

Public Accounts Committee  
House of Commons  
*By email*

14<sup>th</sup> November 2023

Dear members of the Public Accounts Committee,

**Public Accounts Committee Call for Evidence: ‘Work of Ofwat’**

I am writing as the Chair of Blueprint for Water, part of Wildlife and Countryside Link, to share thoughts on the call for evidence into the ‘Work of Ofwat’.<sup>1</sup>

Blueprint for Water represents over 20 organisations working towards the protection and restoration of England’s freshwater environment. We provided evidence for the 2022 Industry and Regulators Committee Inquiry into Ofwat, and are preparing evidence to submit to the 2023 inquiry into ‘UK Regulators’.<sup>2</sup>

We have engaged extensively both with Ofwat and the water industry to advocate for an environmentally transformative Price Review in 2024. However, despite some improvements, we remain concerned that PR24 will not sufficiently drive the outcomes that our waters and wildlife so desperately need.

**Ensuring a financially resilient market, a fair deal for customers, and safeguarding the environment**

The state of the water environment is critical. 0% of waterbodies are considered to be in good overall health, with both people and nature suffering the synergistic impacts of agricultural run-off, wastewater pollution, toxic chemical cocktails, and unsustainable abstraction. To address this, Government, Ofwat, and the water industry must together deliver a transformative Price Review in 2024, with a step-change in environmental ambition. It is entirely possible – and necessary – to achieve this, whilst also protecting

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<sup>1</sup> [Wildlife and Countryside Link](#) is coalition of 80 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

<sup>2</sup> Our response to the 2022 Industry and Regulators Committee Inquiry into Ofwat can be found here:

[https://www.wcl.org.uk/docs/Blueprint\\_for\\_Water\\_Ofwat\\_Inquiry\\_Response\\_24\\_06\\_2022.pdf](https://www.wcl.org.uk/docs/Blueprint_for_Water_Ofwat_Inquiry_Response_24_06_2022.pdf)

vulnerable customers and making good financial sense. The resilience of the water industry is fundamentally interconnected with that of the natural environment.<sup>3</sup>

Yet in summer 2023, a deeply concerning steer was issued from the then-Secretary of State asking water companies to explore the deferral of many environmental projects under the Water Industry National Environment Programme until after 2029, and the use of more optimistic climate change scenarios in the Water Resources Management Plans.<sup>4 5</sup> Under the steer, all non-statutory environmental action is now at risk of being stripped from business plans, essentially capping environmental ambition. This does not represent a fair deal for customers, businesses, or the environment.

The steer risks projects that make use of catchment and nature-based solutions (C&NBS) to tackle issues such as water quality being cut from business plans entirely. Given that draft plans and the WINEP are already dominated by traditional, 'grey' solutions that rely on expensive and carbon-intensive concrete, this is particularly concerning.<sup>6</sup> Though Ofwat has made improvements to the Price Review through implementing a 'best value' approach, rather than considering financial cost alone, this still does not adequately capture the full extent of environmental and social costs and benefits. Without embedding a natural capital approach at the heart of the Price Review process, Ofwat will continue to undervalue the potential of C&NBS, and barriers to their uptake and use will remain.

Greater use of C&NBS by the water industry – driven and facilitated by Ofwat – will be key to ensuring a financially resilient market, a fair deal for customers, and the protection and enhancement of the environment. C&NBS are often cheaper to deliver than traditional engineered solutions, and can deliver multiple benefits for people and nature. For example, wetland creation to improve water quality will also have benefits for carbon storage, wildlife habitat, natural flood management, and the provision of quality blue spaces for people to access.<sup>7</sup>

We strongly disagree with recent Government proposals to extend the Growth Duty to Ofwat. As an economic regulator, Ofwat already gives considerable attention to economic costs and benefits in decision making, and struggles to adequately capture and consider environmental costs and benefits. Extending the Growth Duty will create further complexity and confusion, increasing a false sense of conflict between the regulators' duty to growth, cost to customers, and the environment. It would also weigh the balance too heavily toward economic costs, at the expense of environmental costs, benefits and needs, and miss cost-effective opportunities for green growth.<sup>8</sup>

Rather than extend the Growth Duty, Government should instead set new legal duties for regulatory bodies to conserve, enhance and restore the natural environment in line with Environment Act targets.

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<sup>3</sup> More detail on Blueprint for Water's manifesto for a transformative Price Review in 2024:

[https://www.wcl.org.uk/docs/assets/uploads/WCL\\_Blueprint\\_for\\_Water\\_PR24\\_Environmental\\_Manifesto\\_September\\_2021.pdf](https://www.wcl.org.uk/docs/assets/uploads/WCL_Blueprint_for_Water_PR24_Environmental_Manifesto_September_2021.pdf)

<sup>4</sup> [https://www.wcl.org.uk/docs/WCL\\_Letter\\_Secretary\\_of\\_State\\_PR24\\_Ambition\\_10\\_08\\_2023.pdf](https://www.wcl.org.uk/docs/WCL_Letter_Secretary_of_State_PR24_Ambition_10_08_2023.pdf)

<sup>5</sup> [Water Firms Urged to Save Monday by Using Low Climate Change Scenario](#)

<sup>6</sup> [https://www.wcl.org.uk/docs/WCL\\_Blueprint\\_Ofwat\\_Letter\\_Transformational\\_Price\\_Review\\_31\\_05\\_2023.pdf](https://www.wcl.org.uk/docs/WCL_Blueprint_Ofwat_Letter_Transformational_Price_Review_31_05_2023.pdf)

<sup>7</sup> <https://www.wwt.org.uk/uploads/documents/2023-07-31/wwt-water-quality-route-map.pdf>

<sup>8</sup> For more detail, see our response to the August 2023 consultation:

[https://www.wcl.org.uk/docs/WCL\\_Response\\_Growth\\_Duty\\_Extension\\_Consultation\\_17\\_08\\_2023.pdf](https://www.wcl.org.uk/docs/WCL_Response_Growth_Duty_Extension_Consultation_17_08_2023.pdf)

A green growth duty for Ofwat, to contribute to growth through conserving, enhancing and restoring natural capital, would benefit not only environmental and economic resilience, but also the customers whom Ofwat seeks to protect.<sup>9</sup>

## Supporting vulnerable customers with bill rises

Water has never been higher on the public agenda, and there is a high willingness to pay from consumers to tackle pollution and improve water quality. Through previous Price Reviews Ofwat has been focused too heavily on keeping water bills down, at the expense of promoting sufficient investment in water infrastructure and environmental resilience. Cutting back on essential environmental investment now would be a completely false economy; delaying improvements to infrastructure, for example, will simply increase the cost in the long-term.

It is important that consumer money is spent effectively and efficiently, and that consumers can trust the water industry to deliver their social and environmental obligations.

It is also important that vulnerable customers are protected from rising water bills. In addition to social tariffs already offered by water companies to support vulnerable customers, Government and Ofwat should support the implementation of a universal social tariff to ensure that the necessary support is available throughout the country.

## Enforcing regulation

The environmental performance of the water industry continues to be poor, and recent assessments published by Ofwat demonstrate that the industry is not on track to meet key targets, continues to underspend on enhancement programmes, and is failing to demonstrate how performance related pay decisions are adequately reflecting environmental performance.<sup>10 11</sup>

New powers afforded to Ofwat under the Environment Act to amend company licenses are a welcome addition to the regulatory toolkit; we were pleased to see Ofwat exercising its new power with regards dividend policy and would expect to see these powers used further in PR24. However, it is clear that a stronger approach to regulating the water industry is required. Ofwat must work more effectively in collaboration with the Environment Agency to regulate the water industry, both in taking stronger enforcement action when obligations are not delivered, and in terms of supporting the industry to deliver the best possible environmental outcomes – for example by facilitating the use of nature-based solutions so that companies can deliver enhanced outcomes for the environment and for customers.

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<sup>9</sup> For more detail on our proposal for a green growth duty:

[https://www.wcl.org.uk/docs/WCL\\_Response\\_Growth\\_Duty\\_Extension\\_Consultation\\_17\\_08\\_2023.pdf](https://www.wcl.org.uk/docs/WCL_Response_Growth_Duty_Extension_Consultation_17_08_2023.pdf)

<sup>10</sup> <https://www.ofwat.gov.uk/publication/water-company-performance-report-2022-23/>

<sup>11</sup> <https://www.ofwat.gov.uk/ofwat-sets-out-details-on-crack-down-on-exec-pay/#:~:text=Ofwat%20has%20published%20its%20assessment,environment%2C%20and%20overall%20company%20performance.>

In addition to this response, Blueprint for Water is also gathering evidence to submit to the Industry and Regulators Committee Inquiry into 'UK Regulators'. Given the overlap in scope and concerns raised, we would also be pleased to share with you our response to this Industry and Regulators inquiry. We will share this via email on 1<sup>st</sup> December 2023.

We would be pleased to discuss any of these points further.

Many thanks, and kind regards,



Ali Morse  
Water Policy Manager, The Wildlife Trusts  
Chair, Blueprint for Water