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Dear David Black

### [Response to Consulting on our methodology for PR24](#)

Sustainability First is an independent think tank and charity focused on promoting economic, social and environmental wellbeing in public utilities including the water sector. We outline below our high-level response to Ofwat's PR24 draft methodology and the answers to a selection of the questions posed. These are set against our overall judgement that Ofwat is among the most competent of the regulators we deal with. We are happy to discuss or take part in discussions on any of the issues below.

This response does not cover specifically Welsh issues/questions.

### Overview

- **General themes** - We welcome many of the main themes of the draft methodology statement, in particular the focus on: the long-term – including drought resilience; environmental protection and nature based-solutions; innovation; and the desire to level the playing field between big infrastructure and local action.
- **Joint working** - We also welcome the improved joint working with Defra and the Environment Agency and hope that this will be extended to cross-sectoral regulators, going beyond the current activity of the UK Regulators Network, where there are interdependencies between water and other sectors and shared challenges.
- **Trade-offs** - We note that the relative paucity of information on how Ofwat will approach trade-offs reflects, at least in part Defra's Strategic Policy Statement. However, how any trade-offs - in particular inter-temporal trade-offs - are drawn will be critical. We would strongly urge Ofwat not to push decisions back to PR29 and beyond, unless fully justified and to establish a fuller methodology for making these trade-offs. In our view it is Ofwat's role to ensure that outcomes on resilience, environment etc. are delivered in practice as stated in the best-value fashion, not to seek to set outcomes/funding in line with, say, a desired freeze in headline bills despite the current economic climate.
- **Long-term strategies** – while enthusiastically welcoming the new requirement for long-term delivery strategies, a particular concern is that the draft methodology statement and the long-term delivery strategies are not fully in harmony. For adaptive planning to work there may well need to be a step change in funding for monitoring/telemetry/data interrogation – we can't see how this fits with the draft methodology - and a more nuanced approach to capital maintenance than Ofwat currently allows.
- **Best value** - In addition, we can see two possible approaches to the aquatic environment and wastewater more widely: one is to concentrate on spend of direct benefit to water consumers; the other is to ensure that water company spend can take into account multiple benefits and thereby leverage and work with other funding streams on water resources, catchment management, flood defence and land management. While tempting, we feel that

a simple adherence to the first approach would continue the current 'less than the sum of the parts'. While this is not by any means Ofwat's sole responsibility, the messages and incentives given by Ofwat will be critical. Someone also needs urgently to start an informed debate about how and how far it is actually optimal to address combined sewer overflows (CSOs) and leakage.

- **Consumer vulnerability and affordability, and supply chains** - The backdrop to the price review is the escalating cost of living, the legacy of covid (direct and through the NHS crisis) including a sharp increase in non-financial vulnerability, and supply chain dislocation - these are not yet properly covered in the methodology. The seeming weak focus on companies' role in tackling affordability beyond the social tariff, and in particular wider non-financial vulnerability is a concern, as is the lack of recognition of 'use value' from local environments and place-based solutions to community and household resilience e.g. the mental health benefits of blue spaces. There is a perfect storm of vulnerability brewing – a growing aging, ill, disabled population, the growth in less resilient single person households, coupled with increasing inequality and more extreme weather events. Ofwat needs to be transparent and justify what it sees as the boundary of social responsibility for a company and what it will fund beyond direct water company activity where it is supported by customers and in the public interest e.g. water companies are arguably well placed to support community action during extreme heat events, as other international water companies already do.
- **Direct procurement** - We feel that the approach to direct procurement is overly simplistic. We also think that serious thought is needed about what if any flexibilities may be needed as global supply chains continue to change rapidly to avoid unintended increases in unit costs.
- **The need for flexibility** - it would be a mistake to imagine that we have seen the last 'disruptive shocks'. The past three years have seen: a major pandemic; a big shock to cost of living; the worst drought for many years; a number of issues related to Brexit; and a huge amount of disruption to global supply chains. We need therefore to build in the flexibility to adjust to further shocks (including climate-related shocks, which we expect to accelerate).
- **Evolutionary versus revolutionary** - This price review is, in essence, evolutionary. We would welcome some strategic thinking about areas where economic regulation requires a step change from recent practice. The approach to the long-term, the further shift to more outcome-based regulation and concentration on what only Ofwat can do (and thereby move away from water company behaviours which are dominated by the regulatory interface) could all be such step changes, but we are concerned that opportunities have not been fully grasped in all these areas – or at the very least there is a need for a route map to a wider change in future.
- **Resilience** - We are encouraged to see Ofwat's evolving approach to operational and financial resilience including its ambition to get a more complete view of asset health. And, linked to the latter, we support its continued focus on performance related pay and dividends, though Ofwat could do more to understand customers views on fairness in this area. However, as noted a greater focus is needed on community and customer resilience, and resilience in the round.
- **Engagement** - We feel that the draft methodology statement shows Ofwat is in danger of not walking the talk on its minimum high-quality engagement standards. In particular there is an absence of civil society voices in the cited analysis with regards to the selection and development of the common performance commitments to date. Ofwat needs to (and be seen to) proactively reach out to these groups, in particular environmental groups and activists and locally focused delivery bodies who have been so successful in bringing environmental issues on water to the fore, and engage them in the development of the methodology. Failure to do so risks poorer outcomes, late challenge, and has very real credibility and legitimacy implications for the regulator.

Yours sincerely

**Martin Hurst (Sustainability First Associate) and Zoe McLeod (Policy Director)**

## Responses to specific questions

### **Q2.1: Do you agree with the challenges facing the sector and the ambitions for PR24 we have identified?**

A: the challenges identified are all correct. But social challenges are significantly underplayed. This includes not only the legacy of Covid, including the resultant NHS and health crisis, but also the interplay of the latter with more extreme weather events, technological and economic change with a growing ageing, ill and disabled population alongside a growth in single person household which are less resilient.

We think that the major disruption and ongoing changes to global supply chains is a major unrecognised challenge. There is insufficient thought given to the flexibility needed to react to future shocks.

We were surprised and concerned by the lack of detail around affordability, while recognising that water affordability is not as great a challenge as say, energy affordability and that there is legal protection against disconnection. A stronger focus is needed on what companies can do now to support customers during the current cost of living crisis and on the wider package of support companies will provide for customers struggling with their bills today and in the future. To support this we recommend Ofwat requires companies to develop a vulnerability and affordability strategy for 2025-30 jointly with their stakeholders which includes consideration of CCW's affordability review recommendations and an expectation of service innovation and strategic partnership working in and across sector. Progress against this could be monitored by Independent Challenge Groups and stakeholders with progress published.

As part of this companies need to consider how they manage the transition to the expected common social tariff. Unless companies take action, this risks removing financial support from many customers that currently have it, as well as leaving many who need help, such as the growing number of 'in-work poor' (who are likely not to be eligible if means tested benefits are used as the proxy for passporting to eligibility) for the tariff without financial support.

Given the current economic crisis Ofwat will need to be especially transparent about how it makes the trade-offs between the short-term need to keep bills low as possible and investment required now to reduce costs for customers and citizens in the long-run.

### **Q2.2: Do you agree that continuing to use our three building blocks helps push companies to meet our ambitions for PR24?**

A: Yes, but we would argue for quite a lot more analysis of the synergies and trade-offs between these building blocks, and of how these should be managed to ensure the price control is truly strategic. Also, greater use of reputational regulation tools and the ICGs to drive culture change.

We'd welcome an amendment to Ambition 4 – so it reads 'Driving improvements through efficiency, innovation and *collaboration*'. This would be in line with Ofwat's strategy and recognise the value of partnership working to effective and efficient delivery of outcomes.

**Q2:3: Do you agree that we have struck the right balance between what's in and what's outside of the price control?**

A: We have a concern that Ofwat is still trying to do too much in a prescriptive manner in this price review - in particular through econometric approaches to comparative competition. Acknowledging that the sector as a whole needs to rebuild public trust, this nonetheless risks perpetuating the 'parent child' relationship with the water companies. We have argued elsewhere for a rebalancing toward things which only Ofwat can do and that this streamlining of activity could be done for example by increasing the role of stakeholder or independent third-party assurance and freeing companies up more to make local decisions – for example by establishing a pot outside baseline totex for local work, agreed with local communities. We strongly encourage the regulator to consider the latter with regards to water-related community resilience and consumer vulnerability schemes in particular.

There is still relatively little discussion of how to manage systems and resilience issues which cross price controls both in sector and across sectors. The adaptive pathways approach is a major step forward, but there remain questions as to how far optimal enhancement spend in PR24 can be achieved without greater certainty of future enhancement spend and indeed the extent to which cross price review settlements would deliver major efficiencies in terms of procurement and delivery of systems responses.

We would be more confident in the methodology statement if there had been a separate assessment of lessons from recent shocks in terms of forward- looking regulatory flexibility.

There is little focus on culture change needed within the sector to deliver more purposeful companies and raise ambition consistently across the sector.

We accept there is a place for comparative regulation, but we feel that Ofwat have in successive price reviews overemphasised this – to the exclusion of genuine local factors and community and place-based issues. As highlighted above there is real value for customers in flexibility to create placed based solutions with communities: we would argue for a de-minimis threshold for totex – taking a given amount out of totex for agreement of outcomes with local communities. We don't think totex can adequately reflect the value of this or make meaningful comparisons.

With regards to non-financial vulnerability, this has been taken out of the price control but nothing put in its place except an as yet to be agreed consumer licence condition. This is deeply concerning. Aside from potentially being in breach of its duties, Ofwat appears to be weakening protections just at the time when levels and types of vulnerability have and are going to increase significantly. As mentioned above Ofwat should require companies to develop a vulnerability/ resilience strategy with their stakeholders.

We'd also welcome vulnerability and affordability being a greater focus of the innovation funding. This could include initiatives to tackle consumer vulnerability and water poverty and support household and community resilience. e.g. water company support during heat waves or improve service design which has seen little innovation over the last two decades.

**Q3.5. Do you agree with our proposals:**

**a) To raise the size threshold above which companies should deliver schemes through DPC to around £200m lifetime totex?**

**b) For companies to deliver schemes through DPC by default above this threshold?**

A: We agree with some of this, but feel that the DPC approach is unlikely to yield meaningful savings unless it is focused on those schemes where there can be some transfer of operation as well as construction (see work by First Economics for the 2019 portfolio of evidence<sup>1</sup>).

We would also welcome some analysis of the implications for DPC of the current issues in global supply chains. Single supplier models without ongoing competitive tension have been shown in a number of cases to drive up costs sharply post contract award given these supply chain issues.

**Q3.6. Do you have any views on any other aspect of our proposals in relation to:**

**a) The design of price controls; b) Water resources; c) Developer services; d) Retail activities; e) Bioresources; f) Other controls; g) The revenue forecasting incentive mechanism; or h) Direct procurement for customers?**

A: We feel that the design of the price control is not fully consistent with the concept of adaptive planning. There will need to be in our view greater and separate allowance of increase monitoring, telemetry and data interrogation than is consistent with a purely baseline totex approach. And we do not feel Ofwat's approach to capital maintenance fully reflects the needs of adaptive planning.

**Q4.1. Do you agree with our approach to making sure that companies' price review submissions and our determinations reflect an understanding of customers', communities' and environmental concerns?**

A. We query if there is sufficient incentive for all companies to strive for high-quality consumer and stakeholder engagement. Clarifying in the final determination that companies will not be rewarded and could face penalty if they don't undertake high-quality research and engagement that meets the minimum standards would be welcome.

To continue to support the embedding of a culture of engagement from PR19 we also urge Ofwat to require companies to develop/update their engagement strategies for 2025-2030. The Independent Challenge Groups could monitor progress against the delivery of the strategy. This simple approach was adopted by Ofgem for RII0-2 price controls and is very positive.

We are unclear how regional and community differences will in practice get reflected in company business plans when water companies are being discouraged from developing bespoke ODIs and are limited to two or three (See Q5.2 below).

We also have concerns about how minority voices will be heard in practice. In particular how Ofwat will get beyond the average performance to drive improvement for worst served customers or on issues that impact a minority of customers e.g. low pressure.

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<sup>1</sup> [Direct procurement report \(final\) \(first-economics.com\)](https://www.first-economics.com/direct-procurement-report-final)

SF has consistently supported the Ofwat-led collaborative research. However, the methodology consultation does not yet meet Ofwat's own minimum standards for high-quality engagement nor its principles for engagement. In particular, around inclusivity, with the overwhelming majority of respondents quoted in the document being water companies (see Q5.1 below).

Ofwat's emerging framework for PR24 is recognising this shift to long-term priorities; in some respects, it is driving this shift. It seems that none of these are adequately represented in the ODI research, which is centred more narrowly on service levels in the present. The longer-term challenges are about sustaining and enhancing what is currently delivered. So, for example, greater levels of resilience to climate change, higher levels of environmental performance and the trade-offs between pace and timing of investments versus what is affordable. We remain unclear how Ofwat proposes to engage on these longer-term challenges, what values are informing its decision and where it will undertake whole-systems engagement.

#### **Q4.2. Do you agree with our proposal to conduct open challenge sessions?**

A: Cautiously yes. The difficulty will be to make the open challenge session 'meaningful' and not tokenistic. It is critical that the hearings are not a substitute for either Ofwat or the companies engaging effectively with stakeholders on the methodology or the detail of their individual business plans. Companies and Ofwat need to undertake deliberative research with impacted and interested groups using methods that ensure they have sufficient knowledge and time to give informed views.

Ofwat and CCW should clarify what they realistically expect the open hearings to achieve above and beyond the companies' wider stakeholder engagement on the plans. If well-designed, the open hearings could provide greater transparency, and an opportunity for stakeholder groups and individuals to more openly challenge the company on their approach in an independent forum and ensure that their voice is heard.

Realistically, with just two sessions, only a limited number of people are likely to be able to participate and this could, as it did with Ofgem's RIIO-2 open hearings lead to criticism. Ofwat will need to be careful not to overweight these sessions over and above what is likely to be more robust and deliberative wider company stakeholder engagement.

We agree that these sessions should be independently chaired, and there would be legitimacy benefits to Ofwat in chairing these given that it will ultimately be deciding the BPs. We would also welcome Ofwat hearing community groups views first hand.

Once the draft business plans have been published, stakeholders should have the opportunity to read those parts of the business plans that matter to them, and therefore could in theory attend a session having read the plan or a summary plan. This would ensure comments were more informed and would also allow groups who felt their views had been ignored an opportunity to challenge decisions.

If there is a session during the development of the plan it would be useful for companies to be encouraged to share a summary draft plan in advance. Alternatively National Grid did a 'playback' document for T2 price control. This 'played-back' to customers and stakeholders their combined insight – a 'you said, we will do'. Stakeholders then effectively had the opportunity to add to it, clarify the insight. The first open session could do this. It would also help give both companies and Ofwat confidence in company-led stakeholder engagement insight.

The effectiveness of any session would depend on how well it was advertised. That in turn comes with the challenge of managing expectations if lots of people want to speak.

**Q5.1. a) Do you agree with our proposed package of common performance commitments?  
b) Is water demand best incentivised through separate performance commitments on business and household consumption and leakage or through a performance commitment measuring total demand?**

A)a): We welcome the new **business customer and retailer satisfaction** measure of experience for England and continued improvements to C-MEX.

For the **environmental PCs** to have credibility and legitimacy, Ofwat will need to take the time to meaningfully and transparently involve a wide range of interested and impacted civil society groups in their development. We recommend Ofwat host a series of deliberative workshops with key activists and campaigners and with on the ground delivery bodies. This would: ensure Ofwat is setting the bar at a level that is in line with wider stakeholder expectations, which as we have seen often drive public opinion; lead to better designed metrics and outcomes, minimize the risk of late challenge with resultant additional costs for consumers and reputational damage to the regulator. Environmental regulators have not proven themselves to be a good proxy for community opinion and Ofwat could easily be out of step with public expectations and needs to consider how it will future-proof proposals.

More widely we welcome improved transparency between consumer and civil society groups priorities, insight and Ofwat's selection of PCs, their definitions and metrics. This is particularly the case with recurrent popular issues such as roadworks, call waiting times, abstraction and its decision on issues impacting a minority of consumers.

Ofwat should clarify why the clock on its PCs only starts ticking for supply interruptions after three hours. While we understand the logic for a set amount of time allocated to perform activities linked to planned interruptions, we are unclear of the logic for unplanned interruptions given all time off supply when customers aren't prepared is an inconvenience. We also encourage the regulator to better understand and reflect the financial impact of supply interruptions on businesses and the wider social and economic impacts when setting penalty rates. In addition, to explain how its framework will ensure the minority of customers who receive repeated interruptions to supply will have their service improved under this framework.

Ofwat needs to find better mechanisms to identify and understand the experiences and needs of **worse-served customers** and not just for customer service. At present the regulator appears to adopt a utilitarian approach - making decisions for the greatest good for the greatest number. High company performance scores can mask a minority of customers who get a consistent or repeatedly poor service e.g. certain communities may be regularly impacted by poor water quality or reliability of supply for example. These groups are often not picked up in performance commitments that deal with averages.

b) We understand the logic of a combined outcome-based water demand PC that can be directly measured. As noted, this would be more robust than the separate components, which are primarily based on company estimates. Such an approach allows companies greater flexibility in how the goal of water reduction is reached and should result in companies adopting more strategic approaches, focusing resources and customers money efficiently on where they can have biggest impact. It will

also clearly show progress towards Defra's proposed Environment Act 2021 target to reduce the use of public water supply in England per head of population by 20% by 2037.

We agree that if this is adopted for PR24 it will be essential to continue to report on the different elements – business, domestic and leakage separately (and within the latter customer-side and company-side leakage). Politically these distinct areas need to be seen and this transparency also helps companies target interventions for improvement more effectively.

That said, we have concerns that individual households will miss out on substantial cost savings as a result of move to a combined water demand PC and may have less incentive, especially in the short-term, to install water efficiency devices in people's homes, support them in reducing their water use (which also supports a reduction in energy use) or fix customer side leaks. There will likely be bigger wins elsewhere. We would therefore like to see the retention of some kind of PC to continue to incentivise this kind of customer-side water saving activity.

**Q5.2. Do you agree with our proposed guidance for bespoke performance commitments?**

A: No. Bespoke ODIs were widely used during PR19 often not driven by companies but pushed for by the independent challenge groups to reflect regional differences, worse-served or minority consumer concerns. CCGs recognised that what gets measured gets done. The methodology appears to assume that companies are keen to develop bespoke ODIs/PCs which we don't believe to always be the case (why would they when the more bespoke ODIs or innovative ODIs they have the worse they can potentially perform in Ofwat's annual assessment); Ofwat actively discourages bespoke ODIs and limits the number to two or three.

This approach risk prioritising regulatory simplicity over consumer and community benefit. There is a strong case for rebalancing the ODIs towards place and community-based approaches there should be more scope for bespoke commitments.

**Q5.3. Do you agree with our proposed approach to setting standard rates?**

A: We are not competent to judge fully but have been concerned in the past that the scale of penalties/incentives may have led some companies to take conscious decisions not to invest in an area because taking the penalty is less costly.

**Q5.4. Do you agree with our proposed approach to the measures of experience performance commitments, including to increase the size of C-MeX?**

A: We welcome Ofwat publishing the net promoter score for all companies alongside the C-MEX which while imperfect will enable some cross-sector comparison.

We'd support seeing the 'golden thread' between Ofwat's insight on what customer service aspects most matter to customers and how C-MEX or wider regulatory framework will address those. For example, we query if this combined and quite complex metric gives sufficient focus and transparency to company performance on call waiting times. We single this area out as across all sectors it appears to be an area of customer service which is a high priority for people and likely to continue to be important for future price controls. There is a large body of evidence spanning over a decade from a wide range of organisations including Which? and Citizens Advice highlighting customers' anger and frustration from the inconvenience, time lost (and where they work for themselves money lost), and the phone costs of being on hold, with especial barriers to accessing



help for those in low incomes. This year 'This is Money'<sup>2</sup> launched a campaign, calling on the government to levy fines on companies that did not answer their customer service lines within ten minutes. According to Citizens Advice, this has become more important given the accelerated move to online services during the Covid-19 pandemic, which has left many, including those who may also not have digital skills or suffer data poverty, unable to contact their company. This will be even more important given the current cost of living crisis.

There's little easily accessible robust information in the public domain about water companies' performance on call waiting yet it is clearly an issue that matters to customers. Q4ME a service dedicated to this problem for example claims they called Thames Water at different times with the highest call waiting time 1 hour and 20 minutes and the lowest call waiting time 23 minutes<sup>3</sup>, while Trust Pilot is seemingly filled with many anecdotal reports of unacceptably long-call waiting times.

In addition, Ofwat says that C-MEX is designed to encourage companies to innovate. The regulator should clarify how it will monitor and report on whether C-MEX is in practice delivering on this aim. The C-Mex survey size appears too small to get any robust insight on different customer journeys though we appreciate companies try a variety of approaches to understand and increase their satisfaction scores.

### Customers in vulnerable situations

We strongly agree that there needs to be a mechanism to better monitor the customer service experience of those with additional needs to ensure all customers have excellent service regardless of their situation or circumstances. This is especially important given:

- The substantial predicted increase in consumer vulnerability with our increasingly aging, ill and disabled population.
- Despite many companies being BS 18477 inclusive service accredited there arguably remains inconsistent and slow progress by water companies in delivering genuinely inclusive services and a lack of innovation in service provision for those with additional needs.<sup>4</sup>
- CCW's monitoring has tended to focus on services available not the number of services delivered in practice, timeliness of delivery of service, or service effectiveness or satisfaction.
- There have been regular reports over the last few years that customers in vulnerable situations are not receiving the support they need in a timely way before, during and after supply interruption incidents. This is especially important given the predicted increase in extreme weather events and therefore potentially interruptions.
- Failure to take further action in this area would potentially leave Ofwat at risk of being in breach of its duties and legal obligations. Ofwat states – "If there are indications that vulnerable customers are not being treated fairly, we will consider what further action to take". Ofwat is the regulator and should be monitoring the market and be able to assure itself that harm is not happening.

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<sup>2</sup> [Readers rally to our campaign to fine firms over call waiting times | This is Money](#)

<sup>3</sup> [Easy Way to Get Thames Water Contact Number, Avoiding Waiting Line \(q4me.com\)](#)

<sup>4</sup> Many companies are now BS 18477 inclusive service accredited. The Standard has recently been updated to BS ISO 22458:2022 and BSI has introduced an Inclusive Service Kitemark to in their words 'help organizations demonstrate their commitment to vulnerable customers'. A range of disability organisations also offer accreditations. The inclusivity standard while welcome, has historically been a largely process-based assessment (we've yet to review the new standard), not an outcomes based-one and hasn't allowed for any real company comparison. We therefore think there is value in an outcomes based financial ODI in this area.

However, we would warn against Ofwat simply jumping to adapting CMEX as the solution. Any approach needs to be considered as part of a wider strategic framework to protect current and future customers in vulnerable situations and alongside the proposed new customer-focused licence condition. That said, we see strong merit in some kind of financial incentive around vulnerability and affordability including outcome-based metrics around accessibility, affordability, and satisfaction with PSR service.

To ensure any approach meets the needs of customers it is meant to benefit we'd encourage Ofwat (if it hasn't already) to proactively engage with groups working with or on behalf of customers with additional needs, especially disability groups, and customers themselves to understand the challenges they face and what makes 'excellent customer service' in their eyes.

With regards to (a) Sustainability First has long-advocated for inclusively designed services. That is services that are universally designed for everyone regardless of age, ability and circumstance. This is based on the simple principle that designing for the widest range of people creates better designs and benefits everyone. With more than 14 million people with disabilities in UK and growing, this is of increasing importance (c). We are interested in exploring the potential for some kind of inclusivity performance commitment or annual mystery shopping exercise by customers with additional needs to rank companies and the accessibility of their key customer journeys.

A number of companies monitor the satisfaction of customers who have received PSR services, so have the equivalent of a V-Mex. This is useful, in particular in driving service improvements where they also capture qualitative feedback, but it does not capture the experience of the overwhelming majority of customers who need help who are not on the PSR. Sustainability First would welcome working with Ofwat on evaluating the approaches undertaken to date and the potential options for the future.

**Q5.5 Do you agree with our proposed approach to estimating marginal benefits for common and bespoke performance commitments?**

A: we have no views on this question

**Q5.6. Do you agree with our proposed approach to incentivising asset health performance?**

A: We feel that capital maintenance has seen systematically underinvestment by the sector and are not convinced that this approach will fully rectify the position.

More widely there is little recognition by Ofwat that adaptive planning and the long-term delivery strategies may require changes to capital maintenance which are not fully covered by the proposed approach to asset health. An adaptive approach should mean less capital maintenance on assets which may become redundant but also more in cases where the adaptive plan deems it optimal to delay asset replacement.

We would also argue strongly for a greater focus on monitoring and telemetry spend and on data interrogation to improve the quality of asset information and thereby render capital maintenance schedules more efficient.

**Q6.4. Do you agree that resilience enhancement should be used to fund companies to manage increasing risks to specific hazards that are beyond their control and not covered by base expenditure and other enhancement areas?**

A: Yes, but we doubt, given the recent scale of risks, that this will be sufficient. There may need to be more intra price review period flexibility. And there may also be some generic resilience spend.

**Q6.7. Do you agree with our proposed approach to incentivising and funding efficient investment in reducing greenhouse gas emissions and reducing the use of storm overflows?**

A: There is some good thinking here, but on storm overflows we do not feel that even with the proposals there is a level playing field between major end of pipe investment and nature-based solutions. We would encourage some independent assessment of this.

We also argue strongly that more account needs to be taken of multiple benefits and the relationship between water company spend and other funding streams. For example, NBS and SUDs will both deliver a reduction in flooding (and typically create new carbon sequestration). It is simply not efficient for a water company to be working with a local delivery partner on a NBS scheme, when the same local partner will be working with the EA on an almost identical scheme a mile upstream under the natural flood management scheme, with completely separate rules and appraisal criteria.

**Q6.10. Do you agree with our proposed approach to removing the potential disadvantage that nature-based operating expenditure solutions may face in relation to the treatment of enhancement operating expenditure?**

A: It is a step in the right direction but we do not feel it creates a fully level playing field between major capital and NBS. We would be happy to elaborate on this and encourage some independent input.

**Q9.2. Do you agree with our approach to how the board of the company should approach its board assurance statement?**

A: Broadly yes, but we would encourage more: a) early board engagement; b) more use of third party assurance; c) a stronger steer to boards around the need for their assurance statement to reflect public purpose.

**Q11.5. Do you have any other comments regarding our proposed approach to business plan incentives at PR24?**

Ofwat hasn't used the full spectrum of tools in its regulatory toolbox. In particular there is further scope for reputational regulation and to use the ICGs to support culture change within companies. This seems somewhat of a missed opportunity.

We welcome affordability being included within the ambition section of the BPI assessment. In theory this could encourage more innovative service design to support customers in financial difficulty; or the sharing of rewards with those that need financial support.

Without changes to the methodology there's a risk that many regulatory-led poorer performing companies will deprioritise non-financial vulnerability just at a time when there is overwhelming evidence to indicate that the opposite should be happening.

We strongly support Ofwat's proposed Principle 5 in its public value principles document that "companies should consider where and how they can collaborate with others to optimise solutions and maximise benefits, seeking to align stakeholder interests where possible, and leveraging a fair

share of third-party contributions where needed". This is helpful at setting industry expectations but needs bolstering if Ofwat expects it to happen in practice.

Our experience of Water Resources South East is that not all companies collaborate well with some of the larger water companies with greater resources contributing the least. Working in partnership is often more time consuming and complex. We'd welcome in particular increased collaboration in-sector with regards to vulnerability, water poverty and to support resilience. While we'd love to think this would happen naturally given the longer term benefits to the company, experience to date indicates a mixed picture.