



Department
for Environment
Food & Rural Affairs

The government's strategic priorities for Ofwat

Draft for consultation

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We are the Department for Environment, Food and Rural Affairs. We're responsible for improving and protecting the environment, growing the green economy, sustaining thriving rural communities and supporting our world-class food, farming and fishing industries.

We work closely with our 33 agencies and arm's length bodies on our ambition to make our air purer, our water cleaner, our land greener and our food more sustainable. Our mission is to restore and enhance the environment for the next generation, and to leave the environment in a better state than we found it.



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Contents

Introduction	4
Government's strategic priorities for Ofwat	5
Protecting and enhancing the environment.....	8
Environmental ambition.....	8
Getting the basics right.....	10
A resilient water sector	11
Meeting long-term water resources needs.....	11
Delivering resilient drainage and wastewater services	13
Greater resilience to flooding.....	14
Security, corporate and financial resilience	15
Serving and protecting customers	17
Going further to protect customers	17
Driving markets to deliver for customers.....	19
Appendix 1: Summary of Ofwat's duties	22

Introduction

A water sector that delivers for customers, the environment and wider society

1. This strategic policy statement sets out government's strategic priorities for Ofwat and our expectations of Ofwat in delivering the priorities set out in this document, in line with its duties and functions.
2. Safe, clean drinking water is vital for public health and the wellbeing of our society. Customers and government expect resilient water supply and wastewater services. Water is a finite resource, challenged by the impacts of climate change and population growth. Without an effective water sector that delivers in the face of these challenges, customers, public health, livelihoods and the environment are at risk.
3. [The 25 Year Environment Plan](#) sets out government's ambition to leave the environment in a better state for future generations. This includes the ambition for the water environment to be cleaner and healthier and managed in a way that is more resilient to drought and floods. The government has committed to achieving net zero carbon emissions by 2050, and [the water industry has stepped up](#) to support efforts to deliver this target.
4. There is increasing pressure on our water environment. The way in which the water industry conducts its business impacts on its sustainability and resilience. To meet the long-term interests of current and future customers, the environment and wider society, water companies must change the way they plan, invest and operate their services. The five Environmental Principles, as outlined in the Environment Bill¹, provide a framework to improve sustainability.
5. Water companies can achieve more for customers and for the environment through collaboration and partnerships. Solutions to many of the water sector challenges need strong local engagement and will require partnership working across catchments and regions. Where appropriate, the use of markets can deliver greater innovation and efficiency.
6. Customer expectations of water companies and their investors are shifting. Customers are increasingly aware of how companies conduct their operations, not just the service they receive. Improving customer engagement will enable companies to understand and better meet their expectations. By adopting an ethos of public service, water

¹ The Environment Bill is currently in parliamentary passage and is expected to receive Royal Assent in 2021.

companies can deliver real social and environmental value to the communities they serve.

7. As the sector tackles the challenges set out here, those who are vulnerable or struggle to afford water bills must be protected.

Government's strategic priorities for Ofwat

8. This statement sets out our strategic priorities for Ofwat, the independent economic regulator of the water industry. This is a draft for consultation, as required by the Water Industry Act 1991 (as amended by the Water Act 2014). This statement complements Ofwat's existing duties, which are summarised in Appendix 1 to this statement. In line with its duties and functions, Ofwat should consider how its regulatory tools can enable the water industry to deliver these long-term strategic priorities:

- **Protecting and enhancing the environment:** Ofwat should drive water companies to be more ambitious in their environmental planning and delivery to contribute towards the priorities set out in the 25 Year Environment Plan. Ofwat should drive water companies to improve their day to day environmental performance to enhance quality of the water environment.
- **A resilient water sector:** Ofwat should challenge the water sector to plan, invest and operate its water and wastewater services to secure the needs of current and future customers, in a way which delivers value to customers, the environment and wider society over the long-term.
- **Serving and protecting customers:** Ofwat should push water companies to provide a better and fairer water service for all, by improving customer services and complaints handling. Ofwat should drive water companies to meet the needs of vulnerable customers, including those who are 'transiently'² vulnerable.
- **Driving markets to deliver for customers:** Where appropriate, Ofwat should consider how the use of markets-based tools, such as competition, can deliver greater benefits for customers and support the delivery of government's wider priorities. Ofwat should encourage markets to drive innovation, efficiencies, and promote longer term sustainable investment across the sector.

² Some customers may experience transient vulnerability, where the circumstances leading to them being vulnerable is short term and any need for assistance is temporary. For example, people leaving hospital treatment.

9. Throughout this statement, we describe what we expect of the water industry. Ofwat should have regard to these expectations in carrying out relevant functions, except where a more explicit steer is provided about the role we expect Ofwat to play. Where such an explicit steer is provided, we expect Ofwat to have an effective framework to hold companies to account within its statutory remit.
10. We expect that Ofwat will embed our priorities throughout the organisation. It should:
- set out how each of the relevant activities in its forward work programme will deliver against the government’s strategic priorities;
 - explain clearly how major decisions support delivery of our strategic priorities, for example, when establishing the methodology for price reviews or publishing draft and final determinations; and
 - report on progress to its Board and transparently through its annual report and accounts.
11. We expect that the regulated water industry will reflect our priorities in its strategic direction. We want to see a transparent and accountable sector, which rises to the challenges set out in this statement and measures its performance by how it addresses these.

The legislative framework

The independent economic regulation of the water industry is essential to protect customers, facilitate efficient investment and enable growth. To support this, the government needs to set out a clear strategic context in which Ofwat, customers, water companies and investors can take informed decisions.

Under section 2A of the Water Industry Act 1991 (as amended by the Water Act 2014) the Secretary of State may from time to time publish a statement setting out strategic priorities and objectives for Ofwat to follow in carrying out its relevant functions relating wholly or mainly to England³. Ofwat must carry out those functions in accordance with any statement published under section 2A. When formulating the statement, the Secretary of State must have regard to Ofwat’s duties under section 2 of the Water Industry Act 1991, social and environmental matters, and may have regard to such other matters they think fit.

³ The statement sets strategic priorities and objectives for Ofwat’s regulation of water services in appointment areas wholly or mainly in England.

The Secretary of State is required to consult Ofwat, the Consumer Council for Water, relevant undertakers, licensees, the Environment Agency, Welsh Ministers, Natural Resources Wales and anyone else the Secretary of State thinks appropriate, on a draft of the statement. Prior to final publication, a draft of the statement must be laid before Parliament for a period of 40 days.

Protecting and enhancing the environment

Priority: Ofwat should drive water companies to be more ambitious in their environmental planning and delivery to contribute towards the priorities set out in the 25 Year Environment Plan. Ofwat should drive water companies to improve their day to day environmental performance to enhance quality of the water environment.

12. Water industry investment has delivered significant environmental benefits and has contributed to the water environment being in a better condition than it was 30 years ago. In recent years, however, improvement to the overall quality of the water environment has stalled. The challenges of climate change and biodiversity loss, as well as population growth and emerging chemical contaminants are further offsetting progress.
13. Water companies play a key role in protecting and enhancing the environment. Public and government expectations require that environmental responsibility is a core part of water company decision making. Companies need to prioritise environmental planning and delivery to reduce pollution and considerably improve their environmental performance, while delivering long-term value for money.

Environmental ambition

14. The government's 25 Year Environment Plan sets out our strategy to achieve clean and plentiful water by improving at least three quarters of our waters to be close to their natural state as soon as is practicable. Further outcomes in the 25 Year Environment Plan include thriving plants and wildlife, climate change adaptation and mitigation, enhancing biosecurity, reversing the decline in nature, and prioritising recovery of protected habitats.
15. River Basin Management Plans (RBMPs) set out for all sectors the legally binding objectives, standards and measures to meet a range of environmental objectives, including Good Ecological Status, obligations to meet protected area requirements, and objectives for Protected Areas.
16. The Environment Bill will give government the power to set long-term, legally binding environmental targets to deliver the outcomes in the 25 Year Environment Plan. To drive accelerated improvement in the water environment the government intends to set targets including to reduce pollution from wastewater and restore biodiversity. The Environment Bill will introduce Local Nature Recovery Strategies, Protected Site Strategies, and Species Conservation Strategies.
17. The Water Industry Strategic Environmental Requirements (WISER) translates these ambitions and sets out the obligations and requirements for the water industry's role in improving the environment. Water companies should ensure their business plans meet

the ambition in the WISER. This sits alongside the Water Resources National Framework which establishes, for water resources, long-term environmental destination statements towards 25 Year Environment Plan outcomes and beyond.

18. We expect water companies to play a significant role in achieving the relevant 25 Year Environment Plan outcomes and the relevant requirements set out in the Environment Bill, as well as having due regard to the RBMP objectives. We expect water companies to meet the requirements of all environmental legislation. Water companies should, when supported by customers, also exceed these legislative requirements and deliver wider environmental benefits in the course of carrying out their functions.
19. English water companies have made the commitment to achieve net zero carbon emissions for the sector by 2030. We welcome this proactive ambition as it will positively contribute to the government's target for the UK to be net zero by 2050. We expect Ofwat to have regard to the government's agenda on progressing towards net zero, including by appropriately scrutinising and challenging companies' plans – across both operational and embedded emissions. Investment should deliver value for money and complement other industry investment to deliver the step change needed in the quality of the water environment. We expect water companies to also play an important role in climate adaptation.
20. Water companies and regulators need to be outcome focused, innovative and integrate actions across the catchment. We expect water companies to work in partnership with other organisations, for example, local authorities, catchment partnerships, wildlife trusts, and farmers. The impact of environmental investment by the water sector should be maximised through co-funding with other sectors and green finance opportunities, where appropriate, including through market mechanisms. We expect companies to support environmental protection and enhancement of priority habitats such as chalk streams.
21. Pollution, particularly from nutrients, is a significant contributing factor to the decline of some of our protected sites, severely impacting rare and significant habitats of national importance. Ofwat should recognise the need for water companies and other stakeholders to support efforts to tackle nutrient pollution, and to consider where it is appropriate to use the regulatory framework to support such efforts.
22. Water companies should significantly increase their use of nature and catchment-based solutions to achieve multiple benefits for the environment. We expect companies and regulators to work towards delivering these solutions even where the risks are uncertain, so long as risks are understood, controlled, and proportionate to the potential benefits. Lessons should be learned from taking these approaches and learning disseminated across the sector.

We expect Ofwat to:

- Challenge companies to contribute to the relevant outcomes in the 25 Year Environment Plan and delivery of the relevant targets set under the Environment Bill.
- Encourage companies, when supported by their customers, to deliver wider environmental benefits in the course of carrying out their functions.
- Encourage companies to operate in partnerships across catchments and maximise co-funding and green finance opportunities, where appropriate, including through market mechanisms.
- Support an increase in the use of nature-based solutions where appropriate and in the interests of the environment and customers.
- Challenge water companies to prioritise improvements to protected sites and recognise the importance of priority habitats such as chalk streams, including the need to address nutrient pollution.
- Have regard to the ambition set out in the WISER.

Getting the basics right

23. The water industry's environmental performance has stagnated and, in certain cases, deteriorated in recent years. There are a small number of water companies that are performing well and using innovation to drive performance. Poor environmental performance is not acceptable and poorly performing companies need to rapidly improve.

24. We want to see far less reliance on storm overflows which discharge sewage into our water courses. We expect companies to significantly reduce the frequency and volume of sewage discharges from storm overflows, so they operate infrequently. We expect overflows that do the most harm or impact on the most sensitive and highest amenity sites to be prioritised first. Water companies should set out how they will improve the performance of their drainage system, including reducing discharges, through drainage and wastewater management plans.

We expect Ofwat to:

- Incentivise water companies to improve environmental performance to meet Environment Agency requirements in the Environmental Performance Assessment.
- Incentivise water companies to significantly reduce the frequency and volume of sewage discharges from storm overflows.

A resilient water sector

Priority: Ofwat should challenge the water sector to plan, invest and operate its water and wastewater services to secure the needs of current and future customers, in a way which delivers value to customers, the environment and wider society over the long-term.

25. Safe, clean drinking water is vital for public health and the wellbeing of our society. Customers and government expect resilient water supply and wastewater services. Climate change and population growth will continue to put under pressure both the resilience of the networks to deliver water services, and the sustainability of the water environment. Resilient water supply and wastewater services rely on a healthy environment.
26. The government expects the sector to plan, invest and operate to meet the needs of current and future customers, in a way which offers best value for money over the long-term. This will require water companies to shift towards long-term adaptive planning. Water companies must rigorously assess and improve their resilience, including existing assets' health, to a full range of hazards including drought, flooding, pollution incidents and security. Companies should demonstrate a clear understanding of the health of their existing assets and how this impacts their resilience.
27. Ofwat should promote an integrated water management approach so that water company actions deliver value for customers and achieve multiple benefits where possible. This can help deliver effective action in areas such as flood and drought resilience, enhance and protect the natural environment, whilst delivering wholesome drinking water. To achieve this, regulatory frameworks should be further developed to enable cross-sector working. Data, information and ideas should be shared to deliver adaptive solutions that can address multiple issues.

Meeting long-term water resources needs

28. Water companies must take a twin track approach of increasing water supplies alongside reducing demand, in order to deliver a secure, resilient and sustainable water service over both the long and short term.
29. [The National Framework for water resources](#) published by the Environment Agency in 2020 sets out the scale of the challenge in England – including the need for water

companies to be resilient to a one in 500-year drought⁴, with the aim to meet this by 2040. It encourages a collaborative, cross-sector, regional planning approach to increase water supply, which we expect Ofwat to continue to engage with and support.

We expect Ofwat to:

- Support regional groups and water companies meet the long-term challenge to water supply set out in the National Framework.
- Recognise the need for investment in supply and demand solutions as set out in the water resources management plans (WRMPs). The need should complement improved water company maintenance of existing water supply assets.
- Challenge the water companies to meet that need in a way that provides wider benefits (such as flood resilience, and social and environmental improvements) whilst representing the best value for money over the long-term.
- Drive the sector to innovate and adapt to deliver the expectations in the National Framework, including drawing lessons from collaborative approaches developed by RAPID⁵.
- Encourage and incentivise action to address unsustainable abstraction that harms the environment.

Managing water demand

30. Reducing demand for water can both relieve pressures on water supply and contribute to climate change adaptation and mitigation by increasing our resilience to extreme drought. Alongside increasing supply, water companies must act to reduce demand for water in a way that represents best value for money in the long-term.

We expect Ofwat to:

- Challenge water companies to halve leakage by 2050⁶. We expect Ofwat to monitor progress towards this target.
- Support and encourage water companies to develop a consistent approach to address leakage on customers' own pipes. This could include provision for identifying leaks, agreeing who is responsible for repairs and replacement, and monitoring the impacts of this.

⁴ Government supports this in the National Infrastructure Strategy

⁵ Regulator's Alliance for Progressing Infrastructure Development (RAPID)

⁶ Water companies have committed to delivering a 50% reduction in leakage from 2017-18 levels by 2050

- Hold companies to account for their contribution towards reducing personal water consumption to 110 litres of water per head per day (l/h/d) by 2050.
- Work with the water retailers, incumbent water companies and other stakeholders to contribute to the delivery of the Industry Action Plan to improve water efficiency in the business sector.

31. When enacted and in force, Ofwat should take into account any relevant statutory targets set under the powers in the Environment Bill when assessing water efficiency measures in water companies' business plans, and monitoring water company performance.

Delivering resilient drainage and wastewater services

32. Strategic planning for drainage and wastewater services is essential to manage increasing challenges from population growth and climate change. The sector must achieve this while meeting the needs of both current and future customers, and in a way that offers value for money over the long-term.

33. Water and sewerage companies will produce drainage and wastewater management plans (DWMPs). DWMPs will span at least 25 years and will be the means for the industry to assess its network capacities and risks, and to collaborate with others in developing and implementing long-term, adaptive plans for wastewater and drainage investment within catchments. Such implementation will improve resilience, reduce pollution incidents, reduce the risk of flooding in people's homes and improve the local environment. Alongside this, more resilient drainage and wastewater will contribute towards reducing surface water flood risk. It is crucial that water and sewerage companies have a detailed understanding of their network capacities, potential challenges and risks, and ensure their systems are fit for purpose and more resilient – both now and into the future.

We expect Ofwat to:

- Take into account the aims of the drainage and wastewater planning process, in the [“Framework for the production of Drainage and Wastewater Management Plans”](#), including the government / regulators' joint guiding principles to companies⁷ to enable strategic solutions in wastewater and drainage.
- Encourage and support the water industry to collaborate with others in the implementation and future development of DWMPs and encourage the

⁷ Currently being finalised and will be formally issued in September 2021

increased use of catchment-wide, nature-based solutions and sustainable drainage schemes, where appropriate.

- Challenge and incentivise companies to meet the aims of strategic drainage and wastewater management planning in a way that represents best value for money over the long-term for customers, the environment and wider society.

Greater resilience to flooding

34. All sources of flooding impact water companies and their customers, disrupting services and damaging property and the environment. Climate change and population growth are increasing this risk and associated impacts. The government's [flood and coastal erosion policy statement](#) sets out that everyone, including water companies, has a role to play in boosting the long-term flood resilience of our communities and water and wastewater infrastructure and services.

35. As risk management authorities, water companies have statutory flood risk roles and duties⁸ including for water and sewerage companies managing the risks of flooding from their sewer systems caused by excess rainfall. [The National Flood and Coastal Erosion Risk Management Strategy for England](#) sets out further their important role in managing flooding. Ofwat and the Environment Agency are developing a joint approach for how the water companies should consider flood and coastal resilience in the context of all their statutory roles and duties.

36. Action is already underway, but there is more that the sector can do to help deliver greater long-term flood resilience. We expect the sector to deliver this need in a way that achieves value for money over the long-term, considering wider costs and benefits to customers, environment and wider society. We expect water companies to carry out meaningful and effective engagement with their customers to better understand their support.

We expect Ofwat to:

- Challenge water companies to deliver greater flood resilience for their own infrastructure and services, and where appropriate provide wider benefits to their customers and the wider community.
- Challenge and incentivise the water companies to identify and deliver greater customer, societal and environmental benefits from their water and wastewater infrastructure and systems, such as using reservoirs to provide greater flood resilience. This should include leveraging funding from third parties where appropriate.

⁸ Water companies are risk management authorities under the Flood and Water Management Act 2010.

- Challenge and encourage water companies to work in partnership with others to support and, where appropriate invest in flood resilience measures that secure wider benefits for them, their customers and the wider community.
- Challenge the water companies to regularly review and fully understand the current and long-term flood risk to and from their infrastructure and systems and identify opportunities to increase resilience.

Security, corporate and financial resilience

Security and emergency measures

37. As well as being prepared for emergencies such as floods and droughts, water companies need to ensure they are protected against a wide range of security threats. This includes theft, cyber-attacks or terrorism. Under the Security and Emergency Measures (Water and Sewerage Undertakers) Direction 1998 (SEMD) water companies have obligations to develop and maintain plans to ensure a water supply at all times, including during a civil emergency or event threatening national security.
38. The government is currently working on a review of SEMD and the associated policy framework, to ensure that they remain appropriate. We expect this review to be completed by the end of the year in order to inform the next price review. As part of the updated SEMD there will be a new set of security and emergency planning outcomes which companies will be expected to meet. To support companies in the delivery of the SEMD outcomes, Ofwat should continue to ensure that its regulatory approach, including the price review process, reflects the efficient delivery of companies' obligations. As part of the review of SEMD we will also improve existing assurance and reporting structures, including creating a new process to compare SEMD performance reporting with potential PR24 business plan proposals. Ofwat should use information supplied by Defra from this process to inform PR24 decisions.
39. Under the Network and Information Systems (NIS) Regulations 2018, water companies must take appropriate measures to manage risks to their network and information systems and prevent and/or minimise the impact of incidents to those systems.

Corporate and financial resilience

40. Ofwat has incorporated objectives on board leadership, transparency and governance into water company licences. As water companies provide an essential public service to their communities, we expect Ofwat to encourage and incentivise water companies to meet these objectives and to foster better corporate responsibility.
41. The water sector continues to attract investment reflecting the status of the water companies as public utilities. We expect Ofwat to provide the regulatory conditions to foster an investment culture which gives proper consideration to the long-term and balances the interests of current and future customers fairly. The ambitions set out in

this document cost money. We expect Ofwat to use its regulatory powers to balance these costs, so customers receive proportionate bills that are fair and good value for money.

Serving and protecting customers

Priority: Ofwat should push water companies to provide a better and fairer water service for all, by improving customer services and complaints handling. Ofwat should drive water companies to meet the needs of vulnerable customers, including those who are ‘transiently’ vulnerable.

42. This strategic policy statement sets out an ambition for water companies to deliver more for the environment and increase resilience. The government expects Ofwat to deliver value for money and ensure that the impact of any increased investment remains affordable and has broad customer support.

43. Water companies must deliver for their customers - ensuring they receive an excellent service now and in the future, at a price that they can afford. Customers should be engaged meaningfully and have an influence in setting the long-term outcomes companies should deliver. Service improvements should reflect evidence of customers’ expectations, and the affordability and acceptability of future bills.

Going further to protect customers

44. Ofwat’s price determinations should secure a fair deal for all customers, providing intergenerational value, and that companies are meeting the needs of vulnerable customers, including the ‘transiently’ vulnerable. Ofwat’s regulation of the industry should strengthen its focus on protecting vulnerable customers.

45. Water companies must understand the needs of their customers through better engagement and use of data. The Digital Economy Act enables companies to access information to identify customers who may need financial support, but the sector must go further in anticipating customer needs.

46. Water companies should proactively manage customer debt, by raising awareness of the support available to household and non-household customers, and effectively target support offerings before customers fall behind on their payments. This will not only improve outcomes for customers who fall into debt, but also for companies’ whole customer base, as any increase in the number of customers who cannot afford their bill puts pressure on wider customer bills.

We expect Ofwat to:

- Challenge companies to treat all customers fairly and to continue to strengthen focus on protecting vulnerable customers.
- Consider the conclusions of the Consumer Council for Water’s (CCW) Affordability Review to improve awareness of, access to and fairness of support measures in the sector.

- Challenge water companies to deliver on their commitments to expand data sharing initiatives across the sector and with other utilities.
- Challenge water companies to proactively manage customer debt.

Effective and timely services for all

47. Water companies must provide excellent services, including customer service and complaints handling. Household customers are unable to switch water company provider, so it is even more important that when things go wrong customers can rely on a fast and effective complaints process.

We expect Ofwat to:

- Incentivise water companies to improve their customer service and improve the timeliness and quality of responses to household and non-household customer complaints, including those raised by retailers on behalf of their business customers.
- Work with CCW to monitor the effectiveness of the customer complaints handling process and, where necessary, consider the case for improvements to the process.

Protecting small business customers

48. The business retail market opened in 2017 to enable eligible businesses, charities and public sector organisations in England to switch from their local monopoly water company to another supplier of retail services. Larger, higher consumption customers have tended to engage in the market more than smaller customers and therefore have seen the greatest benefit from the market opening in terms of money, water and time saved.

We expect Ofwat to:

- Protect the interests of micro and small business customers that are not engaged in the water retail market using competition and/or regulation as appropriate.
- Improve the value available to all customers from the business retail market by working with MOSL (the market operator) and other market participants.

Driving markets to deliver for customers

Priority: Where appropriate, Ofwat should consider how the use of markets-based tools, such as competition, can deliver greater benefits for customers and support the delivery of government's wider priorities. Ofwat should encourage markets to drive innovation, efficiencies, and promote longer term sustainable investment across the sector.

49. The government would like to see Ofwat and the industry explore the full range of market-based tools, including competition and Direct Procurement for Customers⁹, where they can support our ambitions for long-term resilience and contribute to government's wider goals. Ofwat should seek to sustain long-term investor confidence, in line with its duties, including protecting interests of current and future customers.

Markets for eco-system services

50. There is growing interest in development of appropriate market mechanisms to support investment in natural assets and their management, which can be used along with grey infrastructure to deliver the services we need and/or reduce environmental risk. We want Ofwat to foster the conditions that enable and encourage the industry to make increasing use of these nature-based solutions and look for investments in natural assets that can deliver multiple benefits, and which therefore have the potential to attract co-funding.

Business retail market

51. The business retail market opened in 2017 to enable non-household customers including businesses, charities and the public sector to have a choice over their water and wastewater retail services. An effective market should deliver better service and more responsive products, saving customers money, water and time.

52. Yearly reviews of the business retail market undertaken by Ofwat have highlighted a number of issues that have impeded the effective functioning of the market. Ofwat has challenged market participants to work collaboratively to resolve such market frictions so that the market can deliver improved outcomes for customers, society and the

⁹ Direct procurement for customers (DPC) involves a water or wastewater company competitively tendering for services in relation to the delivery of certain large infrastructure projects, resulting in the selection of a third-party competitively appointed provider

environment. We expect incumbent water companies to continue to improve their support for the development of an effective market.

53. As part of Ofwat's duty to further the consumer objective, there is a need to explore whether changes to market rules, processes, and structures can deliver better outcomes for customers, society and the environment, including by better facilitating innovation, market resilience and investor confidence.

We expect Ofwat to:

- Work in collaboration with wider stakeholders to explore whether changes to the business retail market rules, processes and structures can deliver improvements for customers, society, market resilience and the environment.
- Continue to work with industry to focus on resolving frictions in the business retail market and improve outcomes for customers.
- Monitor and promote incumbent water companies' support in the development of a well-functioning business retail market.
- Reduce potential disruptions to customers' access to retail services in the event of a retailer making an unplanned exit, and to review the supplier of last resort arrangements (including highlighting and making recommendations in relation to any legislative barriers) so that they are robust for the longer term.

New Appointments and Variations (NAVs)

54. The new appointments and variations ("NAVs") framework allows new market entrants to replace incumbents in providing water, sewerage or combined water and sewerage services to a specific geographic area. Since the market was opened, Ofwat has undertaken reviews and worked with NAVs and incumbent water companies to identify and address barriers to entry and improve the complementary regulatory regime. We expect incumbent water companies to interact with NAVs effectively to deliver a well-functioning market, and for NAVs to comply with customer protections, including wider financial assistance.

We expect Ofwat to:

- Monitor incumbents to ensure they appropriately engage with NAVs to deliver an effective market.
- Further explore customer protections including the range of customer services, complaints handling and the development of support measures for customers who may struggle with their water bill.

Developer Services/Connections market

55. Building new and sustainable developments can support government priorities of economic growth and environmental protections, including, nutrient neutral development at sites threatened by excess nutrient pollution. New water and sewerage connections can contribute to these goals. Therefore, the role of water companies in

facilitating these activities for developers, self-lay providers, NAVs and retailers is crucial.

56. We expect water companies to have regard to the impact of their operations on the government's target to increase the supply of new homes. Ofwat can play an important role in supporting these efforts so that where appropriate, water companies and home builders can work together to unlock new and sustainable property development.

We expect Ofwat to:

- Promote greater collaboration between incumbents and their new connections customers, particularly on large-scale developments.
- Improve fairness and transparency in incumbents' charging arrangements and further promote sustainability and environmental protections.
- Consider how its regulatory framework can enable water and wastewater services to support government's ambitions to increase housing supply, in line with its duty to contribute to the achievement of sustainable development.

Bioresources market

57. In 2020 Ofwat introduced measures to promote the bioresources market, which can provide benefits to customers and the environment by improving affordability, supporting renewable energy and avoiding the need to incinerate waste products. However, Ofwat has identified barriers that may limit the growth of this market and we expect water and sewerage companies to support the market to deliver its full potential.

We expect Ofwat to:

- Further promote the bioresources market.
- Set clear expectations that water and sewerage companies should also take a leadership role to enable the market to deliver its full potential.

Appendix 1: Summary of Ofwat's duties

Sections 2 and 3 of the Water Industry Act 1991 (as amended) place a number of statutory duties on both the Secretary of State and Ofwat.

Ofwat's primary duties (as set out in section 2) are to carry out its relevant functions in the way it considers best calculated to:

- further the consumer objective to protect the interests of consumers¹⁰, wherever appropriate by promoting effective competition;
- secure that the functions of each undertaker¹¹ are properly carried out
- secure that undertakers are able to finance the proper carrying out of their functions, in particular by securing reasonable returns on their capital;
- secure that licensees (companies with water supply or sewerage licences) properly carry out their licensed activities and functions; and
- further the resilience objective to secure the long-term resilience of undertakers' water supply and wastewater systems, and to secure they take steps to enable them, in the long term, to meet the need for water supplies and wastewater services.

Subject to these, Ofwat has secondary duties to:

- promote economy and efficiency by undertakers in their work;
- secure that no undue preference or discrimination is shown by undertakers in fixing charges;

¹⁰ Consumers are defined at s2(5A) WIA 1991 as both existing and future consumers, and the "interests of consumers" are their interests in relation to the supply of water by means of a water undertaker's supply system [...] and the provision of sewerage services.

For the purposes of this duty, s2(2C) WIA 1991 sets out a non-exhaustive list of particular groups to whose interests Ofwat shall have regard, which consists of: individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes, individuals residing in rural areas, and customers who are not eligible to switch suppliers.

¹¹ That is, company holding an appointment as a water and/or sewerage undertaker.

- secure that no undue preference or discrimination is shown by undertakers in relation to the provision of services by themselves or other undertakers or by licensees;
- secure that consumers' interests are protected where undertakers sell land;
- ensure that consumers' interests are protected in relation to any unregulated activities of undertakers; and
- contribute to the achievement of sustainable development.

Ofwat may also have regard to the interests of consumers in relation to other utilities.

In exercising any of its powers or duties in accordance with those duties outlined above, Ofwat shall have regard to the principles of best regulatory practice.

Ofwat and the water companies also have general environmental and recreational duties in section 3 of the Water Industry Act 1991 (as amended). Subject to the duties in section 2, these are to:

- further the conservation and enhancement of natural beauty and the conservation of flora, fauna and geological or physiographical features of special interest and to further water conservation;
- have regard to the desirability of protecting and conserving buildings, sites and objects of archaeological, architectural or historic interest; and
- take into account any effect which the proposals would have on the beauty or amenity of any rural or urban area or on any such flora, fauna, features, buildings, sites or objects.

Subject to these, Ofwat has duties to:

- have regard to the desirability of preserving for the public any freedom of access to areas of woodland, mountains, moor, heath, down, cliff or foreshore and other places of natural beauty;
- have regard to the desirability of maintaining the availability to the public of any facility for visiting or inspecting any building, site or object of archaeological, architectural or historic interest; and
- take into account any effect which the proposals would have on any such freedom of access or on the availability of any such facility.