Government policy priorities for water

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<tr>
<th>Improving financial and corporate governance</th>
<th>Securing long-term resilience</th>
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<td><img src="image1.png" alt="OFWAT Logo" /></td>
<td><img src="image2.png" alt="Preventing for a drier future" /></td>
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<th>Improving the environment to deliver clean and plentiful water</th>
<th>Protecting vulnerable customers</th>
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<td><img src="image3.png" alt="Environment Agency Logo" /></td>
<td><img src="image4.png" alt="Consumer Council for Water Logo" /></td>
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Since privatisation, there has been over £140 billion of investment in water and sewerage, resulting in significant improvements to companies’ services

- The UK has world-class drinking water, leakage levels are down by around a third since 1994 and two thirds of our beaches are classed as excellent, compared with just one third pre-privatisation.
- The number of serious pollution incidents caused by the water industry reduced significantly from over 500 per year in the early 1990s to 57 in 2016.
- On average, customers pay a little over £1 a day for all the water delivered to them and taken away to be treated and returned to the environment.
- Customer satisfaction levels are around 90%. Since privatisation, customers are five times less likely to suffer from supply interruptions, eight times less likely to suffer from sewer flooding and 100 times less likely to have low pressure.
But in recent years, some water company shareholders have made excess returns – and their financing arrangements have been hard to follow.

Much of the £18 billion profit of the nine largest water companies since 2007 has gone to shareholders. Some of this profit came from companies’ financial arrangements rather than better, more efficient services for customers.
Consumer confidence and trust in water companies have been affected

- 75% of people trusted their water company to protect and improve the environment
- 68% of people trusted their water company to invest a sufficient amount of money in the water network
- 68% of people trusted their water company to provide value for money
- 86% of people trust their water company overall
- 89% of people trusted their water company to provide good quality of water
- 87% of people trusted their water company to provide a reliable service

Source: Working4Water ComRes survey June 2018
The government wants water companies to work as diligently for customers and the environment as they do for their investors

- Ofwat has developed proposals for companies to share benefits of their financial arrangements with customers, increase their financial resilience, and ensure greater transparency in dividends and executive pay.
- Water companies are already responding positively to this challenge:
  - Those with Cayman Island companies will have closed them by the end of the year.
  - Anglian Water has committed to reduce its dividends and borrowing through to 2025 and include more independent non-executive directors on its board.
  - Severn Trent has chosen to reinvest an extra £100 million of its efficiency savings into the business.
  - Thames Water’s chief executive has tied his executive remuneration to better performance for customers.
Recent analysis by the National Infrastructure Commission highlights the importance of ambitious action to reduce demand and increase supply

**Government priorities for the water sector**

1. **IMPROVE INFRASTRUCTURE**
   - 4,000 Ml/day
   - Building new supply infrastructure
   - Through a national transfer network in England and new infrastructure, such as reservoirs and water re-use systems.

2. **HALVE LEAKAGE**
   - 20% of mains water currently lost each day
   - Saved each day: 1,400 Ml

3. **REDUCE DEMAND**
   - From 141 litres per person per day to 118 litres
Solving the public water supply deficit will require all the tools in the box. No single option will suffice.

The government supports a balanced strategy of:

- **boosting supply** – developing new water supply infrastructure and enabling water transfers across regions
- **managing demand** – tackling leakage and reducing household consumption.

No major new water supply infrastructure has been built since 1989.

- The forthcoming **national policy statement for water** will to unblock barriers to development of new infrastructure.
- The **Environment Agency’s national framework** for water will support better regional planning and more greater transfers of water between regions.
The water environment has improved in recent years – but there is more to do

- The main reasons for 86% of water bodies not reaching good ecological status are agriculture and rural land management, the water industry, and urban and transport pressures.
- Pollutant loads to rivers from water industry discharges have declined in recent years, with reductions of up to 70% since 1995.
- But over the last decade the number of serious water pollution incidents from water companies has remained broadly the same.

Source: Environment Agency
The government’s 25 year plan for the environment commits to improving at least three-quarters of waters to be close to their natural state as soon as is practicable

- **Reducing damaging abstractions** so that by 2021 the proportion of water bodies with enough water to support a good ecology increases

- **Working with the industry to set an ambitious personal consumption target for water** and agree cost-effective measures to meet it.

- **Supporting Ofwat’s ambitions on leakage**, minimising the amount of water lost through leakage year on year, with water companies expected to reduce leakage by at least an average of 15% by 2025.

- **Reaching or exceeding objectives for waters that are specially protected as per our River Basin Management Plans.** The Water Industry National Environment Programme provides an opportunity to increase ambition and promote catchment solutions in the 2019 price review.

- **Ensuring water companies develop drainage and wastewater management plans** -setting out their long term plans to maintain and extend a robust and resilient wastewater system which addresses future challenges, including flood risk.
Water bills account for larger share of income in poorer households

While three-quarters of household customers consider their water services value for money, approximately three million (12%) say that they struggle to pay their bills (CC Water).

One-quarter of households are spending more than 3% of their disposable income on water and one-in-ten are spending more than 5% (Ofwat).
Digital Economy Act (2017) introduces data-sharing provisions so water companies can better target their support for vulnerable customers

- All water companies in England and Wales offer a social tariff.
- ~400,000 household customers currently benefit from water bill support schemes (social tariffs or WaterSure) to help.
- The government has set expectations in its strategic policy strategic to Ofwat for water companies to increase support for vulnerable customers. The Digital Economy Act (2017) should allow better targeting of support.
- Ofwat has made support for vulnerable customers central to its 2019 price review methodology.
- CCWater is working with water companies to increase the size of the funding available for social tariffs.
### Improving financial and corporate governance
- Cayman Island companies removed
- Gearing is reducing
- Innovative ways to share outperformance
- Many dividends lower than Ofwat’s 5% guidance
- Mixed picture on exec pay

### Securing long-term resilience
- 13% increase in investment across the industry
- Industry aiming for leakage reduction of 16%
- Mixed picture on per-capita consumption
- Is resilience increasing overall?

### Improving the environment
- Zero serious pollution incidents
- Two-thirds more catchment management schemes
- 8,000km river improved
- 98% of bathing waters meeting European standards by 2025

### Protecting vulnerable customers
- Bills coming down – reduction of 4% in real terms
- Companies plan to increase uptake of social tariffs by nearly 90% by 2025
What’s coming up?

- Parliament report on water conservation
- Draft national policy statement for water
- Final water resource management plans
- Ofwat initial assessment of business plans
- Environment Bill