



Speech

Given by David Black, Chief Executive, Ofwat
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British Water's keynote address

Introduction

Good evening, everyone, and thank you Lila and Mark, for inviting me to speak tonight. I would like to start with acknowledging the huge contribution that the supply chain makes to the water sector.

In the past, the sector has prided itself in being a silent service, essential to their customers everyday life and wellbeing but unnoticed. These now seem far off days, in a world of social media, polarised debates, growing data and transparency on performance of water companies and growing concern for the state of the environment, it seems unlikely they will return.

The new normal for the sector will be intense scrutiny, high and rising expectations on companies to provide resilient essential services and protect the environment. Corporate behaviours matter too – the perceptions of generous dividends and executive pay convey to customers that companies are not acting in customer or wider public interest.

It is clear that significant transformation is needed. The performance of the sector is not where it needs to be. And the relationships with customers and the environment is not where it needs to be.

Today I want to talk about the work Ofwat is doing to help enable and drive transformation of company performance and to help rebuild trust in the sector and how companies can use PR24 as springboard for change. And to highlights some implications for the supply chain will need to play in enabling this transformation.

Challenges in the sector

I am sure that all of us here are aware of the momentous challenges facing the sector right now: stepping up environmental performance and improving resilience and asset health, all in a time when customers are facing a cost of living crisis. And the challenge is even sharper

for a number of companies who whose performance has fallen well short of expectations and who are struggling with inadequate financial resilience.

The debate on sewage discharges continues, it is clear that large scale improvements are required to meet public expectations of a modern wastewater network. The Government has now committed to legislation to set their long term target of limiting all overflows to an average of more than 10 per year by 2050 in law. The EA described the 2021 environmental performance, which excludes the impact of storm overflows, as the worst in years, with long term trend of no improvement in pollution incidents.

Our assessment of company's delivery of enhancement spending, showed a number of companies well behind on the implementation of the PR19 plans. It is also an issue that is also impacting public trust. Our research on trust found a reduction of 16% in the number of customers that trusted companies to deal with sewage responsibly.

Then, there is the challenge of securing our water resource for the future, something right at the heart of water company responsibilities. We've also seen an increase in projected future water needs with regional water resource plans indicating that an extra 4,000 megalitres of water per day will be needed by 2050 to reduce abstraction from chalk streams and other stressed sources, adapt to climate change and population growth and improve resilience. These projections assume a 50% reduction in leakage by 2050 and significant reduction in personal consumption of water.

Beyond that, we also know that there are growing concerns about affordability and vulnerability. The rise in inflation and the fallout from the pandemic and other factors have had a long-term impact on many households, and more and more people are in need of a helping hand.

And these are just some of the issues – there are many more. So how did the sector end up in this place?

- some challenges such as the cost-of-living crisis relate much broader global issues and the legacy of the pandemic.
- some relate to combination of broader social changes – digital debates, citizen scientists, and that the sector has not anticipated and led on issues, for example, the roll out of monitors on storm overflows goes back to 2013, but there was little anticipation of the need to fix issue, which has now been exposed.
- some relate to poor performance by a number of companies which has let down customers and the environment. The historical focus of much of the sector has been on financial engineering and returns, and too little on performance for customers and the environment. There also is continuing evidence of some companies' failure to comply with their legal obligations, with Ofwat and the EA separately investigating

wastewater companies. And only yesterday, the conviction of a wastewater company on a range of criminal charges relating to illegal pollution incidents.

- questions over strategic planning processes in the sector and whether they are sufficiently comprehensive and forward looking to identify and mitigate the risks and the needed level of investment. Responsibility for planning is spread over government departments, regulators and companies. Major new infrastructure can take a decade to design and deliver, so it's vital that we anticipate and adaptively plan.

What is Ofwat doing to enable transformation?

Ofwat is committed to working with the sector to meet these challenges. By working collaboratively with other regulators, we are able to use our regulatory toolkits to enable and challenge water companies to transform performance and invest to benefit customers and the environment now and in the future.

To highlight some recent actions:

- We have published our proposals to accelerate £1.6bn of PR24 investment schemes. This includes £1.1 billion to improve over 250 storm overflows, £400 million to support water resilience schemes including the installation of nearly 500,000 smart meters, and £160m to help reduce nutrient pollution and support nutrient neutrality in 14 locations.
- We have recently changed company licences using our new powers under the Environment Act 2021 to introduce new requirements that will enable Ofwat to stop the payment of dividends if it would risk the company's financial resilience and to require company boards to link payment of dividends to performance for customers and the environment.
- We're progressing with the development of 12 major water resources schemes including three new reservoirs through the RAPID program. These schemes will be key to the delivery of major new water resources over the coming decade.
- It's great to see the PR24 Your Water Your Say events, with an independent chair, go ahead and give customers and stakeholders direct opportunity to engage with companies on business plans.
- We are enabling innovation and more flexible approaches to setting customer tariffs. It is encouraging to see Affinity Water become the first company to commit to going live later this year with a trial that focuses on rising block charges. We hope more companies will come forward with innovative ways to make bills more affordable whilst promoting water efficiency.
- We are pleased to see the UU Haweswater aqueduct go out to procurement. This project will be a pathfinder for DPCs and provides a new model for the delivery of major infrastructure, alongside the competitive model used for Thames Tideway

We are also reflecting more broadly on how we can play our role in enabling and driving better performance for customers and the environment. We see three key areas:

- How we can help shape strategic direction in the sector to ensure that we are collectively looking ahead and addressing the key issues facing the sector. I am pleased with the work of RAPID on new water infrastructure, the EAs' national framework for water resources and the collaborative work with EA on the development of outcomes approach to WINEP. Looking ahead, how we can build on these developments?
- Delivery – it is clear that PR24 will be a major step up in new infrastructure – both for major projects and a much larger number of smaller schemes. We know there will be keen public interest in this area, so how we can play our role to ensure effective oversight and learning from the delivery of this infrastructure.
- Performance – I have raised our concerns with performance of a number of water companies. Our current approach rests heavily on the annual league table of company performance. There is question as to how we can better utilise insights from our, and other regulators, data to better understand underlying causes of poor performance and engage with companies to address issues.

PR24

Companies PR24 business plans are due in 164 days. Most likely companies will be making the case for bill increases to fund a step up in investment to address the challenges, meet stretching long term targets and to improve their performance. They will be doing so in a context of falling public trust and concerns about rising cost of living.

So how can companies seize the moment?

They must focus on what matters to customers and communities – too often price reviews get focused on debates about the cost of capital and cost modelling. Companies need to demonstrate that they understand public concerns and they have an ambitious and credible plan to improve environmental performance and resilience – both now and in the long term. Customer expectations will continue to change so companies need to understand and anticipate what customers expect regarding service, resilience and the environment.

The sector needs to demonstrate that expenditure is value for money. Customers may be prepared to pay more for their water, but they need to know that each pound from their own pockets is well spent.

They need to show that the delivery of their plans offers great opportunities for stakeholder and customer engagement. Too often there is little communication from companies as to how their investment will provide capacity for growth and improve quality of life in local communities. If the only communication from your company is a brown spot on a live map of

sewage discharges or notice of a hosepipe ban, we might expect the levels of dissatisfaction and discontent with companies to grow. I welcome the step up in communication by some companies on water efficiency, but there is a long way to go.

Business plans must be deliverable. In past reviews, this might have been taken for granted, although I note the challenges that some companies have faced this period on delivering their enhancement programme. But with a large step up in investment, this will be much more challenging than before – especially as we consider the volume of other major infrastructure investment elsewhere in HS2, nuclear, renewables and the grid. It is vital that companies anticipate the challenge, work closely in partnership with supply chain and innovate to meet the challenge.

The supply chain has a key role to play in enabling a step change in delivery, and through our recent supply chain engagement we know there are many great ideas for how the industry can improve. From early engagement with water companies, to putting the building blocks in place to expand for the upcoming workload, while also working together to share knowledge and standardise on best practice approaches that support moves to more efficient modern methods of construction.

I hope that with the help of British Water, we can continue to maintain open lines of communication so we can promote best practice and tackle the challenges facing the sector.

Companies should also continue to prioritise affordability. Customers real incomes are falling and it is vital that companies understand the pressures on customers and think carefully about long-term impacts, phased investment approaches, and adaptive planning.

We expect companies to be more representative of the people they serve, to play a bigger and more positive role in their communities, and to ensure the customer voice informs the design and delivery of their services.

Companies have considerable experience with social tariffs, so it will be important to learn from this experience in the design and delivery of social tariffs as an increasing number of customers struggle to pay their bills.

Lastly, I want to talk about how future investment will be financed. We have placed increased focus on companies' financial resilience and clearly signalled the need for companies with insufficient financial resilience to address this issue. We welcome the steps taken by a number of companies to raise further equity; it is clear with scale of investment required that other companies would require new equity in coming years. Companies should anticipate and address these issues.

What about the supply chain?

It is clear that PR24 will be a major step-up investment and so activity for the supply chain will likely increase. The shape of the activity is also becoming clearer. We are expecting:

- Step up in major projects – historically, the sector has had relatively few large scale investments in any AMP, such as the PR19 UU HARP scheme, PR14 Severn Trent Elan Valley resilience scheme, Thames Tideway. We are expecting to see significant increase in the number of major projects at PR24 such as large reservoirs, major transfers and water recycling schemes.
- Step up in smart networks and technology - a large scale roll out of smart meters will be part of PR24, but all companies are increasingly focused on how smart networks in both water and wastewater can enable better asset utilisation and maintenance and improved resilience.
- Step up in nature based and sustainable drainage schemes – the Mansfield SuDs drainage is a £76m scheme with installation of 20,000 SuDs to divert water out of sewers. We need to see more investment that has not only direct benefits such as water quality, but also wider benefits such as improvements to biodiversity and contributions toward net zero.

So, water companies will be looking for more support from their supply chain and a range of skills and expertise.

Conclusion

The water sector faces a challenging today and a challenging tomorrow. Facing into the challenges will require ambition, innovation and strong partnerships with the supply chain and collaborative working across the sector.

The challenges are formidable and there are also real opportunities to innovate, invest and engage with stakeholders and build a sector that we can all be proud of. We are committed to working with the sector to get great outcomes for customers and the environment. The supply chain have a key role to play and I look forward to working with you all to scale up the best of what the sector can do for all.