

Blueprint for Water response: Consultation on Ofwat PR24 draft determinations

28th August 2024

This consultation response is on behalf of Wildlife and Countryside Link (Link), a coalition bringing together over 80 organisations to campaign for the natural world.

This response is supported by Angling Trust, Bat Conservation Trust, Campaign for National Parks, Freshwater Habitats Trust, Friends of the Earth, Institute of Fisheries Management, Marine Conservation Society, National Trust, Paddle UK, River Action, Surfers Against Sewage, The Rivers Trust, The Wildlife Trusts, Waterwise, WWT, and ZSL.

Summary

Blueprint for Water welcomes this opportunity to respond to Ofwat's draft determinations for PR24.

The 2025-2030 business planning period will take us to legal deadlines to restore waters to good health by 2027, and to halt the decline of nature by 2030. Ofwat must ensure that the water industry proactively contributes to the delivery of these targets, driving a step change in ambition, and ensuring that water industry investment delivers the maximum possible environmental benefit.

We welcome the £35 billion enhancement investment, much of which is driven by a need to improve the environment, including approximately £20 billion to meet WINEP obligations. However, we are concerned that opportunities to further maximise the efficiency and impact of this spend have been missed in Ofwat's draft decision. For example, that only £2.2bn of the total £88bn investment will go towards multi-benefit catchment and nature-based solutions. We are also concerned that some biodiversity-critical work has been dropped from company plans.

Further detail is required from Ofwat and water companies to fully clarify what the environmental outcomes of this investment will be. For example, in terms of progress towards

targets under the Environment Act, or the Reasons for Not Achieving Good Status (RNAGS) under the Water Framework Directive Regulations addressed by this spend. Ofwat must also clarify how they have determined that the allowance for water efficiency measures is sufficient for companies to deliver their Water Resources Management Plan (WRMP) metering ambition and related leakage and per capita consumption (PCC) targets.

To ensure that this investment package delivers the best possible outcomes for the environment, before Final Determination we recommend that Ofwat:

- In collaboration with the Environment Agency, issue a stronger steer to water companies to revisit WINEP proposals and divert to delivery via catchment and nature-based solutions wherever possible, under a ‘nature first’ approach.
- Require all water companies to publish within their Business Plan a summary of expected environmental outcomes, going beyond merely spend. Ofwat should clarify what the expected contribution of AMP8 will be towards the achievement of environmental targets, for example under the Environment Act.
- Instruct water companies to revisit biodiversity-critical schemes that have been “phased”; any delivery integral to meeting Government targets but earmarked for delay until AMP9 must be restored to AMP8.
- Begin work now to unlock greater environmental ambition within AMP8 and ahead of PR29. This should include joint working with the Environment Agency to remove barriers to the greater use and uptake of catchment and nature-based solutions.

In autumn 2024, Blueprint for Water will publish our scorecard for the PR24 Business Plans, “Achieving Environmental Ambitions”. We hope that our reflections on the draft Business Plans will help to further highlight positive changes that could be made before final determination, on into the delivery phase itself, and looking ahead to PR29.

We would be pleased to discuss any of the points in this consultation response, and our PR24 scorecard, further.

Questions

Q. What you think about our draft decisions?

We welcome the £35bn enhancement investment approved in Ofwat's draft decisions, including approximately £20bn to meet obligations under the WINEP. This represents a significant uplift in environmental investment that is sorely needed – as evidenced by the current poor state of the water environment.

However, further clarification is required to understand the expected environmental outcome of this record investment package. Ofwat's 'Expenditure Allowances' document states that this spend should result in 13,946km of rivers and 10,767km² of area being enhanced or protected in England. Further detail is required, including to define what is meant by 'enhanced' and 'protected', and what environmental outcomes are expected as a result.

For example, how many Reasons for Not Achieving Good Status (RNAGS) under the Water Framework Directive (WFD) Regulations will be resolved by this spend, and how many WFD waterbodies will see their status improved? To what extent will this spend bring us towards achieving the 2027 target for waters to reach Good Ecological Status, or the water targets under the Environment Act and the EIP? Expected environmental outcomes beyond rivers, across the whole freshwater landscape, should also be clarified.

Furthermore, under Section 245 of the Levelling Up and Regeneration Act 2023, both water companies (as statutory undertakers) and Ofwat (as a relevant public body) have a legal duty to seek to further the purposes of National Parks, the Broads and Areas of Outstanding Natural Beauty (now called National Landscape) in every decision that affects these areas. For National Parks, this includes furthering the conservation and enhancement of wildlife and natural beauty, as well as public enjoyment. Neither the business plan documents themselves, nor Ofwat's draft determinations, show evidence of efforts to fulfil this duty. Clarification is urgently required.

Ofwat's final determination should summarise the expected contribution AMP8 will make to furthering the purposes of these Protected Landscapes, demonstrating compliance with this important new legal duty.

Environmental improvements will ultimately depend on delivery. Annual water company performance reports for PR19¹ have consistently shown that the industry is not on track to meet performance commitment levels, and that more than half of companies have underspent their enhancement allowances. Ofwat must ensure that water company delivery is comprehensively monitored in PR24, challenging companies early if performance is not on track, and ensuring that enforcement action is swift if legal obligations are breached. Ofwat must also maintain oversight of potential barriers to delivery, such as delays in permit processing or supply chain bottlenecks, and must work with regulators and Government to ensure that this does not jeopardise delivery of environmental improvements.

We agree that customers must not be made to pay twice, and welcome that Ofwat's draft decision will protect customers where companies have already been funded to deliver, and to comply with existing permit obligations. We are also supportive of pushing water companies to spend efficiently, provided that these efficiencies are realistic. For example, we are aware of at least one company having efficiency cuts applied on the basis that it should be cheaper to deliver schemes internally, despite their evidence demonstrating that delivery by external partner organisations is more cost-effective.

With the application of efficiency factor or deep/shallow dive cuts, followed by frontier shift reductions, the difference between company proposals and indicative awards at draft determination in some cases is vast. Spend in key environmental areas is challenged; for example, with chemicals investigations facing cuts of around 20% and WFD delivery budget cuts approaching 50%.

It is for the companies to respond with additional evidence to challenge assumptions that they believe to be incorrect. However, as environmental eNGOs, we wish to highlight the significant risk that budgetary squeeze will lead to corner-cutting, as well as to the loss of wider benefits which may have been built into schemes but are elective and therefore easiest to cut. This approach will not deliver the best outcomes for customers or for nature. Ofwat must ensure that it gives companies a strong steer on the form of evidence that is required to ensure that appropriate costs are allowed for schemes which deliver such multiple benefits. Further to these points, Blueprint for Water is concerned that opportunities to maximise the efficiency and impact of this PR24 investment have been missed in Ofwat's draft decision, and that some biodiversity-critical schemes have been dropped from plans. We outline these concerns in

¹ For example, the Annual Performance Report for 2022-2023: [Water Company Performance Report 2022-23 - Ofwat](#)

further detail below.

Enhancing Nature and Biodiversity

It is welcome that Ofwat have not challenged the need for company proposals under WINEP enhancement expenditure ‘where requirements are needed to comply with statutory obligations’. We understand that this means Ofwat is making allowances for all storm overflow schemes, all nutrients schemes, plus funding for the wastewater related Advanced WINEP (A-WINEP) proposals. Within these allowances, however, it is important that sufficient funding is allocated to ensure high-quality delivery, as set out above.

Furthermore, we are concerned that some biodiversity-critical schemes categorised as ‘statutory plus’ have not been approved, or indeed were not included within company draft plans in the first place, due to a steer issued to the industry in 2023 to explore “phasing” non-statutory environmental projects to future price review periods.

As we discuss in a later section, it has proven impossible for stakeholders to fully understand the implications of this phasing exercise, as details have not been shared. For example, to what extent does this phasing of ‘statutory plus’ biodiversity schemes impact achievement of WFD and EIP targets?

Nature-based solutions

In the ‘Expenditure Allowances’ document, Ofwat states that “PR24 will see a step increase in the use of catchment and nature-based solutions from PR19.” We welcome the inclusion of catchment and nature-based solutions (C&NBS) within company plans, and within the draft determinations. However, £2bn out of £35bn for enhancement expenditure – or the overall £88bn investment package - going towards C&NBS does not constitute a step change in ambition, and does not go far enough.

Both Defra’s Strategic Policy Statement to Ofwat and Ofwat’s PR24 methodology expressed strong support for the use of C&NBS, but this has not been realised in the company plans, nor in the draft determinations. This is a significant missed opportunity to maximise the environmental and social benefits of this record investment package.

We are concerned that Ofwat has applied generic efficiencies in their assessment of nature-based solutions, based on high level uncertainties, making it easier to revert to traditional grey

infrastructure options that appear to have greater certainty, but which are subject to pressures on prices, skilled labour and other squeezes on infrastructure spending.

Catchment and nature-based solutions can address multiple stressors acting on the water environment effectively and efficiently, whilst also delivering wider benefits for people and wildlife. These approaches may often be cheaper than grey solutions, and create opportunities for blended finance that further increase value for money.² Increased uptake of catchment and nature-based solutions will be critical to ensure that the PR24 investment package delivers the maximum environmental benefit. This opportunity is currently missed in Ofwat's draft decision.

There will likely be further repercussions due to the lack of C&NBS. For example, a reduction in partnership funding available from water companies, putting greater pressure on the traditional supply chain. Reliance on traditional grey solutions will also result in more carbon-intensive delivery, contrary to the industry's commitment to reach net zero.

It is welcome that Price Control Deliverables (PCDs) have been set 'flexibly', so that companies can 'choose to deliver more NBS' in this plan period. However, as Ofwat state, the water industry has previously been 'encouraged' to increase uptake of C&NBS via the PR24 methodology; this encouragement has not led to sufficient inclusion of C&NBS, and because these approaches are atypical of traditional operational and delivery frameworks, barriers to their uptake remain. These include requirements for feasibility investigations and evidence up-front that are more stringent than for grey solutions, insufficient incorporation of natural capital, fishery and amenity into value assessments, difficulties with permitting, and restrictions on companies based on prior underperformance.³

Ahead of Final Determination, Ofwat and the Environment Agency must jointly issue stronger steer to water companies to revisit their WINEP proposals and divert to delivery via C&NBS wherever possible. The regulators must also commit to unpicking barriers to the uptake of NBS, to actively facilitate their delivery in AMP8, and future Price Review periods including PR29. We discuss this further in a later section of our response.

² [WCL Briefing Nature Based Solutions Water December 2023.pdf](#)

³ For example, Environment Agency policy restricts the use of Catchment Permitting and Catchment Nutrient Balancing, such that only companies rated 3* and above can make use of these approaches.

Wastewater and Storm Overflows

We welcome Ofwat's decision to push water companies to achieve more ambitious Storm Overflow spill reduction targets. We are also pleased to see the majority of companies adopting a target for zero serious pollution incidents, and welcome that Ofwat's draft decisions are supportive of this target. However, it is disappointing that of the £8.5bn allowed for addressing spills from storm overflows, just £1.6bn of this is for green solutions – including green elements of hybrid solutions, and £499mn for green-only solutions such as wetlands. We would like to see a significantly greater proportion of this spend going towards green solutions in Ofwat's Final Determination.

Furthermore, whilst the draft determination document sets out that this investment will improve 2533 storm overflows and remove over 176,000 spills by 2029, the expected environmental outcomes of this are not clarified. For example, what proportion of Reasons for Not Achieving Good Status (RNAGS) will this address? Will interim targets under the Storm Overflows Discharge Reduction Plan (SODRP) for these improvements to be delivered at 'high priority' nature sites – including SSSIs, Ramsar sites, and chalk streams – and designated bathing water sites be met?

A similar trend is apparent for proposed and allowed spend on nutrient reduction.

Of the £5.9bn allowed in Ofwat's draft determinations for investment in nutrient reduction, just £250mn of this spend is for catchment and nature-based solutions. This is £65mn less than the requested expenditure. Whilst the document states that this investment will 'result in achieving over 900 WINEP/NEP PR24 phosphorus targets', it does not clarify what the environmental outcomes of this will be, or what progress this will make towards legislative targets such as under the Environment Act.

There are positive examples of green spend related to wastewater within the draft determination. For example, the decision to allow £500 million of catchment solution expenditure to improve storm overflows for Northumbrian Water, and to allow the entirety of United Utilities' proposal for £231mn investment to improve storm overflows, through storage avoided via rainwater gardens, swales, permeable paving and natural flood risk management.

Ofwat should systematically assemble such examples and further case studies of industry best practice regarding the use and uptake of nature-based solutions, to be shared across the sector in order to encourage further uptake.

Water Resources and Efficiency

It is welcome that Ofwat's draft decisions confirm £226mn investment for water efficiency measures, and £100mn for the Water Efficiency Fund. This amounts to the largest ever spend on water efficiency.

£1.6bn for the installation of 10.3 million smart meters is also welcome. However, Ofwat's draft decisions have reduced funding for smart meter installation for some companies, in some cases (Wessex Water and Affinity Water) by over 50%. Smart meters are a critical tool to reduce water demand. It is unclear to what extent this reduction in funding risks undermining delivery of Water Resources Management Plans, and achievement of the water demand target under the Environment Act.

Ofwat must share further detail setting out how they have determined that this allowance is 'sufficient for companies to deliver their WRMP metering ambition and related leakage and PCC targets', as stated in the draft determination doc.

Despite the welcome uplift in investment in water resources and efficiency, there remains a significant imbalance in spending between this and wastewater within the WINEP. The threats of water scarcity and drought are increasing with climate change and population growth, with rare and threatened habitats such as chalk streams likely to be the first to see the impact.⁴Failing to adequately invest in these areas will only exacerbate these impacts, undermining both industry and environmental resilience, and the delivery of environmental improvements.

Net zero and climate change

As discussed, we are concerned that the small proportion of investment afforded to C&NBS means that the PR24 business plans will be carbon-intensive to deliver. We are also concerned that there have been particularly large disallowances against companies' proposals relating to Net Zero. Before Final Determination, Ofwat should publish a carbon budget for PR24.

It is concerning that despite a total of £188mn requested across eight companies for power and flood resilience, no specific enhancement allowance has been made in the draft determination

⁴ [WCL_Response_PAC_Inquiry_Extreme_Weather_Resilience_Feb_2024.pdf](#)

due to companies being unable to provide sufficiently robust justification – ‘particularly in relation to increasing climatic risks’.

It is welcome that Ofwat has instead allowed a sector wide enhancement uplift of over £300mn for companies to prioritise their biggest climate related risks, in recognition that a ‘lack of robust justification from companies does not remove the risk.’ However, this lack of robust justification from companies is a cause for concern, and suggests that climate risks may not be sufficiently understood or fully incorporated into business plans. Ahead of Final Determination, Ofwat must work with companies, and with the Environment Agency, to develop their proposals in this area, to ensure that climate risks are accounted for, and that this £300mn allowance is adequate.

In the draft determinations document, Ofwat identifies nature-based solutions as ‘areas of net zero enhancement funding which could lead to a step change in performance’. It is therefore disappointing that only one nature-based catchment project has been allowed through net zero enhancement challenge funding, costing £1mn. A further £316mn has been allowed for 13 ‘grey’ wastewater projects. This approach risks storing up problems, rather than anticipating and avoiding them.

Q. What should we consider in our final decisions?

Improve transparency of information

Before Final Determination, Ofwat must direct the water industry to further clarify what the environmental outcomes of the proposed business plan investment will be.

In particular, Ofwat must determine what progress the approved investment will deliver towards the 2027 target for waterbodies to reach Good Status, and the water targets under the Environment Act, including to halt the decline of nature by 2030.

Ofwat should require all companies to include a summary page within their business plan, clearly setting out the environmental outcomes that the plan will deliver, going beyond merely spend.

This summary page should include:

- The proportion of ‘reasons for not achieving good status’ (RNAGS) attributed to the company that will be tackled.

- The contribution that will be made towards meeting wastewater and water use targets under the Environment Act, and the targets under the Storm Overflows Discharge Reduction Plan. This should be communicated using the same metrics as within the targets themselves, to allow comparison and tracking of progress.
- An explanation of how and where the company will report on progress towards the environmental outcomes set out within the Business Plan. Ofwat must review and communicate this progress through the annual Water Company Performance Report.

Further to this, Ofwat should collate and publish factual datasets to clarify water company ambition across Outcome Delivery Incentives (ODIs) and Performance Commitments (PCs). This should also detail the level of spending per head in core areas: for example, water efficiency, preventing pollution, and nature-based solutions. Ofwat should also publish a carbon budget for the business plans.

Revisit phased biodiversity-critical schemes

In 2023, Government directed water companies to explore “phasing” non-statutory environmental projects to future price review periods. However, the results and therefore the implications of this phasing exercise have not been made public or otherwise shared with stakeholders. This means that it is impossible to scrutinise any trade-offs that have been made, and to understand the impact that this will have on nature’s recovery.

We understand that work relating to biodiversity drivers that is categorised as ‘statutory plus’ will have been stripped from company plans due to this steer. For example, action that contributes to meeting or maintaining favourable condition targets for Sites of Special Scientific Interest, or costs for Flagship chalk stream restoration programmes, which use water company investment as a catalyst for wider partnership delivery. The latter may not have been put forward wherever there was not a statutory driver identified, despite local stakeholder support and the recognised biodiversity importance of England’s chalk rivers. Such cuts will very likely have implications for the achievement of environmental targets under the EIP. Ofwat must instruct water companies to revisit biodiversity-critical schemes that have been phased, and ensure that any delivery integral to meeting Government targets and ambitions is restored to AMP8.

Ofwat must publish details of this process before Final Determination.

Unlock and facilitate greater uptake of nature-based solutions

Ofwat must work with the Environment Agency to unpick barriers to greater uptake of nature-based solutions in the Business Plans. As discussed, whilst the inclusion of ‘flexibility’ to allow companies to choose to deliver more NBS is welcome, without further action from Ofwat and the Environment Agency, barriers to their uptake and use will remain.

Before Final Determination, Ofwat and the Environment Agency must jointly issue stronger steer to water companies to revisit WINEP proposals and divert to delivery via C&NBS wherever possible. This steer must also address possible water company concerns that departing from original plans could accrue penalties. For example, due to late delivery, given that need for adequate stakeholder engagement means that C&NBS can sometimes take longer to develop and implement. Companies must be supported by the regulator to take these green approaches.

The regulators must also commit to unpicking barriers and actively facilitating these green approaches. For example, reviewing current Environment Agency policy to allow only companies rated 3* and above within the Environmental Performance Assessment to use Catchment Permitting and Catchment Nutrient Balancing approaches. Whilst this policy is understandable, in practice, it means that underperforming companies are unable to make use of progressive opportunities to improve their performance.

Q. Is there anything else you would like to bring to our attention about the water companies’ plans?

It is currently unclear what monitoring requirements there are for Emergency Overflows (EOs) within the water company plans. We would welcome further clarification on this from Ofwat and water companies.

Currently, less than 10% of EOs are monitored. However, data from those that are monitored shows that EOs are often being used on a regular basis. It is vital that 100% are monitored, to ensure that water companies can be held accountable for using EOs to discharge untreated wastewater in circumstances that cannot be evidenced as a genuine emergency.

Conclusion: Action needed ahead of PR29

Work must begin now to resolve challenges that have been identified within PR24, to ensure that these challenges do not continue to prevent progress and ambition within AMP8, or in PR29.

Ofwat and the Environment Agency must proactively and collaboratively unpick barriers to the uptake of C&NBS well ahead of PR29. In addition to revisiting policy regarding restrictions on CNB and Catchment Permitting, Ofwat and the Environment Agency should adopt ambitious joint targets for a higher proportion of spend to be delivered through C&NBS. These should include a target for at least 10% of overall enhancement spending being dedicated to nature-based solutions.

This should be accompanied by a 'nature first' requirement, for water companies to always explore C&NBS options first before progressing with more traditional grey solutions, and an explicit Performance Commitment on delivery of nature-based solutions in PR29. Ofwat must also work with companies to improve how 'best value' assessments are calculated, better incorporating natural capital accounting into this process to ensure that environmental and social benefits are fully captured.

The regulators must begin work now to address any evidence gaps that would prevent this, for example due to difficulties with permits for C&NBS. Blueprint for Water stands ready to assist with sharing evidence and case studies.

Finally, opportunities for meaningful stakeholder engagement and scrutiny must be increased ahead of PR29. For example, the WINEP should be published, and the WINEP evaluation made available to all stakeholders.

Wildlife and Countryside Link (Link) is the largest nature coalition in England, bringing together 84 organisations to protect the natural world. Wildlife and Countryside Link is a registered charity number 1107460 and a company limited by guarantee registered in England and Wales number 3889519.

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This response is supported by the following organisations:

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