GETTING WHAT YOU PAY FOR - A water system that delivers for customers, communities, the environment and investors

The future of the water sector: getting record levels of investment into water, and ensuring it is used fairly and to best effect.

EVENT REPORT

A summit from INDEPEN

THE WATER REPORT
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SOCIAL CONTRACT
SUMMIT

29 FEBRUARY – RSA HOUSE, LONDON

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FACING THE FUTURE

Our Summit on the future of the water sector revealed the challenges are enormous, but there is hopeful consensus on the need for change.

On 29 February 2024, Indepen and The Water Report hosted a summit: 'Getting what you pay for – a water system that delivers for customers, communities, the environment and investors.' The idea was to bring the sector together – ahead of the PR24 determinations and general election, and against the backdrop of public dismay – to articulate the challenges water is facing, and kick-start new thinking on what to do about them.

As things stand, in October the water companies put forward bumper spending plans for 2025-30; a super-sized fix for dirty rivers, ageing assets, dying nature and climate pressures – offset by pledges of much more help for those who will struggle to pay the c30% bill increase resulting. This may well be a 'best foot forward' position under the current framework – but it hinges on major uncertainties: customer willingness to pay; investor willingness to provide finance; and finding a sufficient number of people willing to work in or with the sector to deliver on the ground. Nor will it address all the problems or squeeze the very best value out of every pound committed.

The summit sought an honest and constructive conversation about what needs to happen to secure critical support from key stakeholders – but also, whether there is a better alternative future.

WHAT'S THE PROBLEM?

The Summit's morning chair, Times Radio presenter Aasmah Mir, shared that as far as water is concerned, her listeners understand it is complex, but only see problems – "They don't understand why they need to pay more, when all they hear about, every week on broadcast media, is people getting sick when they're trying to swim." And therein lies a major problem for an industry that is looking to put up bills to make improvements.

Each speaker then highlighted particular problems, from their perspectives.

Respond to the emergency – **James Wallace, River Action**

"Dryness and death" was how James Wallace, chief executive of River Action, characterised the condition of England's rivers. All are failing chemically and only 15% are in reasonable ecological health. Insufficient water storage, 20% leakage and high consumption have led to precious chalk streams being over abstracted, and the country is facing a "freshwater emergency".

Wallace put the principle blame for this dire state of affairs at the door of government, citing the slashing of the EA's budget by 70% (and even disbanding its comms team). Ofwat meanwhile has kept prices below inflation, creating an "unrealistic expectation" from customers.

Water companies shoulder responsibility too – including for underinvestment in capacity and maintenance, and as widely reported for extracting £70bn billion in profits and dividends while accruing debt of close to £60bn since privatisation. In the public eye, "the water companies' collective reputation is dirt, just like many of our rivers".

Having pushed rivers' struggle up the public agenda, River Action now wants solutions, and is prepared to extend a "conciliatory handshake" to those willing to collaborate. He called for:

- Transparency in how bills are raised and spent.
- Joined up plans that work at catchment scale.
- Reform to bring environmental and economic regulation closer together.
- Incentives for better land management – including a bigger budget for ELMS.
- Stiff penalties for legal breaches, and bonuses blocked.
- "Special measures" for some water companies.

Wallace concluded: "We need to move beyond blame, to collaboration. We need to work together." He posed two final challenges: "To regulators: thanks to our government, we're up shit creek without a paddle. Are you willing to get your hands dirty? To the water and sewage industry: are you willing to pull your fingers out of your asses and fix your filthy assets?"

Investment must be socialised – **Julia Prescot, NIC**

Julia Prescot, deputy chair of the National Infrastructure Commission, highlighted that we will need an extra 4bn litres of water a day by 2050 and 1,300 megalitres a day by the mid 2030s. "That's a big build programme."

Drawing on the NIC's recent second National Infrastructure Assessment, she questioned the current ambition to halve leakage by 2050, asking, "Is this the right date, should it be speeded up?" And while water company business plans feature significant new supply-side infrastructure, "We need to think about how this is going to be done," she urged, given the cost and planning issues.

To secure investment, Prescot said we need to "make sure that the regulatory and planning systems can function in a way that that works" for investors, including by preventing delays, injecting pace and boosting "anticipatory investment" using competitive direct procurement and SIPR models with transparent, ring-fenced funding outside of price controls. Planning needs to be "more straightforward". At present the NSIP process is "simply too slow to deliver the amount of projects needed."

On top of water security spending needs, multiple billions are needed for storm spills, surface water flooding and more. Prescot concluded: "The message that this investment is required is a very critical message that needs to be socialised." She urged: "We need to have an intelligent conversation between us to say what level of investment do you want, because this is what it's going to cost."

Regulation needs to evolve – **Colin Skellett, Wessex Water**

Colin Skellett, Wessex Water chief executive, analysed the regulatory landscape across the 50 years he has been at the company, noting up front that he accepted a lot of Wallace's points and that companies do need to step up. "But regulators also have a part to play."

- Pre 1974 – Sewage was managed by lots of different bodies. "It was a mess, most rivers were dead, or dying, or sections of rivers were dead."
- River Water Authorities formed 1974 – "The beauty of '74 reorganisation was it was based on catchments, and we must hang on to that." Things started well and the 1976 drought encouraged investment, but "than the dead hand of the Treasury descended and investment went down and down, and became an annual allocation, competing with schools and roads and all the other things. It tailed away… By the time we got to the early '80s, we were the dirty man in Europe."
- Privatisation 1989 – "It worked to start with. Investment just about doubled and there were dramatic improvements in efficiency." The initial regulatory model had "beautiful simplicity" and "the power of RPI plus or minus k was enormous". Improvements followed, including in drinking water and bathing water.
- Today – The DWI continues to work effectively. But: "We now have two environmental regulators with competing priorities;" outputs rather than outcomes are regulated; there's no path for communities to be involved in decisions; Ofwat's invention of serviceability has held down investment; and rules and approaches drive high cost, high carbon solutions.

Skellett argued regulation has been wrong on two main fronts: to regard company balance sheets as matters for companies alone – enabling investors in some companies, notably Thames, to strip out special dividends; and to focus on bills rather than investment. At Wessex, "Customer bills have risen by about 20%. Inflation has been over 60%. Had we simply increased bills by the rate of inflation, we could have spent £1.9bn more."

Turning to PR24, Skellett politely called it "confused". He elaborated: "Within Wessex water, we have got about £400m still slopping around that might be in or might not be in. There is just so much uncertainty from an agenda driven by the media and political priorities rather than by the science. And most of the stuff that's coming out is high cost, high carbon. And we've got micro regulation."

He called for regulation to: focus on providing certainty for sustained, long term investment; involve communities and local politicians; prioritise climate change, supporting low carbon, catchment-based and nature-based solutions; and work for long-term resilience.

L-r: Julia Prescot, Colin Skellett, Lila Thompson, James Wallace, Aasmah Mir

Collective responsibility and common vision – **Lila Thompson, British Water**

British Water chief executive Lila Thompson's remarks focused on culture and behaviours. She argued there remains a lack of transparency and honesty about some core truths. "Water companies get a lot of the flak," she said while other stakeholders stay "quite silent, quite invisible" about the part they have played. Moreover, not all water companies have behaved the same. Poor performance must be recognised, but we should be specific about it.

To move forward, Thompson argued a collective approach is needed: for key stakeholders to come together, agree on the key problems and how to address them – with each owning its part in the whole picture. "We can't solve the range of problems that we are going to face by finger pointing, by blaming and by constantly fighting each other, because the sector will implode. And we are delivering a public good, which is public health."

She urged: "I do really believe that we need a common purpose and a common vision." Part of that will involve better and more proactive communications, particularly to explain to paying customers how higher bills will add value.

In this, the supply chain, which British Water represents, stands ready to play its part – but it should be helped along by addressing perennial issues including damaging cyclicality deriving from the five-year regulatory cycle in which 40,000 staff are lost; lack of long term visibility; and lack of long term planning.

Referencing the "five giants" of idleness, ignorance, disease, squalor and want that drove the creation of the NHS, Thompson argued water's 'five giants' today are:

- Lack of collective responsibility
- Lack of open recognition of how we got here.
- Lack of dialogue for change
- Lack of necessary investment – "I think it's a fact that there was a period of time where we could have seen a significant amount of growth investment, when interest rates are low, and it didn't happen. And we need to be honest about that."
- Lack of talent – There is, she quoted, a 'silver tsunami' of talent about to leave the sector . "I really do think – and I've been challenging MPs about this – that they must be very careful how they're talking about the sector, because they're talking a sector down to investors, but also to talent that we need to attract into the sector."

Two prominent themes emerged in the panel discussion. First, how to get public agreement for higher investment and higher bills (see Legitimacy session). And second, the urgent need for collaboration on solutions, Wallace said "Wouldn't it be a fantastic situation where we have the heads of water and sewerage companies, and we have the heads of NGOs, the heads of regulators going together to Defra. That has never happened." Skellett added: "We've got to go really quickly, there needs to be something in the King's Speech that says we are going to tackle these things."

INVESTMENT LANDSCAPE

Investors gave a damning verdict about the landscape in which water is hoping to raise billions.

Moody's VP-senior credit officer Stefanie Voelz set the scene with a presentation on Moody's credit view of UK water. The sector benefits from being strategically important and from transparent regulation, but is challenged by high leverage (average 70%), sizeable investment requirements and the growing risk of material fines from performance penalties. The average sector rating is Baa1, though Thames holdco Kemble is an outlier at B3. Moody's UK water outlook is negative, reflecting "rising social risk" from affordability pressures and critical public sentiment.

Against that backdrop, material new debt and equity funding is needed. The industry's proposed £96bn 2025-30 programme includes growth investment equal to 45% of current Regulatory Capital Value (RCV). Assuming 70% gearing, the size of the programme suggests a need for at least £12bn of equity (retained dividends plus new injections) and around £50bn of debt (new and refinanced).

Using data from the Global Infrastructure Investors Association, Voelz demonstrated "negative sentiment around the attractiveness of the UK market" as a whole – in stark contrast, for instance, to the US where the Inflation Reduction Act garners strong interest. And "the water sector is seen as particularly negative" compared with other sectors, including because the cost of capital is perceived as too low relative to risks. In 2018, Moody's score for UK water regulation was revised from Aaa to Aa due to a perception of increased risk from political interference and cash flow volatility due to challenging efficiency and performance targets.

With sizeable investment required in multiple other markets Voelz pointed out: "Investors do have a choice. They don't have to come and put their money in the UK water sector." A panel of investors then shared their views.

Popular legitimacy – John Reynolds, Castle Water

Castle Water's chief executive John Reynolds, an investor since the early 1990s, agreed with Voelz that "much greater stability" and higher returns can be found in other markets – for water as well as clean energy assets – and said regulators here continue to get the cost of capital "wrong" – with Beta adjustment a particular bugbear.

But the key thrust of his opening remarks concerned popular legitimacy. "Investment is impossible" without it, he argued, and right now in water, neither companies, nor regulators nor government have it and "everything's in a mess".

Reynolds identified problems with the fundamentals. "Investment requires clarity and transparency" – but Ofwat has contradictory duties and there is no explanation of how it prioritises these when they clash. "The legislative framework that regulation works in is not fit for purpose from a popular perspective, full stop." He also said it was obvious to him back in 1999/2000 that allowing securitisation was wrong. It features restrictive financing, diluted incentives on management and shareholders to take an active role in operational management, and has driven the dividend stripping that has caused so much popular ire. That, he said, was "a direct effect of regulatory and government policy".

He went on to explore other strands underpinning the lack of popular legitimacy. Communications on the need for large scale investment in water "need to change and become much more focused on popular communication". Referencing The Sun's former editor Kelvin MacKenzie who famously encapsulated the sinking of the Belgrano with the headline "Gotcha", Reynolds urged delegates to "think Kelvin" as they go about this.

Some industry practices are also completely out of step with the modern expectations from the customer side – for instance, charging on rateable value, and accepting up to 20% variations as accurate when meters are read. "We are a generation out. We are still at the Morris Minor stage in a Tesla world."

And now a new issue: inconsistency, relating to the potential failure of Thames Water. Ofwat insists water wholesalers are financially resilient to avoid customers bearing risk, and requires business retailers to pay security to wholesalers in case they fail (£40m in Castle's case). "However, that was predicated on Ofwat categorically confirming that they would ensure that no water network failed… We're now in a situation where it's considered acceptable by Defra and Ofwat for a million small business customers in London and south of England to be subject to financial risk in the event Thames Water fell. There's no clarity on what would happen to credit security. It's absolutely scandalous."

Reynolds concluded with the disturbing picture that "water is at a frog in front of a steamroller moment. It's a very slow moving steam roller and the frog is 100 meters away and there's plenty of time to get out of the way." There's been a lack of investment to the point that we are running out of clean water and the waste system is struggling. Investment must come through in the upcoming price determination. "We will all suffer if that's not in place."

Return to listings – Dominic Nash, Barclays

Opening with a positive, Barclays head of European utilities research Dominic Nash observed that after 15 years of zero real RCV growth, "that's about to shoot up" from £100bn to £150bn by 2030. To support that in light of debt ratio requirements, "equity is going to have to step up".

Nash speculated that Ofwat would say the sector is trading at a small premium to RCV and able to raise capital, as recently demonstrated by Severn Trent (£1bn) and Pennon (£180m). "You can almost read the report now, which is basically saying, therefore we think that the returns and the risks that we've got are all well and good."

Then he added a dose of realism: that Severn's raise was at RCV and Pennon's at a 4% premium – and these are the best two performers in the sector on returns, and listed. "I can assure you that if Thames or Southern or a myriad of the other ones in the middle were to want to raise money on the public equity markets today, it would be at a big discount to RCV."

This matters "one hell of a lot" when investment is at a scale that requires new equity on top of dividend lock-up. This comes against the backdrop of UK markets trading at discounts to US and European markets, with lots of firms choosing to delist from London – and Thames' failure risk looming large.

Even without that, "investor confidence has collapsed in the water sector". Recent years have produced a 4% real return on equity, but the sector as a whole is also underperforming on totex by just under 2 percentage points and on ODIs. Looking ahead, there is the prospect of water being "weaponised" in the lead up to the general election, and the prospect of tougher returns in AMP8, dividend lock-ups, the risk some firms will fail, and threats of prison for executives. "Tell me, why am I putting my money here? I'm never going to get it out, I'm never going to make a return." He argued that "the collateral damage to the UK is actually high," when investors read across their water experience to other UK markets.

Nash suggested that taking all water companies back to a public listing should be considered, given that model has an "unwritten social contract" and features valuable checks and balances, governance and accountability features, AGM access and leverage controls that privately owned firms tend to lack. "I think if every water company had a public listing, which means you've got a live ticker on how they're performing, and management are held to account, I think you'd have a much healthier industry."

Stifled and shut out – Orlando Finzi, M&G

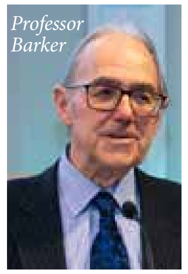
Speaking from a fixed income perspective Orlando Finzi, a director at M&G, said on the buy side, "we're a risk averse bunch" essentially seeking "long term predictability and a sensible return". Water used to offer that, but around ten years ago, it started to feel like "something's wrong here". That became a trend, and one paired by diminished engagement from Ofwat. "It's become much harder of late [to engage with Ofwat]. When you manage to get a meeting eventually, you say what you think but you feel like you haven't been listened to."

Regulation itself feels "stifling," with a level of complexity that's "bonkers," penal risk reward structures with "far more down than upside" and now more squeezes from higher minimum credit ratings and lower gearing requirements. "It's like a trap almost."

Now there is a massive investment requirement, and a need to attract capital, resources and staff to deliver it. That's in part because we've "missed a massive opportunity" to invest in the past and now it is going to cost more.

Finzi asked how we might "break the cycle" – because if feels at the moment like we're on a "mission impossible" route. He pondered whether Strategic Direction Statements needs more clarity and said Nash's suggestion of a requirement for a public listing could be "very constructive".

Investment in people – Professor Barker, Institute of Water



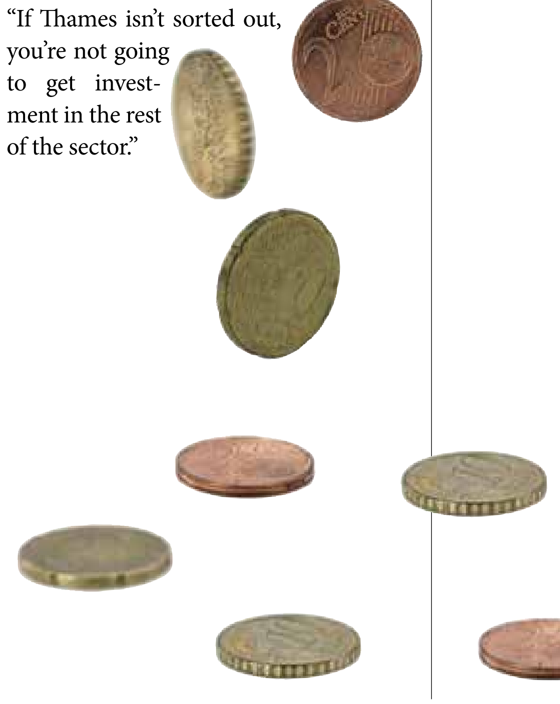
"Thousands of colleagues do an excellent job day in, day out," said the Institute of Water's Environment vice president Ian Barker – but it is far from perceived that way outside the sector. He championed membership of a professional body and / or professional registration as a way of growing trust – "confidence in the individual but also in their employer and the wider sector". This should include those "at the sharp end" on whom we rely to operate professionally and competently to avoid environmental catastrophe.

Beyond that, we need a 50% increase in the overall water workforce. Water UK has said 30,000 people are needed to deliver the proposed £96bn, including 5,000 apprentices. And we need to attract new people; "poaching from other water companies in an endless merry-go-round" is not sustainable. But "who owns this problem?" he challenged. "Individually, everyone's thinking about this, but collectively as a sector, we're not."

Barker argued: "There is no point in us having the cash in AMP8 to deliver on the expectations of our customers, government or regulators if we don't have the staff to deliver… We've only got one chance of this; if we fail that delivery because we don't have the people, because we've not been able to attract them in because we're not seen as a good place to work, then we will fail and the situation will get worse in terms of trust and letting people down once again."

Among points raised from the floor were how Ofwat might distinguish real investment peril from the investor 'noise' that typically precedes price reviews; prospects for a more forward looking cost of capital; and affordability and customer interest alignment. But obviously the fate of Thames Water was also a hot topic.

Reynolds argued "We're going to find out one way or another, the extent of the government guarantee". In terms of how to solve Thames' problems: "You don't solve it by leaving £19bn of debt in a company with an RCV of £19bn – it's nuts." He continued: "Anything that does not remove the excess leverage is a one legged non-jumping frog." His preferred option was an IPO, either through special administration or through the current shareholders. He added: "If Thames isn't sorted out, you're not going to get investment in the rest of the sector."



LEGITIMACY WITH CUSTOMERS AND COMMUNITIES

This session explored how to: rebuild trust in water companies and make them more accountable; make water decision-making more inclusive; and reassure customers that their water bill money is being well spent.

Mike Keil and Lisa Gahan

Opening the discussion, James Smith, research director at the Resolution Foundation, illustrated that the prospect of rising bills must be set in the context of the wider economy. We have become a "stagnation nation," he said, arguing low growth has an "incredible impact on living standards" as well as constraining public financial flexibility. Investment has been weak and volatile, and climate impacts are piling on the pressure.

The is the backdrop against which water customers will be facing higher bills. The Consumer Council for Water's chief executive Mike Keil shared that while around 70% of customers find water services value for money, trust is at an all time low.

Keil offered a series of suggestions to boost legitimacy:

›Improve lived experience – while the media narrative is negative, "it's not just about what you hear," he said. It is important to focus on things people will notice, he explained – including providing good customer service, handling incidents better and not quibbling over compensation when things go wrong. Things that matter to communities should be prioritised. He offered an example of sewage spilling from a manhole cover in a park close to a school. This was not captured under sewer flooding or CSO incentives so not a high priority for the water company – but the community cared very much about "poo in the park".

›"Talk more about the good stuff" – for instance, decarbonisation.

›Explain better what customers are getting for their money. He said 60% of households are owner occupiers so the concept of borrowing money up front and paying it back over time won't be alien. Hence even 'difficult' subjects like industry financing should be articulated.

›Robustly support those who can't pay. Keil reminded the summit audience that the industry had collectively committed to end water poverty by 2030 as one of its Public Interest Commitments. "This is not the time to break that social contract," he warned.

Democratic accountability

Mark Atherton, director of environment at the Greater Manchester Combined Authority, championed the role that local authorities can play in "creating transparency, effectiveness and efficiency". He argued: "I want to try and postulate that the key role local authorities can play is in convening, and bringing together different parties to really add value to the level of investment that is going into the sector and making sure that is transparent to us and our electorate."

He detailed around ten years of collaboration between GMCA, United Utilities and the EA, culminating in the Greater Manchester Integrated Water Management Plan.

"The vision for water management plan is really to break down barriers, to create multiple benefits, and really to create value by engaging with our communities and businesses to really take ownership of shared outcomes. I think this is hugely important. We talked about transparency. People normally engage when they understand how their funds are being spent and if they can see change happen on the ground."

Atherton added that long term solutions cannot be delivered overnight, but working together can help ensure that the available funding is deployed in the most effective and efficient way.

Too much, too little, too dirty

Lisa Gahan, Pennon Group's director of regulatory, strategy and asset management, articulated the issues that need to be solved to get trust and legitimacy back as: too much, too little and dirty water. She said water is "a common good; it's a finite resource; and it's a crucial segment of our economy. It needs to be protected through multi stakeholder approaches, and partnerships and investment."

The good news, continued Gahan, is that "we can do that; we know how to put water onto a sustainable and equitable track" – including through having access to finance, learning from past mistakes, innovating, sharing best practice and using technology. "So the challenge we have is to declare the outcomes that we want, that our customers want and need; and to organise our resources effectively – locally, regionally and nationally – to deliver those outcomes.

Gahan listed three enablers:

›Strong regulation and policy that is holistic, multi sectoral and catchment focused.

›Efficient water pricing that reflects the true value of water, "that reflects the long run costs of infrastructure, maintenance, environmental value". This would reduce excessive water consumption, help attract investment and support markets, which need certainty.

›Legitimacy and trust – Socialising a step up in investment will be necessary and will require "a strong value proposition, and it needs to be understandable to our customers. So we need to be clear what customers have paid for, and the performance and public benefits that have improved." Gahan listed other factors as: doing things in the order that matter to customers (South West is prioritising spills to beaches, for instance); building interactions with customers by opening up data; and bringing customers and investors closer, which Pennon is uniquely pursuing via its WaterShare+ customer ownership model.

One pertinent challenge from the floor was that: "We are asking customers to pay more for services that they thought they were getting in the first place, that we're now saying need improving. Do you really think customers will buy that?"

L-r: Catherine Wenger, David Henderson, Annabelle Ong, David Black, Philip Duffy, Shaun Spiers, Adam Vaughan

WHAT MIGHT THE FUTURE LOOK LIKE?

The final session of the day looked to the future: how do we go forward from here?

The need to make a constructive plan was brought home to delegates in the opening remarks of the afternoon chair, Adam Vaughan, environment editor at *The Times*. Having spearheaded the paper's 'Clean it up' campaign for over a year, he shared his observations that "public anger is real," but "quick wins are hard" – this brings further tension. He was firmly of the view that bills will need to rise to bring improvements: "Feargal Sharkey is wrong, we do have to pay for this" – and said that point will have to be hammered home in the public discourse this year as PR24 crystallises. And finally: "This is going to be a massive big election issue, whether you want it to be or not" – so it is crucial the right solutions go into manifesto pledges.

Pitching in to the debate on what those solutions should be was the thinking of the Sustainable Solutions for Water and Nature (SSWAN) partnership; this was launched at the Summit by Shaun Spiers, executive director of Green Alliance and SSWAN chair (see box overleaf).

A panel of leaders and experts then shared their thoughts on the SSWAN approach and raised wider matters regarding the future of the water sector.

Philip Duffy, Environment Agency

The EA's chief executive very much agreed there are problems to address – with improving the EA's performance on water quality "dominating how I think about the job". Moreover he saw a need to collaborate in the face of these problems, agreeing with the SSWAN proposition that "tackling this is a team sport." Monitoring data, data sharing and transparency will be vital.

Duffy also had questions and reservations about some aspects, including:

›Need? – "This report talks about the need for a framework. And I agree with that. But I was a bit surprised because we have got a framework, the Water Framework Directive, which is very much the lodestar on what my Agency does and thinks about." He said the WFD framework is "biting" –particularly in relation to the significant abstraction reductions coming down the line.

›Trust – A "back of my mind concern" – given the water industry is a significant polluter – is that "a partial approach, a catchment approach, is never going to be a good substitute for an effective regulator of the water industry". He shared that since the EA moved away from regulating on the ground to using operator self-monitoring, "time and time again, we find that promises that were made by water companies… weren't kept, and that infrastructure that should have been maintained to a certain level, hasn't been maintained to that level". Hence the Agency's newly announced inspection surge. Just in the past few weeks, EA has been in court prosecuting Severn Trent and Southern Water for illegal spills.

›Monitoring – More work needs to be done on data and monitoring requirements – this is expensive and "hotly contested – what do you monitor over what time period?"

›Enforcement – taking proceedings against the water companies is "incredibly demanding" – cases have had to be proven beyond reasonable doubt. Variable Monetary Penalties could offer a faster way to settle casework "but it does take two to tango". Water companies are "extremely litigious," fight pollution categorisations and rarely settle. He called on companies to come to "a new way of working with us on enforcement".

David Black, Ofwat

Ofwat's chief executive Black also agreed that the sector is at a critical point, faces many challenges, and has an opportunity now to make long term changes.

He openly welcomed the contribution made by the SSWAN report, particularly its outcomes focus and promotion of nature-based solutions. "I have personally been very much in favour of an outcomes based approach to regulation," he said. "We already have this in some parts of the sector such as customer service, and we do think an outcomes based approach to environmental issues could facilitate real gains."

Black continued: "That said, there are also important limitations. So firstly, outcomes do not catch everything." He offered in example that in the current period, water companies have only done around 25% of the water mains replacement/upgrade work customers have paid for. "So quite clearly we need to regulate more broadly than an outcomes based approach to have a water sector that's fit for the future."

He also highlighted the context of diminished trust in which the report lands. There is "huge demand for regulators to take a more hands-on and more demanding approach. So I think you need new approaches but alongside that".

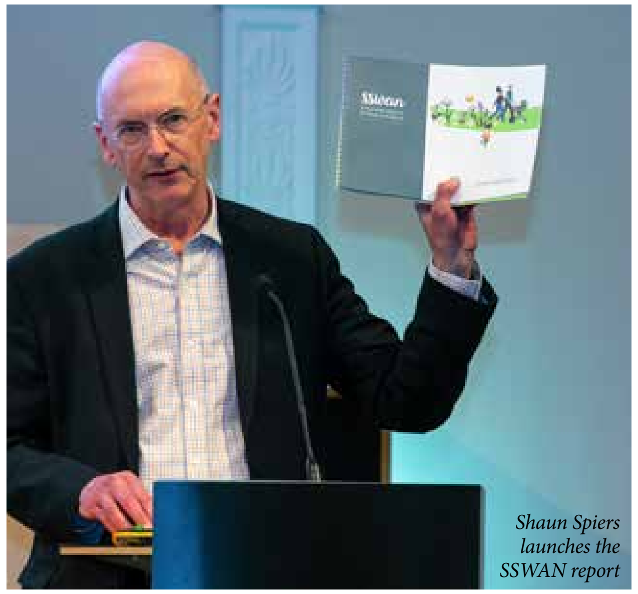
> **This is going to be a massive big election issue, whether you want it to be or not.**

SUSTAINABLE SOLUTIONS FOR WATER AND NATURE

Campaigners have very successfully put water issues on the map, but now it's time "to move beyond beating up water companies and regulators," said Shaun Spiers, executive director of Green Alliance and chair of the newly formed SSWAN partnership, as he launched the group's plan for a new approach at the Summit.

The fundamental idea – produced and endorsed by the RSPB, The Rivers Trust, Wessex Water, The Wildlife Trusts, CIWEM, The Wiltshire Wildlife Trust, Sustainability First, Water UK and well as Green Alliance – is to ditch today's fragmented regulatory model in favour of a catchment wide approach which works across sectors and prioritises efficient nature-based and low carbon solutions. The thinking is that by aligning the regulatory functions that govern water, farming, planning and development control within a common overall framework, better environmental, social and economic outcomes would be achieved, yielding multiple benefits.

Spiers made it clear that "we're not attacking the regulators" – but that "if we had over the years a perfect regulatory system, it's unlikely we'd be having this debate".



Shaun Spiers launches the SSWAN report

SSWAN envisages the following approach to reform:

›**Government** – sets top-level national targets and policy – for instance, that by 2050 at the latest, all waters meet Good Ecological Status and are sustainably abstracted – and reforms the water Strategic Policy Statement to oblige regulators to enable delivery of these national outcomes. The SPS would include interim targets as milestones.

›**Regulators** – are accountable for delivery, responsible for monitoring and enforcement, and have a duty to be transparent and make all data publicly available. They would define interim outcome targets and regulate all entities that have an impact on outcomes – including water and sewerage companies, farmers and developers. Regulators would set cost allowances for water companies (as licensed monopolies) for achieving outcomes, but the current approach would need to evolve. "The solutions for different catchments will vary significantly and the scope for comparative regulation to provide a sound basis for efficient cost levels is likely to diminish. They will instead need to rely more on company-specific information and develop new tools to assess that information – but the basic principle of setting company-specific cost allowances that companies can outperform is likely to remain."

The national targets would represent the minimum that must be achieved. In each of the 100 catchments across England and Wales, regulators could set tougher targets that reflect local considerations, preferences and circumstances.

›**Joint Area Teams** – would be created by the regulators, with each team responsible for around ten catchments. They would determine catchment-specific outcomes; set legally binding targets for all entities affecting the environmental health of each catchment; and define the monitoring requirements for each catchment. They would have a duty to take account of the advice of Catchment Advisory Boards.

›**Catchment Advisory Boards** – a Board would be set up in each catchment to represent local stakeholders – including, for example, environmental groups, the local water companies, local authorities, farmers, developers and residents. The CABs would advise regulators on desired outcomes based on local priorities, taking account of what is achievable and at what cost, as well as how targets should be allocated to each organisation type. They would also provide an ongoing monitoring role.

›**Regulated entities** – would have significant flexibility in how they operate, including to pursue innovative and sustainable solutions which are more cost-effective and deliver better environmental outcomes. This could include individual organisations deciding to deliver their own outcomes through others, giving rise to trading. According to SSWAN: "This will end the era of regulatory micro-management and liberate all those within each catchment area to do what makes sense for them."

The report notes robust and transparent monitoring will be crucial for trust in the new approach. Monitoring should, Spiers said, "take advantage of the technology revolution" as well as traditional approaches.

Non-compliance must have strong consequences, with penalties capturing the full impact of missing a target on the wider environment, consistent with the polluter pays principle. Spiers assured: "This is definitely not a call for deregulation."

The SSWAN report brings the theory to life with two illustrative catchments – one urban and one rural – where business as usual is contrasted on one river bank with an approach based on the SSWAN ideas on the other. There is also a series of good practice case studies.

The work is not the finished article and the coalition invites feedback and ideas. This started at the Summit and can be continued via https://sswan.co.uk/

Importantly, the coalition seeks real change, not just dialogue, and as a priority will be pressing its call to action (see inset box) with the next government. Spiers concluded: "Today, I think there's been a lot of momentum in this room to find solutions to the crisis…both an ecological crisis but also a crisis of confidence and societal licence for water companies to do what they need to do. So we need to get solutions that are backed by industry, by government, NGOs, consumers, investors, the whole of society. It will take a lot of work… But we do really badly need solutions that are deliverable and financeable".

SSWAN'S CALL TO ACTION

A new parliament should initiate regulatory reform to:

›Set water health targets at a national and catchment scale, ensuring the policy levers and incentives are in place to reduce pollutants and deliver targets locally.

›Link investment and targets across water quality, flooding, nature recovery, carbon, and climate to create new sources of funding.

›Ensure pollution is accurately apportioned to those responsible with detailed and transparent monitoring carried out by public bodies.

›Establish independent Catchment Advisory Boards to facilitate local decision making and deliver targets efficiently.

›Resource the regulators to drive compliance and sufficient investment in the water system, using existing enforcement tools.

›Set a framework to deliver long-term resilience, established by an independent body, and requiring water companies and regulators to deliver against the framework.

Black concluded on SSWAN: "So we do see gains from an outcomes based approach for unlocking innovation and catchment based approaches, but let's be realistic about the gains."

Elsewhere in his remarks, Black referenced the £96bn companies have proposed as a means to drive improvements but pointed out: "There is a huge difference between proposing expenditure and delivering effective solutions." This would require, among other things, culture change and restoring trust – "and this is going to require among other things modernising and getting a better understanding of risks and assets, and getting a much tighter grip on performance and resilience." He also made a point about "maturity," illustrating it with reference to Northumbrian Water's decision to go to the Court of Appeal over a £12m bespoke performance commitment disagreement with Ofwat over how the impact of a major storm should be taken into account. "This gives you an example of the kinds of issues you get if companies are not really facing up to the challenges," he said.

For its part, Black said Ofwat was moving beyond its traditional price review role to: provide strategic direction and leadership; drive sector performance up; and hold companies to account.

Annabelle Ong, Frontier Economics

Annabelle Ong, director at Frontier Economics, likened SSWAN to a drug that purported to fight multiple diseases with fewer side effects than the traditional options. She urged that it be approached in the way that such a drug would – with more investigation. "Let's explore further. Can you tell me more detail about the actual costs, the benefits, the impacts, what might happen?" She also asked the regulators what they would have to believe to make SSWAN work; this could also inform further analysis and exploration.

Ong explained also that the SSWAN thinking chimes well with work she is involved in with the Aldersgate Group which considers how environmental regulation could be aligned with growth. This also advocates a multi-disciplinary approach, where all sectors impacting the environment are considered together.

In terms of the broader future, Ong made two compelling points: that no one had yet mentioned the potential of AI and machine learning models in terms of future reform; that very much needs to be part of the conversation. And that, given the intense public attention PR24 is taking place under, regulatory reform needs a "coherent story". She shared: "I'm a little bit worried, because there's lots of talk about reform, but it's a bit piecemeal: we'll change how we do maintenance, or change one thing. So I think we really need to work together…to have that coherent system."

David Henderson, Water UK

Speaking for the industry, Water UK's chief executive David Henderson volunteered up front that "performance has not been where it should have been; we have failed – in some parts quite acutely – to keep up with public perceptions of what is needed. I would argue, actually, a lot of decision makers and regulators and government have done that, too."

With the public "whipped up" by activists and media, Henderson advocated giving people hope rather than leaving them with "despondency, despair and anger" – including through investment which will increase water security and river health, engaging with people as emotional creatures, and explaining things using accessible, acronym and jargon free language.

He said, in all of these challenges, the SSWAN report is "excellent. I think it paves a really helpful way through the complicated challenges. There's a lot more to do, though and filling in of gaps… how exactly we ensure accountability and governance despite a looser regulatory framework is not straightforward…We want to work collectively with everyone involved, so that we can get there."

He added that, beyond the expectations and requirements currently in play, there is a huge array of European directives coming down the line – and in the UK, we'll be faced with debates about whether we match these higher standards given the "very very high" price tag. He said: "If you think it's difficult now, it's going to become quite a bit more difficult" – and water is unlikely to leave the front pages any time soon.

Catherine Wenger, Arup

Catherine Wenger, UKIMEA water business leader at Arup, welcomed the SSWAN report as part of a wider body of work seeking a shift to systems and outcomes, including Arup's own recent study proposing *A new future for water.* Focusing on outcomes, she said, "is a lovely way to talk about things that mean something to people, that appeal to them. That's one reason why mainstreaming nature-based solutions is so appealing: it's something people can see, it's something they can trust in, whereas pipes in the ground are invisible." She noted that everyone seems to support nature-based solutions, but that these have not materialised in PR24 business plans at the scale that might have been hoped for. Wenger advocated thinking about the multiplicity of benefits of natural solutions to help get more projects over the line.

Finally, she made a compelling point about the "dynamic future". "We're busy talking about today's challenges…but the challenges in five years, ten years time might be quite different. And so whatever framework we come up with, needs to be adaptable and flexible so that it can stretch and morph."

She cited in illustration the "horrendous changes in geopolitics that have resulted in things we never could have imaged," as well as skills and human resource challenges, changing societal expectations, and digital "as both an enabler and a challenger". She observed: "What does a digitally enabled water sector look like in an AI and machine learning world? I'm not sure that this paper [SSWAN] yet covers that."

Wenger wrapped up: "In conclusion, collaboration is the watchword today. And progressive partnerships. Nobody can do this alone."

In discussion, topics included the need for transparency; to articulate clearly where increased investment is being spent and what it is achieving; the skills crisis; why supply chain companies would choose to work in water; the price and value of water; who should be responsible for wastewater and water quality monitoring; and prospects for returns, a dividend ban, future investment and investor types.

Black also shared that now we have more long term targets with different target dates, greater coherence would be helpful. "It does strike me that having a common vision for the sector could be really useful," he said.

Pressed on who should lead this, he suggested in should be "our political masters" but "we shouldn't wait to be told; I think that's something that very much is needed and needed now".

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