

Speech to the 'Fresh Water Future' Conference, Chartered Institution of  
Water and Environmental Management: How to compellingly deliver  
against public and environmental purpose

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For the rivers of England and Wales, the next twelve months will be the most important in thirty years.

We have an extraordinary chance to meet the public's demand for change head-on, but doing that well means setting a new long-term course on three debates -

1. The first, on capital.
2. The second, on confidence.
3. And the third, on control.

I want to deal with each of these in turn, picking up some of the themes from the Freshwater Future report that sits at the heart of today's conference.

### **1. Capital.**

The first condition for any kind of improved delivery is more money.

One thing the water sector is good at is that when there are clear targets, and a supportive regulator, companies can rapidly deploy huge amounts of investment.

In fact, last year more capital investment - £9.2bn - was made into water infrastructure than at any other point in this country's history (and yes, if you're wondering, this year's record exceeds even the great engineering periods of the Victorians).

Now, the criticism we sometimes hear is that even this is not enough.

And actually, I agree.

Water bills have decreased almost every year since 2010 in real terms, providing savings to every household of around £750 - but also removing at least £18 billion of investment across those 14 years.

That is an important part of why we are replacing pipes at around a tenth of the rate of Europe and have not built all of the infrastructure needed to reduce pollution and protect against drought.

It has also left us in a position where we now need both to correct an historic gap, and also, to meet public demands, go much further.

Well, water companies have set out plans to do exactly that and on December 19<sup>th</sup> Ofwat will tell us if they're going to authorise them.

If they do, the money unleashed will unlock the start of a total transformation in how we manage pollution and water supplies. Annual capital investment will continue to break records, rising to nearly £10bn a year by 2030, then £11.5bn a year by 2035, and to more than £15bn a year by 2050.

By 2030 alone companies will be able to deliver around 17,000 environmental improvements, including up to an 80% reduction in the most damaging pollutants from sewage works compared to the 1990s, and ending 40% of storm overflow spills.

So far so good. But how Ofwat allows this spend also matters.

The way our model works is that typically investors fund the upfront capital costs of improvements, with that money refunded over time through bills. That keeps costs lower and enables faster improvements.

But for that to work, we need to actually secure the upfront investment – including £10bn of new equity over the next five years, according to Barclays.

Last year the shareholders that provide that capital earned an average of 2.1% - less than from some bank accounts - while in the same year companies also spent around a third more than Ofwat budgeted on infrastructure and services.

Put simply, this is unsustainable. It needs to change if we are to secure the kind of sharp increase in funding we know is needed. Ofwat needs to find a sweet spot that offers the right amount of risk and return to secure those billions from investors – but no more than that.

So that's the first big challenge – the regulator must unlock capital investment by agreeing not just the total spend but also a package that will maintain investor confidence.

## **2. Confidence**

That brings me to the second debate: confidence. And here I particularly want to talk about public confidence.

Why is this important.

Well, companies operate under a social contract – something that will be made more explicit following their agreement to recognise customer and environmental interest in their 'articles of association' – or governing constitutions.

That social contract depends on public support.

Clearly, a vital part of retaining support involves company performance.

I don't want to sidestep this. Performance needs to continue both on day-to-day targets (which are, by the way, improving in almost every area - though not fast enough) and also on delivering what will be a much larger forward capital programme, which raises important questions about the supply chain and innovation that I won't dwell on here as I'm sure others will cover them in detail.

But it's not just about performance.

If we are asking for bill increases to fund investment we need to show customers what they are getting for that money. We need to be open with people about what we can do and are doing - what is working, and what is not.

I think we're in the middle of a real transformation here.

England and Wales have for a long time published much more data than most countries – including through platforms like Discover Water.

This year we have gone even further.

Take storm overflows as an example: in March we set out a clear forward plan for all 14,000 overflows showing the expected timing and design of each improvement.

Then, two weeks ago we began publishing national near real time data on the operation of each of these overflows.

In future we will also have the output of over 7,000 real time water quality monitors which will have enormous value not just for river users but also for regulators, who will get a far more granular and timely picture of the in-water environment than ever before; and we will also see increasing efforts to integrate citizen science.

Companies, government and regulators need to double down on this, even if it feels uncomfortable.

We all saw how, when storm overflow monitoring data first became regularly available in around 2018, there was a fall in public confidence.

But actually when there's something that needs fixing, part of the route back to restoring trust is to own the problem, put out a plan, start delivering it, and be as transparent as possible.

We can't forget that last bit. Otherwise people won't be able to how bills lead to improvements – particularly given the time lags involved in infrastructure – and that will threaten this implied contract with the public.

So that's the second challenge: building and maintaining confidence.

### **3. Control**

The two challenges I have mentioned so far are important right now, but the third challenge I mentioned – control – will take a bit longer to get right. What I mean by it is: who gets to decide what should be delivered and how that should be done.

Why is this debate important?

Two reasons. First, current arrangements are under pressure. Just recently, Moody's, the credit rating agency, downgraded the regulatory framework on the grounds of instability.

Second, we know we can do better. The work of organisations like CIWEM and the Rivers Trust, or coalitions like SWANN, has pointed to much more effective ways of identifying, prioritising, designing and delivering improvements within the river catchment.

This combination of creaks in the current system, and a clear opportunity to improve, is why we really welcomed government's announcement of a new Commission on water – something that CIWEM and those involved in Freshwater Future had also called for.

My hope is that this isn't too narrowly focussed on the arcane business of regulatory furniture. It would be a mistake, for example, for it to only deal with, say, the narrow business of five year versus seven year price reviews.

So what do we need from it?

Well, a better approach to planning at local level and between sectors.

This is a debate that goes back a long way. Fifty years ago, government replaced 320 organisations across England and Wales with 10 Regional Water Authorities designed to follow, and I quote, “hydrological and geological realities, much more than political or administrative frontiers”.

Those boundaries are clearly sensible, but their geographic delineation had the unintended consequence of underemphasising local users of waterbodies and, for some issues like surface water, introduced some barriers between those in different political administrations responsible for different bits of the system.

So to keep delivering over the longer term, we need better ways of working.

A lot of that involves changing how we work with the public on developing local plans, then joining together the decisions and funding of those that interact with waterbodies against a single set of agreed priorities.

I know others will touch on the detail of how that could work, but I want to emphasise that it can only happen if, before anything else, government starts by setting a clearer overall direction for the sector – what I sometimes hear referred to as ‘wet zero’ by analogy to the kind of simple, singular clarity enjoyed by the energy industry.

As well as offering a clearer framework for involving local groups in developing plans, this kind of top-level direction will be needed to cut through the deep silos and contradictions between and even within government departments. That's important because at the moment we have expectations, statutory requirements and targets which are variously:

- Huge in number – nearly sixty 'expectations' in government's Strategic Policy Statement alone
- Often in conflict, with no prioritisation or guidance on reconciling them, hiding tradeoffs which really are for government to make
- Poorly designed – for example, we have targets which – possibly accidentally - preclude nature-based treatment of pollution sources

A clearer long-term direction would also send important signals to providers of green finance, deal with problems on the ground like different schemes all competing to improve the same bit of buffer strip, and would provide the kind of clarity about priorities needed to modernise policy in antiquated areas like bathing waters or the interaction between water and the planning system.

I very much hope the Commission embraces that need for a clearer single vision.

So that's it: transformative change is coming, but to do that really well we need to get three things right capital - more money; confidence - more trust; and control – a better and more responsive system.

Thank you.