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15 October 2021

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Dear Sir/Madam,

**RE: New strategic policy statement for Ofwat – draft for consultation**

Anglian Water has ambitious plans to be at the forefront of tackling the climate and ecological emergency. This is especially important given the unique topography of our region and the water scarcity, flood risk and growth challenges we face. This is reflected in [our purpose as a water company](#), enshrined in our Articles of Association, to *'build environmental and social prosperity in the region we serve through our commitment to Love Every Drop'*. Our Articles also place extended duties on Directors to act in the best long-term interests of customers, the environment, our employees and other stakeholders, to seek independent external assurance against these high standards, and to account for our performance in [our Annual Integrated Report](#).

This long-term context was central to the development of our Strategic Direction Statement back in 2017, which was co-created with customers and other stakeholders. This set our 25-year goals for the region we serve, which included commitments to improving drought and flood resilience and to achieve carbon neutrality. Our PR19 business plan then brought our purpose to life, and has enabled a significant increase in investment in our water resources management plan and our largest ever environmental improvement programme. But even in these early stages of preparing for PR24 we know that the external challenges we face in our region continue to grow. Meeting them will require a long-term focus, with a shared sense of the need for significant investment both in AMP8 and the periods beyond. In this there is clear consensus between water companies, the National Infrastructure Commission, the Climate Change Committee and environmental groups. Only this week, Emma Howard Boyd made the scale of the climate change adaptation task abundantly clear when [launching the Environment Agency's third Adaptation Report](#).

AMP8 is therefore absolutely critical, not only because it forms the latter half of what has been referenced [including by the Prime Minister](#) as the 'decisive' or 'pivotal' decade for action on the environment and climate change, but also because it will set the trajectory for investment deep into the 2030s and beyond.

If in AMP8 we fall behind the long-term investment levels needed, it will prove very difficult to bridge back and recover in later periods. There is also a danger that, in a constrained investment environment, the most important long-term priorities are crowded out by other less critical areas. We must think about these issues for the longer term, not just for the five years covered by PR24.



This is where the strategic policy statement plays a critical role, to prompt a different regulatory approach to PR24 that protects the long-term interests of customers and the environment. The SPS needs to help Ofwat by giving a clearer steer on Ministers' overarching priorities. As our response highlights, this is the one and probably the last statutory opportunity for Ministers to state their priorities for Ofwat and the sector to deliver in this decisive decade.

The draft is certainly an improvement on what it will replace, but in setting such a broad range of priorities, and in rather equivocal process rather than outcome terms, we argue that it doesn't provide the strategic steer that Ofwat needs to perform its pivotal role at this critical time.

As explained in our response, the draft could be significantly improved by including a clear and succinct statement of Ministers' priorities, defined in terms of what success for the sector would look like by 2030. Based on our own customer research from PR19 and their high expectations for environmental improvement, especially post-Covid, we suggest the statement should, up-front:

- reinforce the importance of the sector fulfilling its commitment to achieve net zero operational emissions by 2030;
- explicitly state that company plans must fully contribute toward meeting the targets, including any interim targets, being set for nature and water under the Environment Bill;
- recognise the critical importance of tackling the risks of flooding, water scarcity and drought, and the opportunity to do so in an integrated way that also helps reduce harm from storm overflows; and
- set expectations that increased investment by the sector will be needed to deliver these goals, and that the affordability priority for Ministers for PR24 is to ensure that those least able to pay are protected and supported (recognising that Ofwat's duty to protect consumers now and in the future will still apply).

It is also important that Ministers' stated priorities in the SPS are met in practice through the detailed choices Ofwat makes during the PR24 process. Before the PR24 die is cast there should be an opportunity for Ofwat to explain, perhaps to Parliament, how its decisions are consistent with the priorities set out in the SPS. Making sure that PR24 will indeed deliver the expectations of Ministers and Parliament at the pace expected, at a stage before it is too late to be changed, is an area where accountability could usefully be strengthened.

I would be delighted to discuss our response in more detail with you should you find that useful.

With every best wish,

**Alex Plant**  
Director of Strategy and Regulation

## **ANNEX: New strategic policy statement to Ofwat - response to consultation questions**

**Has the government identified the most relevant strategic priorities for Ofwat?** If not, please provide details of the priorities that should be included.

No.

Stakes are high to get PR24 right, with the 2025-2030 period a critical one to make definitive strides on net zero, climate resilience and Ministers' key environmental goals such as to improve river health and reduce water consumption. The Strategic Policy Statement (SPS) represents the sole statutory opportunity for the government of the day to state its priorities for the sector. This SPS will not only be the last that guides investment priorities in this decade, but will also help set the investment trajectory well into the 2030s. AMP8 needs to be a stepping stone toward AMPs 9, 10, 11 and beyond.

Getting this wrong matters; both in terms of risk now but also in adding to investment pressures in the 2030s, potentially resulting in higher long-term costs to consumers. Whilst its focus is on PR24, the SPS needs to set the sector up to successfully deliver against public expectations not only in this decisive decade of climate action, but also into the long-term.

Whilst the draft SPS describes the full range of priorities in broad terms that might be expected, it sets too many to be of use as a strategic steer to Ofwat. It also fails to set a single objective that needs to be achieved by the sector by the end of AMP8 in 2030.

We expected and would welcome a much clearer and more definitive statement from Ministers about their priorities, which could helpfully be described in terms of what success would look like in 2030.

Absent of this clarity Ofwat will be forced to second-guess what Ministers' true expectations are. PR24 is likely to require some difficult trade-offs between investment needs and the impact on bills, and the danger is either that:

- *The quantum* of investment is curtailed due to concerns about affordability, and companies as a result fall behind the long-term trajectory of investment needed to adequately prepare for climate change and growth pressures.
- *The scope* of investment is restricted to meeting statutory priorities at the expense of other investments that would deliver greater long-term benefit.

A clearer statement of Ministers' priorities could be achieved within the current draft by adding a statement toward the beginning of the document that describes the critical goals and outcomes that Ofwat needs to enable the industry to achieve by 2030. These goals could make a direct reference to the water sector's important role in achieving the statutory targets to be set under the Environment Bill. For example, it is unlikely that the 2030 'State of Nature' target for species abundance will be achieved unless the water sector does all it can in partnership with landowners and others during AMP8 to improve the ecological health of river catchments.

The SPS might therefore make statement along the lines of:

*"A successful sector by 2030, will be:*

- *Achieving net zero operational greenhouse gas emissions.*
- *Fully contributing toward achieving the targets for water and nature being set under the Environment Act, including the 'State of Nature' target for 2030.*

- *Progressively building resilience to the risks of flooding and water scarcity in an integrated way, whilst improving river health and eliminating harm from storm overflows.*
- *Addressing affordability by supporting customers whose bills would otherwise be more than 5% of their household disposal income.”*

Setting clear objectives in an SPS is an established process that would promote rather than impinge upon Ofwat’s regulatory independence in determining price reviews. There is precedent for ministers to state their priorities that the regulator is tasked to achieve, within the context of their legal duties that will apply in any event. DCMS’s Statement of Strategic Priorities to Ofcom in 2019 for example said:

*“We want the nationwide deployment of gigabit-capable broadband networks at pace. We also want to be a world leader in the next generation of 5G mobile technology, with deployment to the majority of the country by 2027.”*

Given recent announcements by Ministers including the Prime Minister regarding the energy system, supporting EV infrastructure and achieving a net zero carbon grid by 2035, we would expect defined objectives of this sort to appear in any future Strategy and Policy Statement to Ofgem.

For instance, we expected a much clearer statement in the SPS to recognise the importance of the sector’s commitment to achieve net zero operational emissions by 2030. We and other companies have shown [in our net zero strategies](#) that the goal is challenging yet achievable, if funded. The SPS should make sure PR24 determinations include efficient costs so that companies’ ambitions are achieved in practice. Getting to net zero two decades ahead of the 2050 target would help achieve the UK’s legally-binding carbon budgets, bring down the costs of innovation within key supply chains, accelerate markets in good quality local carbon offsets where residual emissions remain, and provide an example to other energy-intensive sectors.

On storm overflows the language in the SPS departs from the Storm Overflows Task Force goal to ‘eliminate harm’ and instead calls for the frequency and volume of overflows to be reduced. As the emerging findings of the storm overflows evidence project shows, seeking to reduce spills rather than harm significantly increases costs whilst delivering marginal benefit, and in a constrained investment scenario would displace more beneficial, targeted activity from company plans. The SPS should instead simply refer to the ‘eliminate harm’ goal and point to the action plan to be presented to Parliament in September 2022 under the Environment Bill, to make sure water company activity within the plan is allocated the necessary funds at PR24.

Whilst clean drinking water is mentioned in the SPS as vital for public health and wellbeing there is little reference to the actions necessary to ensure the sector continues to make progress. We will need support from Ofwat to progressively reduce known harms like lead and to address new or emerging threats in a timely manner. We need stronger recognition of this in the final draft.

Lastly but importantly, the SPS should make more explicit and strengthen how Ofwat will be held accountable for the decisions it takes during the PR24 process, and the extent to which its Final Determinations meets Ministerial expectations as defined by the SPS. Parliament should take a stronger role in scrutinising the decisions taken by Ofwat, focusing not only on where investment is allowed, but also where Final Determinations deviate in a material way from the business plans proposed by companies and the investments supported by customers. This did not occur at PR19.

**Does the strategic policy statement effectively set out government’s expectations of Ofwat in supporting delivery of our priorities?** If not, please identify where these expectations could made clearer.

*No.*

As mentioned above, the water sector has been criticised for falling behind public expectations on key environmental issues like leakage, abstraction and river water quality. Tackling these challenges especially given climate change and growth pressures will require significant and sustained investment, which we were pleased to see the draft SPS recognise. Unless Ofwat is given clear and unambiguous priorities the pace of progress is likely to remain below these expectations as the requisite investment is traded-off against the cost-effectiveness and affordability criteria that Ofwat chooses to apply.

Rather than help, we believe the lack of clear policy direction from government in the current draft makes it more difficult for Ofwat to fulfil its pivotal regulatory role, and in doing so serve the long-term public interest.

It would therefore be helpful as a minimum for the SPS to be more explicit about the affordability tests that ministers expect Ofwat to apply. This could reinforce the text in the current draft that recognises that improvements “cost money”, and that affordability considerations should focus on making sure the least able to pay are provided with the support they need.

There is already a goal in [Water UK’s Public Interest Commitment](#) to assist all customers by 2030 that would otherwise spend more than 5% of household disposable income on their water bill. [CCW’s recent review of affordability](#) adopted a similar focus. Defining affordability in these terms for Ofwat’s benefit in the SPS would allow both the necessary help to be given to all those that need it, whilst allowing the scale of investment in service performance and environment improvement that customers as a whole support. Ofwat’s existing duty to protect consumers will be undiminished by including such a statement in the SPS and provide a legitimate way for Ministers to guide how this duty is fulfilled.

**Do you consider that this statement to Ofwat is clear and easy to understand?** If not, please identify any areas that could be clarified.

*No.*

As stated above, whilst well written, we do not believe the statement gives a clear understanding of Ministers’ priorities for Ofwat and the water sector. Ministers have made a number of statements in recent months that suggest they rightly have very high expectations of water companies. However these high expectations have not been translated into clear and unambiguous priorities within the draft SPS. Unless they are, such expectations will not be met and Ministers, regulators and companies will continue to be criticised by stakeholders.

Ministers have a single chance every five years to set their expectations with legal effect. Other than meeting minimum statutory requirements, almost no progress could be made by 2030 and Ofwat will have fulfilled the terms of the current draft. The current approach to the SPS needs to be significantly revised, to give confidence to our customers and wider stakeholders that Ministers share their priorities and the necessary investment will be made whilst at the same time supporting those on lower incomes.

As mentioned under Q1, we believe the SPS could be significantly improved by including a statement at the beginning of the document that summarises Ministers' priorities with clear reference to the Environment Bill targets, building resilience to climate change, improving the health of rivers, and achieving net zero operational emissions by 2030. This would provide Ofwat with a definitive statement of expectations to frame their approach to PR24 and how they exercise their independent regulatory role.