

March 2022

PR24 and beyond: A collaborative approach in Wales

ofwat

About this document

At PR24, we are asking the water companies to set out their long-term delivery strategies for the next 25 years, and through this, demonstrate how their five-year business plan will deliver the right enhancements at the right time, to meet their long-term objectives.¹ They will have to be conscious of future uncertainties and establish their long-term plans in a manner that can accommodate these uncertainties.

Welsh stakeholders have made it clear that a collaborative approach is desirable when long-term strategies for Wales are being developed. This reflects the legislative and policy frameworks in Wales which encourage a collaborative 'way of working'. For instance, the Well-being of Future Generations (Wales) Act 2015 sets clear expectations on how the Welsh Government and Welsh public bodies should work together to deliver outcomes that benefit the Welsh people both now, and in the long-term. The expectation for this way of working is also reflected in the Strategic Priorities Statement for Ofwat, which sets out the Welsh Government's priorities and objectives for Ofwat when carrying out our functions relating wholly or mainly to Wales. As such, we have been working closely with Welsh stakeholders to ensure they are involved in helping to shape the high-level outcomes for the water companies over the long-term.

We see this happening through a 'collaborative approach', involving key Welsh stakeholders (set out later in this paper), at the Wales PR24 forum.² The Wales PR24 forum, and the collaborative approach, will be new for PR24 and will bring together certain stakeholders and the water companies to discuss the long-term outcomes for the water sector specifically. The opportunity for the water companies to work closely with key stakeholders and regulators in the water sector, to tackle the big challenges that are going to be faced, should provide benefits in the long-run. This paper sets out:

- the context for collaboration in Wales including how the Strategic Priorities Statement and broader policies drive collaboration;
- the context of the next price review, PR24;
- what we hope the collaborative approach will contribute to identifying the high-level outcomes for the water companies;
- the role each party involved in the process will play; and
- what needs to happen next for the collaborative process to start.

We hope that this collaborative approach will drive engagement with Welsh stakeholders and enable the companies' business plans to reflect the specific circumstances of Wales. We also believe that Ofwat's involvement in the process will give us a good understanding of stakeholder priorities in Wales and how they have been considered as part of the long-term delivery strategies. This will allow us to make better informed decisions during the price review process and for a Welsh context.

1. 'Enhancements' or 'enhancement expenditure' refers to expenditure for the purpose of enhancing the capacity or quality of service beyond the current levels.

2. The Wales PR24 forum will involve representatives from the Welsh Government, Ofwat, Natural Resources Wales, the Drinking Water Inspectorate, the Consumer Council for Water, and the Welsh water companies Hafren Dyfrdwy and Dŵr Cymru.

Contents

1. The context for collaboration in Wales

4

2. The PR24 context – delivering for the long-term

6

3. What the collaborative approach will achieve

7

4. Roles and responsibilities during the collaborative process

9

5. Next steps

12

1. The context for collaboration in Wales

Ofwat needs to develop and implement a regulatory framework that is applicable to Wales, relevant in a Welsh context and that accounts for the specific circumstances of Wales. The Welsh Government have requested this of Ofwat in their Strategic Priorities Statement. While the regulatory framework and price review process for water and wastewater companies in England and Wales is broadly the same, the detail and ways of working should reflect the circumstances in each country. In Wales, there is an expectation that policy leaders and public bodies engage with each other in a collaborative fashion in order to tackle the big challenges that will be seen in the next few decades and beyond. This expectation is set out in the Well-being of Future Generations (Wales) Act 2015 which places a particular focus on planning for the long-term and on outcomes that deliver for the environment, the economy and society, as well as meaningful engagement with stakeholders.

At PR24, we are asking water companies to set out long-term delivery strategies and demonstrate how their five-year business plans will deliver the right enhancement investments, at the right time, to help meet long-term objectives for water customers, society and the environment. We want to ensure that Welsh stakeholders have early involvement in the development of these long-term strategies and understand the future uncertainties that will have to be taken into account. As such, we have engaged with the key stakeholders in the Welsh water sector, including the water companies, Hafren Dyfrdwy and Dŵr Cymru, Natural Resources Wales (NRW), the Welsh Government, the Drinking Water Inspectorate (DWI) and the Consumer Council for Water (CCW) and agreed that there would be merit to implementing a 'collaborative approach' in Wales for PR24.³ This would allow the relevant stakeholders to provide early feedback on the high-level, long-term outcomes that the water companies propose in PR24.

By encouraging an integrated approach to developing long-term strategies and outcomes, we hope to achieve better results for the environment, society and Welsh customers. The outputs of the collaborative approach, as well as what is learnt from wider stakeholder and customer engagement, should then be used by the water companies to help develop their business plans and long-term delivery strategies.

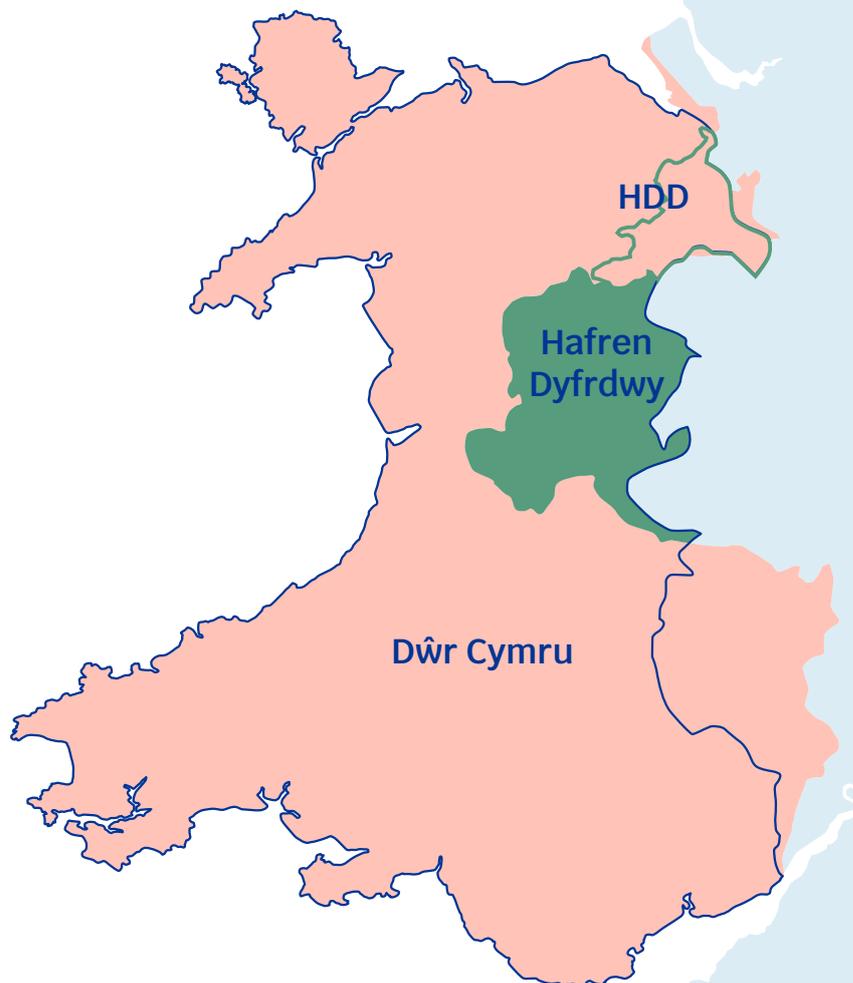
The collaborative approach will be mobilised through the Wales PR24 forum with the stakeholders mentioned above making up the 'core' participants of the collaborative approach. As part of the process, we would expect these key stakeholders to utilise stakeholder research to evidence their thinking on priorities for Wales, present it at the Wales PR24 forum and facilitate wider involvement if required. We hope this will drive alignment on the high-level customer outcomes, as well as transparency on how the companies' business plans, and long-term strategies, are developed.

3. Throughout the document, we refer to 'Welsh Stakeholders' as part of the collaborative process. In this context, the term should be taken to include the four stakeholders listed, as 'core' participants of the collaborative approach.

Ofwat will be present at these discussions and will provide support on:

- the technical elements of the price review process;
- the regulatory framework as a whole; and
- highlight potential changes at PR24, compared to PR19.

Being present at the discussions will ensure that we understand how Welsh stakeholder priorities have been factored into the companies' business plans. This allow for better informed decisions at draft determination and final determination stages of the price review, and mean we take stakeholder and customer priorities into account. We also hope to be able to provide feedback on how proposals might interact with, and be reflected in, the regulatory regime.



2. The PR24 context – delivering for the long-term

In May 2021, we published '[PR24 and Beyond: Creating tomorrow, together](#)'. This set out our initial views on how PR24 would work and articulated the need to increase the sector's focus on the long term. In November 2021, we then published '[PR24 and beyond: Long-term delivery strategies and common reference scenarios](#)'. This set out our proposed expectations for what companies should include in their long-term delivery strategies as part of the business plan submission for PR24 including the following:⁴

- companies should set out the long-term outcomes they aim to deliver over the next 25 years;
- their strategies should bring together all enhancement activities across water and wastewater, including the strategic planning frameworks, to achieve these long-term outcomes;
- key enhancement activities should be presented using adaptive pathways; and
- the strategy, as a whole, should be tested against a wide range of scenarios, including a small number of common reference scenarios.

We consider that at PR24, Welsh stakeholders should have scope to help shape the companies' long-term delivery strategies and – consequently – their five-year business plans. This is why, in 'Creating tomorrow, together', we suggested there may be scope to implement a collaborative approach. This would allow early engagement on the high-level outcomes, capture the priorities of the Welsh stakeholders and customers, and feed these into the Welsh companies' business plan development process. It would also provide a forum where customer views that have been captured, through company-level customer research and engagement, can be discussed and incorporated into these high-level outcomes.

A vital element of the long-term delivery strategy approach is having the water companies clearly articulate which outcomes will be delivered, and when they will be delivered over the next 25 years. We think the collaborative approach, and engagement with the key Welsh stakeholders at the Wales PR24 forum will provide a platform for this discussion, and crystallise when the high-level outcomes should be delivered, and why. It will also mean we have a clear understanding of the priorities of Welsh stakeholders when carrying out our price review process.

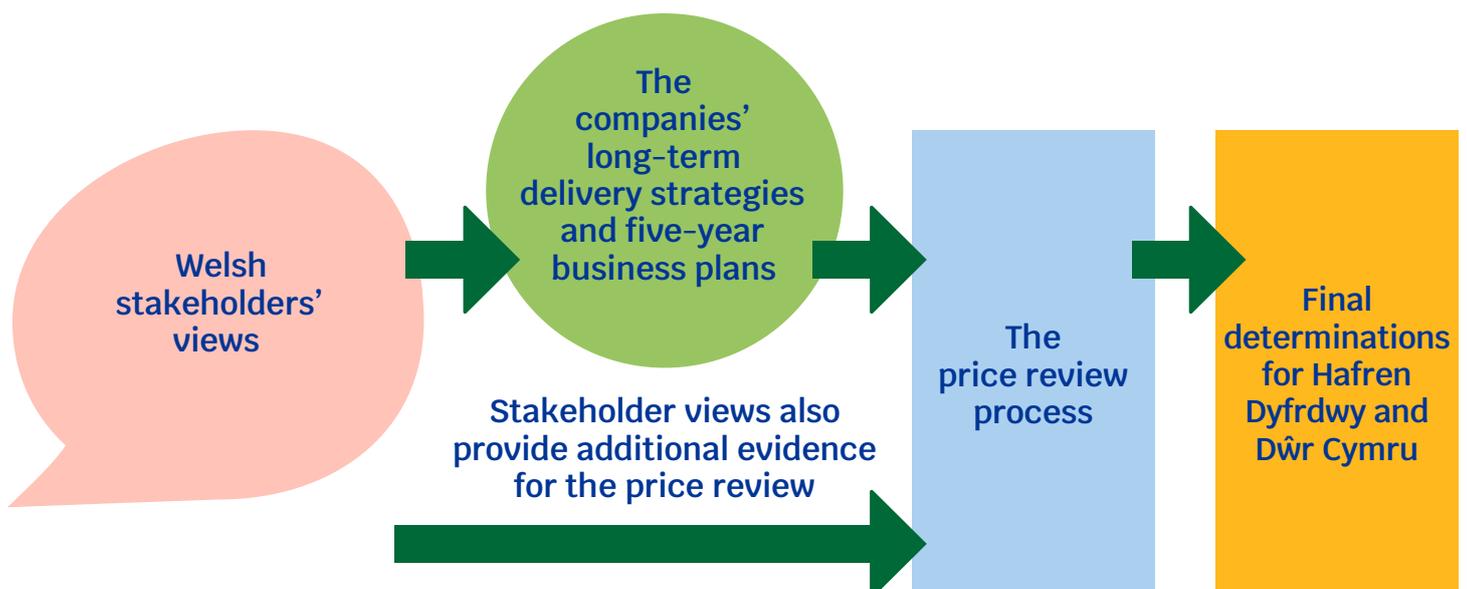
4. We will be publishing a paper in April 2022 which will confirm our requirements for the long-term delivery strategies.

3. What the collaborative approach will achieve

We think that using a collaborative approach to agree the high-level and long-term outcomes for the water companies will benefit Welsh customers, stakeholders and the environment.

The collaborative approach will facilitate Welsh stakeholder input at the early stages of business plan development and allow stakeholders to express their views on the high-level outcomes which the water sector should be seeking to achieve. This will be done within a specific forum (Wales PR24 forum) and drive the collaborative approach between public bodies and the water companies that is laid out in the Welsh SPS. This should allow for alignment on what the water companies intend to achieve over the next 25 years and the wider objectives of the Welsh government/stakeholders. For example, priorities for the environment, customer service levels, affordability and net zero will have to be considered in the round and over the long-term. Stakeholder engagement during the collaborative process will also give them insight into the balance between the timing of outcome delivery and potential affordability constraints.

We see the collaborative approach being an iterative process, not a 'one off' event, where the appropriate balance of outcomes and other considerations (such as cost) can be determined. The water companies can then take the output of the process and feed it into their long-term delivery strategies and five-year business plans. The diagram below sets out, at a high-level, how this will happen, and how the collaborative approach will feed into the price review process. It should be noted that the companies will be expected to factor in wider customer engagement and views as part of their long-term delivery strategies and business plans. This is not shown in the diagram below, as it only focuses on the stakeholders involved in the collaborative process.



As set out in the previous section of this paper, one of the key changes at PR24 is the introduction of the long-term delivery strategies. While there has always been a consideration on the balance to be struck between the outcomes that will be delivered in the next price control period, and what will be delivered later, at PR24 this will be set out explicitly with long-term plans. One of the key inputs we think the collaborative process, and Welsh stakeholders, can provide is the phasing of the long-term outcomes across the Asset Management Periods (or AMPs). This will include steers on:

- customer priorities across customer outcomes, service levels and environmental outcomes; and
- how these priorities should be balanced with customers' affordability constraints.

We expect the discussions to begin by focusing on the high-level outcomes that stakeholders think the sector should seek to deliver in Wales over the next 25 years. To inform this discussion, the companies will provide broad cost estimates for the proposed package of outcomes that they hope to deliver in the future AMP periods. Stakeholders can then consider the balance between outcomes, stakeholder priorities and affordability, and request that the companies provide new cost forecasts for successive iterations of outcomes. This might involve some outcomes being 'pulled forward' to an earlier AMP period, or being 'pushed back' to a later AMP period, based on the prioritisation of outcomes according to stakeholder priorities. We would encourage participants in the collaborative process to provide evidence of customer priorities to inform the discussions. Through this iterative process Welsh stakeholders will influence the companies' long-term delivery strategies, which will ultimately feed into their five-year business plans, and final determinations.

The process will drive engagement with key stakeholders and facilitate a way of working that is appropriate for the water companies, and customers, in Wales. Stakeholders will be able to provide clear steers on the relative priorities that they attach to different outcomes at the dedicated forum for Welsh stakeholders. Our clear understanding of these priorities will then allow us to make better informed decisions during the price review process and in a Welsh context.

The approach should not, however, cut across the respective roles and responsibilities of the stakeholders involved. For Ofwat, this means we will not be able to opine on, or agree to, specific schemes or projects in advance of the price review. We will only be able to do this once all the relevant evidence has been submitted to us in the companies' regulatory submissions. However, based on past experience, we will endeavour to say how schemes are likely to be assessed as part of the price review process and how the overall price review process will operate.

Finally, we encourage open and transparent dialogue throughout the whole price review process. As the PR24 methodology is developed and published, we will communicate relevant updates to the forum. We will also ensure transparency in our decision making, in the usual way, through consultation and the responses we receive to them.

4. Roles and responsibilities during the collaborative process

Substantial input from the key stakeholders will be important to ensure the collaborative process runs smoothly and, ultimately, that the views of Welsh stakeholders are incorporated into the companies' long-term delivery strategies. We hope this ensures that the companies deliver the outcomes/benefits that are important to Welsh stakeholders and customers.

We plan to codify the specific roles of the different parties in the Wales PR24 forum's terms of reference, and we expect these to be agreed at the first meeting of the forum. This will be important to ensure that all parties are comfortable having honest and frank conversations during the process, while still being clear on the respective roles, responsibilities and duties of each party. We have summarised our initial thoughts on what the respective roles at the Wales PR24 forum should be below. These will be discussed in further detail and agreed for the terms of reference.

Stakeholders' roles

Throughout this document we have loosely used the term 'Welsh stakeholders' to include the Welsh Government, NRW, CCW and DWI. Throughout the process, we expect these parties to consider which long-term outcomes the sector should prioritise in the coming years, balancing this against the affordability pressures faced by Welsh customers. The balance between long-term outcomes and affordability should be heavily informed by insights from customer engagement which should highlight their priorities for the environment, customers as a whole and society.

In addition to this, however, we also consider that each of these bodies has an important role to play in the process.

This is only a high-level summary of the role each party will play in the process – we expect the Wales PR24 forum's terms of reference will provide a greater level of detail. While the above is not an exhaustive list of stakeholders, we envisage them forming the 'core' attendees of the Wales PR24 forum and being key in making the collaborative approach a success.

Welsh Government

The Welsh Government's strategic priorities and objectives for Ofwat and the industry are set out in its Strategic Priorities Statement (SPS) for Ofwat and the Water Strategy for Wales. Accordingly, we would expect it to challenge the companies to stretch themselves in the areas reflected in these documents and related government policy, while balancing this against affordability pressures being faced by customers in Wales.



Llywodraeth Cymru
Welsh Government

Natural Resources Wales

As a principal advisor to the Welsh Government on environmental matters with responsibilities including water resources and water discharges, we consider NRW will provide views on the environmental outcomes the sector should be seeking to deliver over the long-term.



Cyfoeth
Naturiol
Cymru
Natural
Resources
Wales



The voice for water consumers
Llais defnyddwyr dŵr

The Consumer Council for Water

As the voice for water consumers, we expect CCW to challenge the customer research evidence that companies are using to support their proposals. They should also highlight what weight stakeholders should be placing on different sources of evidence, based on customers' ability to meaningfully comment on different aspects of water companies' performance and services provided.



The Drinking Water Inspectorate

DWI will have a key role to play providing input into any discussions covering drinking water quality. DWI is also well placed to provide views on customer issues connected to drinking water quality, given its role investigating consumer complaints in this area.

The role of the water companies

For the collaborative approach to work, the Welsh water companies will have to undertake high quality engagement with their customers and local stakeholders to understand which outcomes matter most to them. This will inform early discussions under the collaborative approach about which long-term outcomes should be prioritised in their long-term delivery strategies. It should be noted that this customer engagement will be an essential part of all water companies' submissions and will be required when setting price control deliverables. It will be important to have early sight of this at the Wales PR24 forum so that it can feed into the collaborative approach. The companies will also be responsible for providing broad cost estimates for the different packages of outcomes which stakeholders request that they cost.

Finally, the companies will be responsible for developing their long-term delivery strategies and five-year business plans and capturing the steers received from customers and Welsh stakeholders in them. This point is particularly important, as we do not expect the stakeholders to 'sign off' on each of the companies' regulatory submissions so would expect the companies to effectively translate the high-level priorities into actionable and measurable plans.

Ofwat's role

Ofwat's main role will be during the price review process where we will set the final price control package and check that the companies' business plans and long-term delivery strategies have taken account of stakeholder views. During the collaborative process, however, we see our main roles as:

- providing technical support on the PR24 regulatory framework when it is published and highlighting where changes might have occurred compared to PR19;
- encouraging discussions at the Wales PR24 forum that focus on the high-level outcomes and ensure they demonstrate an understanding of customer priorities;
- support Welsh Government in facilitating the Wales PR24 forum and helping participants in the collaborative approach understand the requirements of the Welsh SPS; and
- record and communicate lessons learned from the collaborative process so we can understand whether they can be applied to subsequent price review periods.

It is important to point out that Ofwat will not be able to make decisions on outcomes, enhancement proposals or other expenditure categories during the collaborative process. This will only be done during the price review process. We will, however, commit to doing our utmost to provide information and steer discussion in a manner that does not compromise our statutory role, but will ensure that final determinations deliver for customers and the environment in Wales. We also commit to capturing the learning from this process, and if it delivers the benefits that we hope, consider how this approach could deliver wider benefits in PR29 and in how we work with stakeholders. We remain committed to the idea of collaborating with parties across the sector to achieve collective aims for the future, and are striving to ensure that PR24 is a success.

5. Next steps

We will work with Welsh Government and the Welsh stakeholders to mobilise the Wales PR24 forum. We will also work closely with them to draw up a terms of reference that accurately reflect the desired outcomes, properly sets out the respective responsibilities of the parties that attend, and ensures that the collaborative approach is a success.



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is a non-ministerial government department.
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