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# Ofwat's Final Public Value Principles

## About this document

This document follows on from the [discussion paper on public value](#) of December 2020 and [Public value in the water sector: a supporting set of principles](#), which was published in July 2021.

We engaged with stakeholders over the summer and latter part of 2021. There was broad agreement with taking a principles-based approach to delivering more social and environmental value and on the draft principles. This paper sets out a final set of public value principles and how they will be embedded further in Ofwat's work.

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# 1. Introduction

Ofwat's 2019 strategy [Time to Act, Together](#) set out an ambition for the water sector, with one of three strategic goals being "For water companies to provide greater social and environmental value, delivering more for customers, society, and the environment".

In December 2020 we published a [discussion paper](#) to inform our approach to public value for the sector. We found there was considerable enthusiasm and ambition amongst water companies to deliver more social and environmental value, often reflected in the company's purpose. However, it was clear that there was a varying capability and maturity in companies' approaches. Our analysis led us to conclude that companies can deliver greater social and environmental value by ensuring that their culture facilitates the right conversations inside and outside the company, to better inform decision-making. We concluded that a principles-based framework could help guide company activity in this area.

In July 2021 we published [a draft set of principles](#) for public value. The draft principles focussed on 1) the conditions in companies which could facilitate delivery of social and environmental value, and 2) set boundaries around what we considered 'public value' to be from a regulatory perspective.

We spoke to a range of stakeholders in the sector, including water companies, CCW, and independent consultancies. All stakeholders recognised the importance of the water sector delivering greater social and environmental value in everything they do. They agreed that a principles-based approach could help to facilitate the delivery of social and environmental value by the sector; and broadly agreed that we should not attempt to define specific outcomes, nor to set metrics for assessing it, at this stage. No stakeholder expressed a view that the draft principles were inappropriate or counter-productive.

This document sets out our final principles for public value.

- Chapter 2 sets out our revised set of principles, taking into account what we heard, and provides some explanatory notes for each principle, building on our work up to July 2021.
- Chapter 3 sets out our next steps, including how we intend to embed these principles further within our own work and with the sector. However, we expect this to continue to evolve over time.

## 2. A revised set of principles

This chapter sets out our revised principles and explanatory notes for each. The amendments we have made to principles 1, 2, 3 & 7 are in **emphasised** text. We have also combined the previous principle 6 with principle 5 for brevity. We do not consider any of these amendments to signify any material difference in policy intent or approach.

### Principle 1

Companies should seek to create further social and environmental value in the course of delivering their core services, beyond the minimum required to meet statutory obligations. **Social and environmental value may be created both in direct service provision and through the supply chain.**

Water customers cannot be expected to fund activities that are not related to a water company's statutory functions. As a regulator our focus is therefore on public value delivered in the course of carrying out those functions. This can avoid companies losing focus on their core activities.

There are different types of value which companies consider in designing the way they operate as businesses and deliver their core services, including human capital and financial capital, amongst others. Our focus is on social and environmental value creation because, beyond the water and sewerage services delivered, these are the types of value that customers increasingly care about more. Indeed the delivery of social and environmental value is mentioned in both the [UK](#) and [Welsh](#) governments' strategic priorities statements for Ofwat.

We recognise that a significant amount of social and environmental value is already created in the normal course of companies carrying out their statutory responsibilities. This principle makes clear that companies should seek to go beyond the delivery of the minimum statutory obligations and consider how they can deliver more social and environmental value by doing things differently. At the same time, we are clear that companies should be fully compliant with all their legal and regulatory obligations.

One topic that emerged during our discussions was the importance of delivery through the supply chain: many water company services are provided through contractors. There are significant opportunities for companies to deliver more social and environmental value through the procurement process for these contractors, and their ongoing management. We therefore encourage companies to look for opportunities to leverage social and environmental value in the course of their procurement approaches.

### Principle 2

Social and environmental benefits should be measurable, lasting and important to customers and communities. Mechanisms used to guide activity and drive decision-

making should **support** this, **for example through setting and using company purpose, wide external engagement and explicit consideration of non-financial benefits.**

Companies should understand their impacts, both positive and negative. This can help them to identify opportunities to deliver more social and environmental value. They should seek to understand their impacts over time, particularly any changes as a result of any public value interventions they have made, and be able to explain these to customers and other stakeholders in an accessible way. This goes to the vital importance of the sector building and maintaining trust and legitimacy that is reflected in our [Board leadership, transparency, and governance principles](#).

Public commitments to embed a culture of greater social and environmental value, through amendments to a company's Articles of Association or through statements of company purpose, can be a compelling way to set out a company's ambition in this area. However, stakeholders will expect to see these commitments reflected in tangible impacts and meaningful change, so that delivery against purpose can be demonstrated. A failure to do so could further erode trust and legitimacy in the sector.

Different communities have different needs and priorities, and many potential interventions are rooted at the local or regional level. As such, a meaningful approach to public value should entail proportionate engagement to uncover the wide range of potential stakeholders who are impacted by an activity. That group is likely to be diverse, including customers, communities, investors, environmental stakeholders, and even future customers. This is not to say that every intervention will require the widest possible engagement; however, companies should tailor their approach to engaging with each group.

Traditionally, the decision-making processes and frameworks businesses use have been geared to the outcomes that matter to investors. Tools are now increasingly available which enable companies to take a wider view of the costs and benefits of different options to inform their decisions, such as the 'multiple-capitals' approaches being explored or used by a number of companies. These approaches seek to provide a broader explanation of performance, based on stores of value that are not just financial (for example, natural, social and human capital). The exposure of this information should enable companies to take a more balanced view of their total impact and to choose or prioritise projects which deliver greater total benefit to all stakeholders, including social and environmental value where appropriate.

Companies should set out measurable social and environmental outcomes, so that the company's progress can be followed and understood, regardless of whether these feature in any regulatory framework. In addition:

- interventions should aim to have lasting impact; and
- the delivery of public value outcomes should flow from companies' community and stakeholder conversations.

We do not intend to set out an overall framework for social and environmental outcomes to be delivered in the abstract. However, it is likely that we will set outcomes and expectations for

some of the most common and important social and environmental outcomes through our regulatory toolkit, including [PR24 and beyond](#).

### Principle 3

Companies should be open with information and insights on operational performance **and impacts (both good and bad). This will support stakeholder engagement, facilitate collaboration and help identify opportunities for delivering additional social and environmental value.**

A culture of open data, which the sector has committed to, will enable a wide range of interested parties to engage in and monitor what social and environmental value is being delivered. It will also facilitate the engagement of stakeholders in the supply chain and in research communities which can potentially offer novel solutions in this area. In our Innovation Competition we have already seen the positive impact that digitalisation and open data can have. In October 2021 we published a [call to action on open data](#) more specifically, which provides more detail on our approach to open data.

Sharing insights and learning from their approach to public value and outcomes, and from operational performance more generally, is more likely to engender trust in companies. We would encourage companies to embrace the learning opportunities that their work on public value has to offer. We will discuss further with stakeholders how best practice might be identified and promoted within the sector, recognising that in some contexts Ofwat could provide greater guidance on expectations<sup>1</sup>.

There are diverse views on monitoring and reporting, and Ofwat's potential role in this. The best means of making information transparent is likely to depend on the circumstances. We can see that the development of frameworks for reporting social and environmental value, while in the relatively early stages, is progressing rapidly and on a much wider basis than the water sector. This is already leading to different conversations within companies and between companies and stakeholders, including investors, and there are some calls for greater rigour and standardisation across the board.

Against this background, while a particular approach may in time be best suited for water companies, we do not see sufficient benefit in Ofwat mandating a particular approach at this time. We note that our current reporting requirements, e.g. against outcomes and performance commitments, already suit this space well at this stage.

### Principle 4

Delivery of social and environmental value outcomes should not come at greater cost to customers without customer support.

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<sup>1</sup> An example may be in the context of evidencing and assessing certain approaches in the context of the price review (see also section 3).

Customer support is a key driver of legitimacy and trust in the sector. It is an important consideration in justifying particular courses of action, especially where considering options that involve greater cost. In such cases the evidence base to support proposals will need to be robust. We recognise that customer considerations should take account of the interests of both current and future generations, with long-term solutions needing to reflect the interests of both.

This approach reflects our approach to PR14 and PR19. And we noted in our [green economic recovery decisions](#) it is important schemes deliver value for money and where additional expenditure is involved, that customers support it. This is also reflected in our [PR24 consultation](#).

### Principle 5

Companies should consider where and how they can collaborate with others to optimise solutions and maximise benefits, seeking to align stakeholder interests where possible, and leveraging a fair share of third-party contributions where needed. **Companies' public value activities should not displace other organisations who are better placed to act.**

Water companies' services do not exist in isolation, but within a number of interdependent systems connecting the environment, communities, businesses of various sorts, and other types of infrastructure. Some of the opportunities to increase public value exist where different systems intersect and it is vital that companies recognise and develop these opportunities to achieve better overall social and environmental value outcomes by collaborating with other bodies. We acknowledge that external collaboration and partnerships can be challenging in practice, for instance by adding complexity in setting objectives and identifying appropriate data and metrics. There can also be difficulties in prioritising between different groups' needs; and balancing ambition with willingness to pay. However, partnerships and collaboration will be vital to delivering greater public value; and we have been clear that water companies should convene and/or drive those partnerships.

Nevertheless, water customers should only be expected to fund schemes that are consistent with the proper carrying out of a company's functions. Solutions delivered in partnership allow companies to leverage input from third parties. Funding should be allocated so that each partner pays its fair and efficient share of the costs. This should take into account the relative benefits of the solution to water companies and third parties, and the incremental costs compared to a solution the water company would implement to address only its requirements. Partnership schemes can lead to lower overall costs compared to working on solutions in isolation. Where this is the case, we would expect these opportunities to be realised and companies and customers to benefit from the collaboration in terms of lower costs.

In addition, many of the potential means of delivering public value may sit outside water companies' core skills, and in those areas other organisations may have greater skills and capability. In some cases, other organisations may also have a responsibility or duty of their own to act. We do not intend water companies to deliver greater social and environmental

value where other organisations have greater capability and/or a duty to act. We support relevant partnership working, but this does not mean it is always for companies to step in.

### Principle 6

Companies should take account of their capability, **performance** and circumstances in **considering the scope for delivering** greater social and environmental value.

Both companies and delivery partners have different levels of maturity and ability to define and deliver additional public value. Whilst we expect all companies to develop their thinking and approach over time, this principle makes clear that companies should be mindful of their ability, and the ability of their partners, to deliver (including in the context of third-sector and voluntary organisations) and not do more than is feasible. We do not discourage companies from being ambitious. We welcome companies experimenting and innovating, so long as the risks are managed appropriately.

We have amended the wording of this principle slightly for clarity. The delivery of social and environmental value as part of companies' core services should not detract in any way from delivery of the core services on which customers rely, nor be a distraction from addressing underperformance – or compliance – in another part of the company's core activities.

### 3. Public value in action

The UK and Welsh Government SPSs will continue to provide a frame of reference for our work on delivering more social and environmental value.

We will review within Ofwat how the public value principles can be embedded in an appropriate range of our regulatory tools.

In some areas this has already been clear, for instance the use of public value as one of the key criteria in the [Innovation in Water challenge](#), and in our decisions on the [green economic recovery](#).

Stakeholders are showing particular interest in how social and environmental value will be embedded in PR24. We emphasised the importance of delivering greater social and environmental value in our May 2021 consultation paper [PR24 and Beyond: Creating tomorrow, together](#). In that document we set out our expectation that companies should continue to place an appropriate emphasis on social and environmental factors to show that their business plans represent overall ‘best value’, rather than just least cost. We see alignment between best value and our public value principles. We will set out our expectations around the delivery of best value through the price control in our PR24 draft methodology which will be published in July 2022.

We do not expect companies to be limited to the price control to deliver greater social and environmental value. Overwhelmingly, the primary mover in delivering more social and environmental value is action by water companies to incorporate public value thinking into their routine ways of doing things. We recognise that this will take a thoughtful and committed approach over the long-term, together with a willingness to experiment and innovate.

## A1 The Final Principles

	The Principle
<b>Principle 1</b>	Companies should seek to create further social and environmental value in the course of delivering their core services, beyond the minimum required to meet statutory obligations. Social and environmental value may be created both in direct service provision and through the supply chain.
<b>Principle 2</b>	Social and environmental benefits should be measurable, lasting and important to customers and communities. Mechanisms used to guide activity and drive decision-making should support this, for example through setting and using company purpose, wide external engagement and explicit consideration of non-financial benefits.
<b>Principle 3</b>	Companies should be open with information and insights on operational performance and impacts (both good and bad). This will support stakeholder engagement, facilitate collaboration and help identify opportunities for delivering additional social and environmental value.
<b>Principle 4</b>	Delivery of social and environmental value outcomes should not come at greater cost to customers without customer support.
<b>Principle 5</b>	Companies should consider where and how they can collaborate with others to optimise solutions and maximise benefits, seeking to align stakeholder interests where possible, and leveraging a fair share of third-party contributions where needed. Companies' public value activities should not displace other organisations who are better placed to act.
<b>Principle 6</b>	Companies should take account of their capability, performance and circumstances in considering the scope for delivering greater social and environmental value.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.**

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