



Sustainability First – Fair for the Future Project roundtable, 4th February 2022

We held a roundtable earlier this year to discuss the following: How can we ensure that Defra’s Strategic Policy Statement for Ofwat is translated into practice to support the ambitions of the 25 Year Environment Plan and a more sustainable water sector?

Top themes from roundtable

Overall the Strategic Policy Statement (SPS) was seen as an improvement on 2017, and is more specific (though some consider it not specific enough).

- **Context of SPS:** It needs to be seen alongside wider government initiatives, eg: Net Zero Strategy, nature recovery etc
- **Trade-offs / priorities:** Addressing these is partly around getting the culture right (and not only in Ofwat, but more broadly – see below).
- **Local nature-based solutions:** Important in light of the Environment Act. Community engagement/multi-party involvement is essential.
- **Coordination and governance:** Need to connect different programmes together – so all players can see how topics join up, eg: water quality, land management and flood defences. Requires changes to policy rules (by Gov / HMT / Defra/EA/ NE - is this a controlling mind? And changes to operational arrangement are required. We need greater clarity on who is in charge and how this is reflected in governance (local, regional, national). Various operational models/proposals:
 - Systems operator(s)
 - Mayoral Combined Authorities – Regional leadership
 - Local Nature Recovery Strategies with catchment-based approach – Companies, and others must work together. This could also help deal with trade-offs at local level.
- **Collaboration:** Collaborative work can spread risk but fair share of risk and reward is key. Collaboration needs to be early on and through long-term partnerships. Can be more difficult in some contexts (eg cities).
- **Scale:** How to make smaller projects viable on a larger scale to benefit multiple parties/multiple outcomes? What funding and supply chain do you need to get there?
- **Fairness and risk:** There are differences between risk and uncertainty – there are mechanisms to address this. Co funding / long-term funding can help. Need to bring together funding to de-risk projects. Polluters should pay. Spreading risk can also help reduce overall risk.
- **Outcomes** - Need better ways of assessing, monitoring and incentivising impacts and outcomes. Better use of data could help here.
- **Need flexibility / agility:** But certainty between price reviews.
- **Trust** – Important for customers, wider stakeholders and governance processes.
- **Culture:** Getting culture right can help within companies and across sectors.
- **Engagement:** Need to understand customers better. Customers not all in same place.

Context/Timeframe

SPS comes into effect 40 days from 2/2/22. Once published Ofwat (not EA) legally bound to document.

Overview and Update

Martin Hurst, Sustainability First:

- Lack of political steer has been problematic in the past.
- New SPS is **clearer and long-term** angle is welcome.
- Nature-based solutions are positive. It reflects most vital part of the Environment Act.
- This SPS would be a failure if the choice were protecting customer bills or spending more money on the environment. Need more **investment AND fundamentally changing the sector**, including regulators, voluntary sector, supply chain, companies.
- **Regional operation** management might be right approach.
- Need to rethink **how we view customers**.

Other comments

- Key words are: **transform and enhance**; previously it was cheap and resilient.
- SPS emphasis: protect the environment and prevent use of storm overflows.
- SPS is a foundation for water sector to take **ambitious action**. Not a ceiling. WINEP, Water Industry Strategic Environmental Requirements, DWMPs, WRMPs, Environment Act powers are routes to be more specific.
- Actions flowing out of the SPS are to be led by regulators and UKRN. Some decisions are political and are for Ministers.

Case studies

Norfolk wetland: Restoring wetland in North Norfolk, the chalk river Ingol, Anglian Water

- How to replicate this model?_This inclusive approach should be the default not the exception. It allowed for social and environmental capital building and biodiversity.
 - Environment Agency's flexible approach to permits enabled risk sharing/lowered costs.
 - Collaboration: early local community/authority collaboration changed company thinking (not standard supply chain). It was a diverse and agile partnership.
- Scaling up requires more relationships like this. Need to overcome disparities in size, culture and processes.
- Initiatives like this require ongoing maintenance, eg: of the facility; habitat; NGO relationships.

Somerset Catchment Market, Wessex Water

- Access to capital isn't the problem. Regulation requires well designed incentives that establish a level playing field, focused on outcomes not inputs/outputs, involving multiple players with greater clarity around who is responsible for which outcome and when.
- We have a strategic steer from Ofwat, but Environment Agency critical in implementing environmental standards.
- Need to translate long term Environment Agency targets into local recovery targets

Other themes:

Resilient Customer Strategy

- Company purpose and customer behaviour: starting point and primary driver of strategy. Need to help customers (businesses and households) be aware and better informed.
- As a firm and industry water firms need to take customers on a journey with us.

Future Catchment Based Approaches

- Greater vision needed and catchment monitoring scaled up and made nation-wide. Five year planning cycles too short.

- Huge number of strategies/consultations; unclear governance.
- Polluters not held to account especially in agriculture - a real problem. Work in one area undermines work in another.

Key themes raised in discussions/reflections

Regulatory and financial risk:

- Not so much shift in the quantum of investment but '**how do you spend that money wisely**'.
- How to invest wisely given **uncertainty** (are we setting the right outcomes).
- Access to capital not the issue but **regulatory framework**. How to have value for multiple parties and apply regulation flexibly. The EA needs to set water quality as outcome.
- We have had nature-based solutions in the past which have withered because of the **regulatory risk burden** i.e. where the landowner or Rivers Trust is unable to take care of the site's risks long term. Co-funding can diminish risk.
- References to net zero are minimal.
- Enhancement and addressing pollution will require **huge investment** for more than 5 years – nearer 25 yrs required.
- Everyone obsessed about price review. Consumer policy increasingly outside price review.

Cultural shift, need for trust:

- Appropriate culture is an amazing enabler for all these challenges but not something the sector seeks to measure. Companies who lead and share could be rewarded.
- Currently incentives encourage the wrong (behaviour).
- Need a "plastics moment" for water – considering the impact of water on the environment.
- The move towards ESG could be a focus for culture change.

Local stakeholders/local nature based solutions:

- Culture of collaboration needed, (firms/NGOs/regulators).
- Need to understand customer behaviour. Collective industry campaigns.

Resilience/customer engagement:

- Customer concerns about the environment vary – need better understanding of customers.
- Water firms don't have legitimacy in engagement. Need to accentuate positive and avoid excessive bureaucracy.

Holistic approach/scaling up:

- Need to share money and knowledge for a common plan. To the public, different sectors and regulation are disconnected. Need a common plan for delivery.
- Need longer-term funding, eg no funding for SUDs beyond current AMP.

Further reading: Frontier Economics report on Outcome-based Environmental Regulation

<https://www.frontier-economics.com/uk/en/news-and-articles/news/news-article-i8893-making-the-case-for-outcomes-based-environmental-regulation-in-the-water-sector/>