

Consultation on Government's Strategic Policy Statement for Ofwat Blueprint for Water Response – October 2021

Wildlife and Countryside Link is a coalition of 62 organisations working for the protection of nature. Together we have the support of over eight million people in the UK and directly protect over 750,000 hectares of land and 800 miles of coastline.

Blueprint for Water, part of Wildlife and Countryside Link, is a unique coalition of environmental, water efficiency, fisheries and recreational organisations that come together to form a powerful joint voice across a range of water-based issues.

This response is supported by the following Link members:

- Amphibian and Reptile Conservation Trust
- Angling Trust
- British Canoeing
- Friends of the Earth England
- Marine Conservation Society
- Rivers Trust
- RSPB
- Salmon and Trout Conservation
- Surfers Against Sewage
- The Wildlife Trusts
- Waterwise
- WWT

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Your name

Ellie Ward

Whether you are responding as an individual or organisation

As an organisation.

If responding on behalf of an organisation, please include the name of your organisation

Blueprint for Water, part of Wildlife and Countryside Link.

If you would like your response to be treated as confidential, please explain why

N/A.

Questions:

Has the government identified the most relevant strategic priorities for Ofwat? If not, please provide details of the priorities that should be included.

The Strategic Policy Statement (SPS) offers a unique opportunity for the Government to set out ambitious expectations for OFWAT and the water sector for what should be a challenging, and yet transformational, 2025-2030 price review period (PR24). It should do this whilst also being clear about the government's longer-term priorities for the sector.

We do not think the government has identified the most relevant strategic priorities for the following reasons:

- **Climate change adaptation and mitigation** should be included as a strategic priority. There is no explicit mention of climate change or the climate emergency in the four strategic priorities. We believe it must be one of the overarching strategic priorities of government and should be the lens through which all water management decisions are viewed and assessed (i.e. does this decision help us adapt to climate change and does it help the sector and wider society reach and go beyond net zero emissions). Part 1 Section 2A of the Water Industry Act 1991 which creates the power to set out strategic priorities and objectives for Ofwat notes that the Secretary of State must do so having 'regard to social and environmental matters'; we do not consider that a SPS without climate at its core is compliant with this requirement.
- We do not agree with including 'Driving Markets to Deliver for Customers' as one of only 4 government strategic priorities. We believe the use of markets is an approach or enabler of the other priorities and not a strategic priority in its own right.
- Blueprint for Water support the other three strategic priorities; however, their expectations should be more ambitious.
 - In particular the priority to protect and enhance the environment should in addition include an expectation around mainstreaming the delivery of (high quality) nature-based solutions (NBS) and delivering an ambitious WINEP building on the PR19 investments. Where NBS offer greater benefits than traditional capital investment, such as in raw water protection vs subsequent water treatment, these solutions should become the norm.
 - The priority for a resilient water sector should include investment in increasing ecosystem resilience;
 - The priority to serve and protect customers should include ambition to a faster rollout of (smart) water meters in order to deliver a "fair" water service. In addition, serving customers should also include planning to deliver the benefits to customers that investment in a healthy water environment can deliver, as set out in the 25 Year Environment plan "connecting people with the environment to improve health and wellbeing".

In terms of the wider expectations set out in the draft document we have the following additional comments.

- **Better connection between environmental and regulatory processes** - The SPS should make it clear how Ofwat should regard and treat the Environment Agency WISER document and how it should incorporate its priorities into its own decision-making processes. In the last

review there appeared to be a disconnect between the environmental and economic regulatory processes.

- **A collaborative approach** – The SPS should drive the sector towards a specifically targeted and collaborative approach, with clearly laid out timescales. Such an approach will be instrumental in delivering against priorities such as tackling harm storm overflows and pollution, bringing water supply and demand into a sustainable balance, reducing the deterioration of chalk streams, and delivering holistic solutions to flooding and drainage issues.
- **Support delivery and mainstreaming of nature-based solutions** - The SPS should set an expectation that OFWAT will provide an economic framework in which catchment and nature-based solutions (C&NBS) can be assessed and rewarded over the long term. This should ensure that the economic assessment process can support C&NBS and schemes that can deliver greater value (besides lowest whole life cost) and multiple benefits beyond statutory requirements.
- **A standardised Natural Capital Accounting Approach** - The SPS states that Ofwat should encourage companies to deliver wider environmental benefits in the course of carrying out their functions. To support this, we believe that the SPS should establish a standardised Natural Capital Accounting approach as being central to determining expenditure within both the WINEP and wider Business Plans. Existing cost-benefit assessment processes are typically unable to adequately factor in the non-financial benefits that schemes could deliver, curtailing the contribution that they could make to wider Government priorities such as achieving the ambitions of the 25 Year Environment Plan. Currently, the use of C&NBS and of markets for ecosystem services by water companies remains limited and ad-hoc, precluded by a risk-averse (environmental and economic) regulatory framework, and lack of clear incentives and mechanisms.
- **Greater ambition on per capita consumption** - The 110 l/p/d by 2050 planning assumption for household water use referred to in the SPS was agreed by the National Framework SSG as appropriate in the absence of new positive government policy. However, the Government is now taking forward mandatory water labelling and will publish a roadmap to improve the efficiency of existing and new homes. A target on abstraction is also being created under the Environment Bill's target-setting framework. The SPS must reflect these changes and set a more ambitious target. As a minimum the wording needs to say "at least"; Blueprint for Water is calling for companies to adopt a target of 100 l/p/d by 2050; a level of consumption already achieved across many European countries.
- **A fair water service will require a faster rollout of (smart) water meters** - The strategic priority statement refers to water companies providing a better and fairer service for all. However, currently there are a majority of household customers who pay for water services based on what they actually use whilst a minority pay a fixed amount based on the size of their property. This is unfair. We agree with the Consumer Council for Water's position that "metering is the fairest basis for water services charging" and look to the government to provide a clearer steer that we need to move away from the current two-tier system through a faster rollout of (smart) water meters.
- **A requirement to collaborate on behaviour change campaigns** - We would like a clear steer from the government that it expects Ofwat to require the water companies to collaborate on campaigns to raise awareness and change behaviours on issues of national and local importance that are relevant to the strategic priorities such as water consumption and flushables, and that the sector will evaluate and report back on these campaigns.

- **Relevance to the Retail Price Review** - There is no mention of Ofwat's role in the Retail Price Review process. Given that 30% of supplied water is consumed by businesses served by this market that is an omission. The SPS should make it clear that Ofwat should take into account the SPS when undertaking the Retail Price Review.
- We welcome the narrative around the following areas:
 - Open data sharing
 - The shift towards long-term adaptive planning
 - Expectation for OFWAT to further promote the bioresources market.

Does the strategic policy statement effectively set out government's expectations of Ofwat in supporting delivery of our priorities? If not, please identify where these expectations could be made clearer.

No. When it comes to setting goals for driving the investment needed to tackle the key challenges that the water sector is facing, the SPS falls short of raising the ambition towards a transformational change for the sector. Whilst it is good in terms of high-level statements covering a large number of relevant areas it should be more specific around what government expects to be achieved by the industry by the end of the next investment period in 2030 or in the longer term.

Blueprint supports a level of prioritisation within the SPS. Currently, it is very difficult to tease out what the relative priorities are across the many issues identified (i.e., are some of the areas covered a higher priority than others?). This is in contrast to the [SPS for Ofcom](#), which has at its start three key targets set by Government, and to the [previous SPS for Ofwat](#), which identified key priorities within each overarching area.

This means that crucial decisions on areas and priorities for investment in PR24 across the long list of issues covered in the SPS will sit with Ofwat rather than the Government. Without specificity or prioritisation Government risks companies and Ofwat making different decisions on direction. We saw in PR19 the effect of uncertainty on priorities and expectations which led in part to a record number of companies going through the CMA appeal process.

The final SPS should provide a much clearer indication of what it expects the sector to deliver to meet its short- and longer-term priorities, including by noting specific outcomes. For example:

- Government and Ofwat should challenge the sector to go beyond its "net zero by 2030" commitment by taking action on scope 1,2 and 3 emissions, and to play a leading role in helping wider society reduce emissions (4-5% of UK emissions are from use of the product the sector sells). This will require new ways of working towards a less carbon intensive and more circular economy.
- Water companies should adopt catchment-scale NBS as a matter of course, such as in protecting raw water quality and reducing flood risk to assets and customers, and be able to provide good evidence where these solutions cannot be incorporated.
- The importance of blue spaces to health and wellbeing are increasingly clear, with the water environment now enjoyed by over ten million wild swimmers, anglers, & paddlers annually, meaning that clean waters bring significant benefits to society. As such, Blueprint welcome the expectations on companies "*to significantly reduce the frequency and volume of sewage discharges from storm overflows, so they operate infrequently*" and for the "*overflows that do the most harm or impact on the most sensitive and highest amenity sites to be prioritised*"

first.” However, clearer expectations should be set around how far the sector should go in AMP8 to address Storm Overflows, focusing on those causing the greatest environmental harm. The current statement fails to set out a timeframe for this ambition, creating the risk that action will be deferred to future AMP periods; a clear steer is also needed to ensure that Storm Overflows are considered as part of the wider Drainage and Wastewater Management Planning process, i.e., as part of a more holistic approach to the management of wastewater. Clauses in the Environment Bill currently passing through Parliament will also give a greater steer on the activity expected of companies in this area.

- A target or other expectation on ecosystem resilience would contribute to many of the priorities set out within the SPS.
- An expectation or target calling for 20% biodiversity net gain. Blueprint would welcome such a target in recognition of the reliance of the sector upon a healthy natural environment, and would be pleased to discuss with regulators what this could look like.
- A safe and sustainable circular economy should be embedded into water industry practice.
- Finally, the SPS should also set expectations on areas that will not be appropriate for customer funding but where the sector will be expected to invest directly to deliver improvements. This will counter concerns that increased specificity of the SPS will simply allow companies to deprioritise investment in areas that are not highlighted within the SPS, to the detriment of customers and the environment. We note that there is nothing in the SPS / current framework to stop companies investing in improvements at the expense of shareholders instead of customers, but there is not a clear expectation that they should be doing so, or a steer on which issues should be prioritised for this kind of funding.

Do you consider that this statement to Ofwat is clear and easy to understand? If not, please identify any areas that could be clarified.

Generally, the draft SPS is clear and easy to understand although, as highlighted earlier, without amendments and further detail it is difficult to see how it can be used effectively by Ofwat and the sector to plan for AMP8. Blueprint suggest some overarching and some more specific points of clarification:

As an overarching point, the SPS should make clear its relationship to the WISER document and revised WINEP methodology. Without this, there may be confusion over areas which are within the discretion of Ofwat as opposed to those decisions that are the remit of Government. For example, the welcome focus within the SPS on “Protecting and enhancing the environment” creates a priority for Ofwat but one which is in addition to its existing statutory duties; this may create uncertainty over where and whether environmental decisions rest with Ofwat as economic regulator, or with the Environment Agency.

The following specific points would also benefit from further clarification:

- The final SPS would benefit from the use of clearer language around Needs and Value in the section on a Resilient Water Sector (page 11). In the current draft Ofwat is asked to challenge the companies “*to secure the needs of current and future customers in a way which delivers value to customers, the environment and wider society over the long term*”. In the same section the steer is for delivery “*in a way which offers best value for money over the long term*”

- Resilience and “future needs” should be framed in terms of the needs of customers, the environment and wider society...not just customers as in the current wording.
- The interchangeable use of terms like value, best value and best value for money needs to be far clearer/tighter, especially given the CMA appeal issues in PR19.

Furthermore, Blueprint support the following within the current SPS draft but these could do with being strengthened in order to ensure there is no ambiguity:

- The expectation on water companies to play a **significant** role in achieving the relevant 25 Year Environment Plan outcomes and the relevant requirements set out in the Environment Bill. Blueprint recommend that this refers specifically to policies within the 25 Year plan where Government want water companies to play a significant role.
- Blueprint support the significant increase in N&CBS, however, “where the risks are uncertain” the SPS expects water companies and regulators “to work towards”. This could result in further investigations and pilots rather than mainstreaming of N&CBS. This is further muddled when under the Ofwat expectation it uses more ambiguous wording to “Support an increase in the use of nature-based solutions **where appropriate** and in the interests of the environment and customers.” This directly contradicts the previous statement calling for a “significant increase”. Further clarity is needed to ensure that N&CBS are delivered in the next business round and not simply subject to further investigation and small-scale proposals. As noted previously, Blueprint would expect water companies to adopt catchment scale NBS as a matter of course, and be able to provide good evidence where these solutions cannot be incorporated
- Blueprint supports the expectation that how water companies will improve performance on wastewater will be set out through the drainage and wastewater management plans, however, the SPS should clarify that it expects these proposed improvements to be reflected in Business Plan investment.
- The National Infrastructure Assessment calls for water companies and local authorities to work together to build on their existing plans and take action on local flood risk where this is possible. This should include identifying communities at greatest risk from severe surface water flooding and developing joint plans, including investment requirements, to ensure resilience. These plans should inform the next Price Review and Assessment. Although the current draft supports partnership working, the SPS does not adequately reflect the need to ensure resilience of the communities at greatest risk. There is also no mention within the SPS of surface water flood management. The section on flood resilience should also reflect back upon the expected increase in use of N&CBS.