either locality or workforce, there is a disconnection from the actual things valued by the public from their local water company.

We would propose that companies improve the environment in their area of operation; deliver for the communities they serve; improve the safety, security and resilience of water supplies in their local area; and contribute positively to their local economy. Bearing this in mind the

metrics can then be applied. Also ensuring that the objectives in delivering their climate change agenda are SMART. We have seen the roadmap to which water companies need to deliver on their 2050 net zero ambition; what we would recommend is for Ofwat to introduce a framework in which companies self-declare their progress which could then be used to compare practices across companies for accountability, also bearing in mind that to do this infrastructure needs to be up-to-date - as much is obsolete and no longer fit for purpose for a sustainable future. This we believe will need a huge investment.

We believe companies should have autonomy to drive their own initiatives in the future; though recognise the benefit of collaboration between companies. However, some strategies may be best left to individual company to prioritise as they want, particularly when it comes to delivering for the community. In as much as we recognise that the key priority for Ofwat is customers as detailed in the PR24 proposal, we believe employees should also be at the heart of the companies to achieve their objectives. Water Companies need to genuinely implement the ICE Regulations (plus the associated Acas guidance) and engage in meaningful consultation with their employees as well as customers. To succeed in the massive transformation that they need to undergo to be fully fit for purpose, water companies need the full engagement and buy-in of their staff.

Customers' changing expectations & long-term focus in water quality:- Direct employees have a vested interest in conserving water in their local area. They also understand local communities best. For that reason, we ask that Ofwat does not take a neutral position on direct employment, and on the location of those employees; our experience is that localism of workforce is strongly valued by the public and water customers; bearing in mind that water company employees are also consumers of water and are customers of wastewater services.

The outbreak of Covid-19 brought about an increase in the pace of the digital revolution. That said, the need for increased use of machines, artificial intelligence and green jobs could lead to many changes in the types of job available, the kind of work to be done and the levels of staffing needed. This will cause additional disruption for employees, running counter to sustainability - unless there is an emphasis on retraining existing staff to do the new kinds of work rather than redundancy followed by external hiring.

UNISON agrees on the shift that companies meet customers wants and needs, including affordability - rather than the focus on making money for their owners. For instance, our members have told us that the lower level workers are penalised in terms of reward, whilst directors earn hugely disproportionate salaries, bonuses and pension benefits.

7. Planning together for PR24

Q7.3: How could we best involve a 'PR24 Challenge Panel' in the price review process to help ensure that our decisions best reflect the interests of customers, communities and the environment?

Direct employees and subcontracted workers are the backbone of the water industry. It is thanks to their dedication, struggling to operate and maintain decaying and outdated infrastructure, that company performance is not lower that it is currently. They are also the people, thanks to their hands-on knowledge and experience, who are best positioned to provide innovative insight. All too often eye-wateringly expensive consultants are brought in to tell executive management what their employees have been saying for years. However, workers and employees do not seem to get a mention in all 131 pages of the "PR24 and beyond ~ Creating tomorrow, together" document.

With employee engagement being paramount to achieving greater efficiency and productivity, a greater role for employee representatives and in particular trade unions in a 'PR24 Challenge Panel' is needed.

Furthermore, efficiencies should not come at the expense of water company staff receiving below inflation cost-of-living pay increases – when they have such a vital role in delivering PR24.

8. Design and implementation of price controls

Q8.2: Do you agree with, or have any comments on, our proposals for specific parts of the value chain, i.e. for water resources, developer services, residential retail and business retail in Wales?

The development of markets for developer services, bioresources, water resources and the provision of large infrastructure may provide only marginal efficiencies – as happened for wholesale water and wastewater services when 'marketized'. Adverse effects have been numerous – from fragmentation of service provision to impacts on employee terms and conditions after TUPE transfer.

Residential retail marketization is similarly unlikely to provide any real benefit to consumers, but instead only a risky opportunity for profiteers. Experience has shown they will then attempt to increase tight margins at the expense of their workforce through squeezing pay and conditions.

Donna Rowe-Merriman
National Secretary
UNISON