

May 2021

# **PR24 and beyond: Creating tomorrow, together – executive summary**

**ofwat**

## Facing into the future

We face an immediate challenge. Our water sector needs to tackle demands from climate change, customers' increasing expectations for service and the treatment of the environment, and the pressures on people's ability to pay.

**Climate change** threatens resilience, both of our networks and our water supply. We are already seeing drier summers, more frequent and intense rainfall, more variable river flows and biological changes in water bodies. In Wales, the projected reduction in summer rainfall by 2050 significantly exceeds the projected increase in winter rainfall<sup>1</sup>. In England, it is estimated that there is a 25% chance of the worst drought in recorded history within the next 30 years<sup>2</sup>.

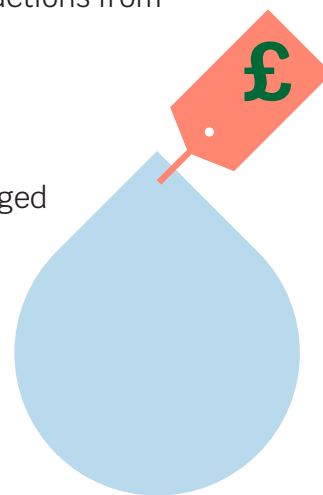


At the same time, **customers' interests are evolving and their expectations are growing**. Customers are increasingly concerned about damage to the environment from taking water from rivers and chalk streams, discharging waste through storm overflows, and carbon emissions. And companies need to go further to deliver great customer service.

Meanwhile, the impact of Covid-19 has amplified concerns about **affordability**.

One third of households in England and Wales already sometimes struggle to pay their household bills<sup>3</sup>, and this figure may rise as the impact of the pandemic on jobs becomes clearer. And there is unlikely to be the same scope for bill reductions from falling underlying financing costs that we saw in PR14 and PR19.

Companies and governments have set long-term targets on per capita consumption, drought resilience, leakage, carbon reduction, and water poverty. Further targets are likely to be set under new legislation envisaged by the Environment Bill.



1. Welsh Government, '[Future Wales: The National Plan 2040](#)', February 2021, p 45.

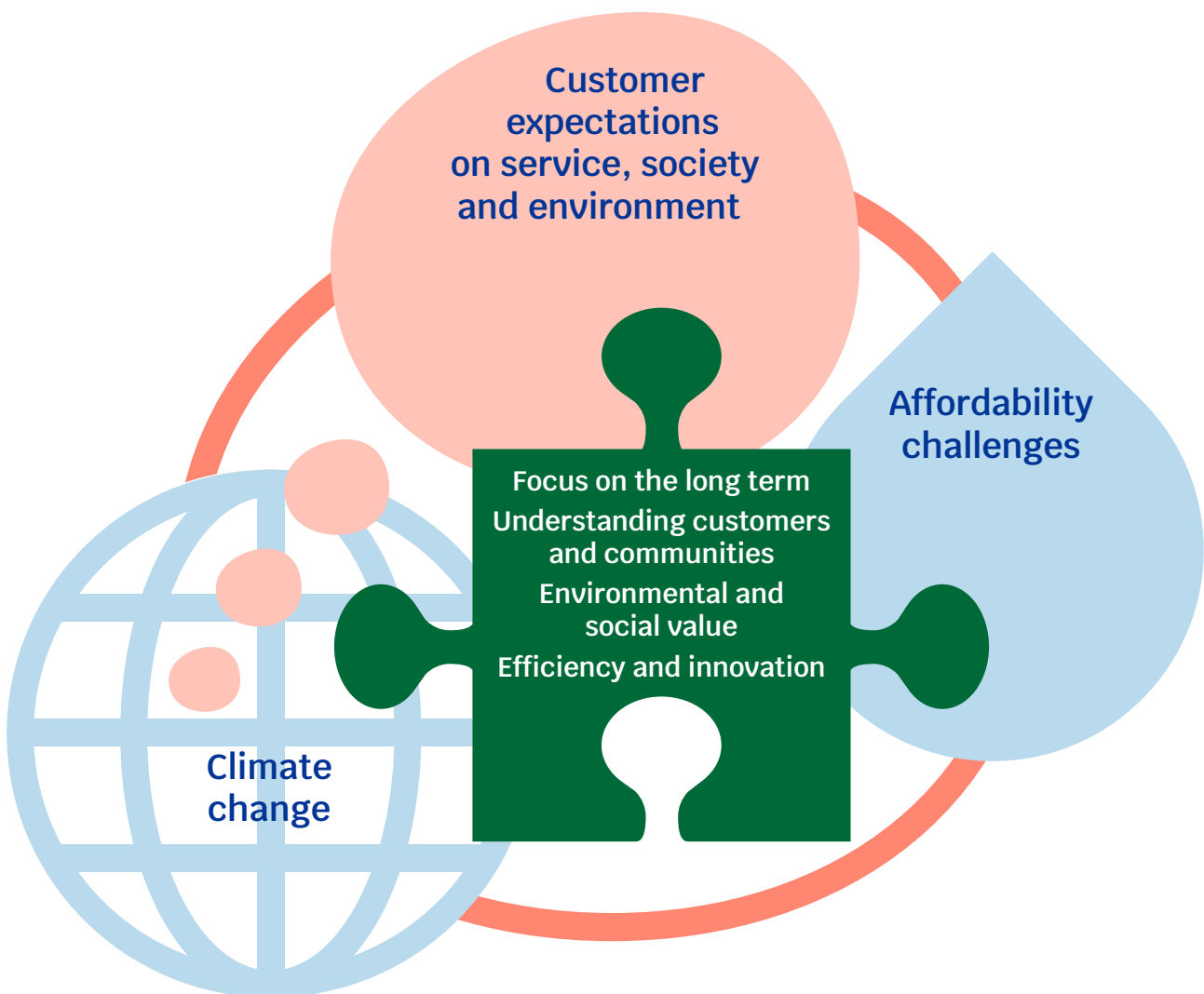
2. National Infrastructure Commission, '[Preparing for a drier future: England's water infrastructure needs](#)', April 2018, p 5.

3. Online nationally representative survey of 2,100 bill payers in England and Wales. Conducted for Ofwat by panelbase (fieldwork 26 March to 1 April 2021).

We need to work in new ways to meet these ambitions. **This is the moment for fresh thinking and real change.** Collaborating with others inside and outside the sector can deliver better, more sustainable outcomes. We expect companies to adopt more nature-based solutions and to unleash game-changing innovations to drive up their performance. They will need to embrace the opportunities from capturing, understanding and using data, and from engaging with markets. And balance complex trade-offs carefully over the long term.

We also need to play our part. We need to adapt our approaches including the price review frameworks for England and for Wales to ready them for the future. We are keen to hear your views on our suggestions on how to do it.

## Challenges and solutions



## Our framework for the future

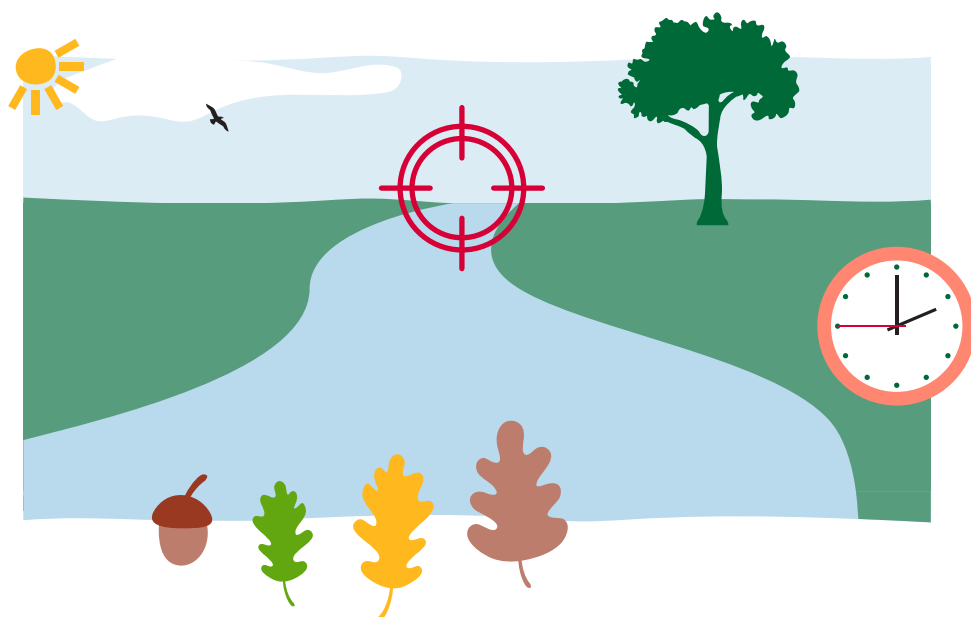
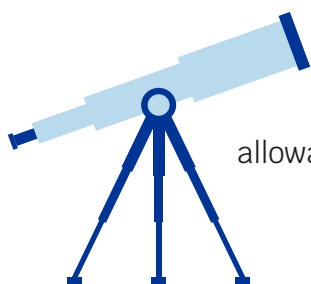
We propose to overcome these challenges and embrace the opportunities by embedding a sharper emphasis on creating value.

We think that means: an increasing **focus on the long term**; **delivering greater environmental and social value**; reflecting a **clearer understanding of customers and communities**; and **driving improvements through efficiency and innovation**. These proposed goals reflect the outcomes that we want to achieve for customers and the environment. They interlink with and complement each other, and the price review must deliver on them all.

## Focusing on the long term

We want the price review to support the right long-term solutions for customers. In PR19, we allowed companies £13 billion for improving services to customers and the environment. Companies will need to continue to enhance their networks, and we need to understand better how their approach in PR24 fits with their long-term strategy. Companies should specify what long-term outcomes they are aiming to deliver, taking account of the long-term ambitions of the UK and Welsh governments. They should show they have carefully considered how best to work towards these outcomes, taking account of uncertainty and affordability constraints. They should also bring together their water resource management plans, drainage and wastewater management plans, and other statutory plans.

We are also looking at other ways we can support the long-term focus. We are proposing to strengthen our approach to resilience so that companies are more strongly incentivised to maintain their assets for the long term. And we will continue our focus on companies' financial resilience. We are also considering whether to provide greater clarity on our approach to future price reviews. This includes both what we expect companies to deliver in future periods from their current allowances and what additional incentives we will provide.



We want to streamline and refine the price review process so that there can be more focus on the long term. We are also considering whether we could provide more information to companies in advance of the price review so that they better understand the baseline for the development of their business plans. We are considering whether to combine the assessment of business plans and the draft determination to create a two-step process. We will also simplify our outcomes framework which sets performance levels and incentives for a range of metrics.

## Delivering greater environmental and social value

Customers increasingly expect company decisions to be driven by a broad range of environmental and societal factors. This is particularly pertinent to water companies who are key long-term stakeholders in communities, providing services which are both essential and environmentally sensitive.

We recognise that valuing environmental and social impacts is challenging. We expect water companies to work together to ensure there is an appropriate degree of consistency in how environmental and social factors are taken into account in their decision making.

Companies' ability to meet these expectations will be increased by a greater focus on the long term. But there may be more we can do. We are considering how we can better incentivise nature-based solutions and other opex-based solutions, through reducing the potential bias for capital-based solutions. We also want to provide greater clarity on the role partnerships can play as part of PR24 – in particular

in helping water companies to deliver greater public value. And we want to consider how PR24 and future price controls can support companies to meet the challenge of net zero.

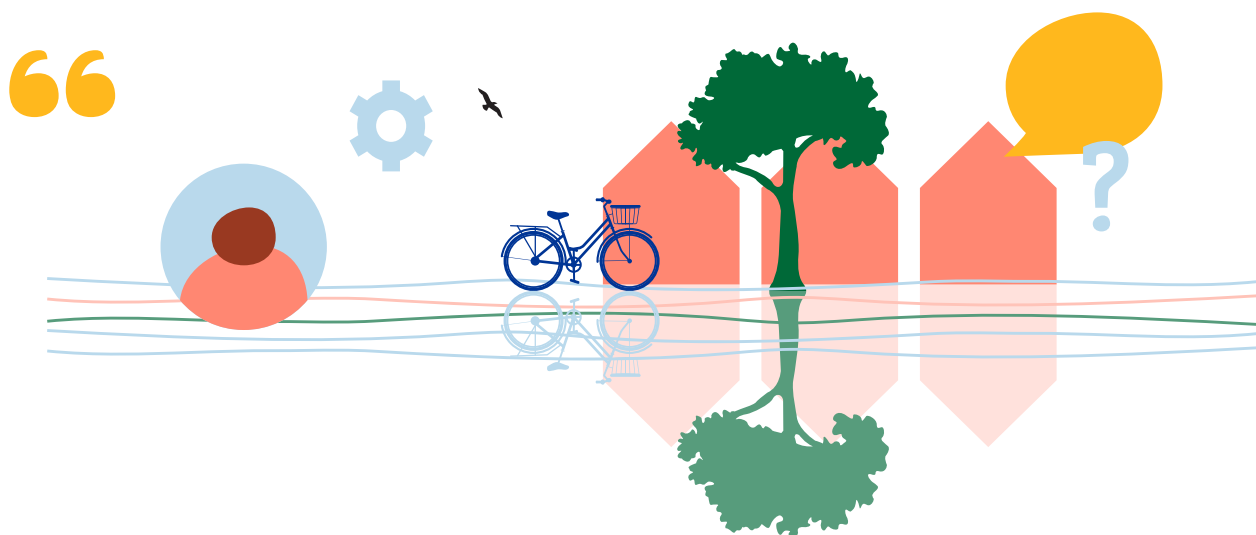


## Reflecting a clearer understanding of customers and communities

We have observed a culture change in the sector over the last decade, with increased recognition that engaging well with customers is fundamental to delivering services that meet their needs. Companies' priorities are now to focus more on day-to-day engagement with their customers, moving ahead with the pace, creativity and vigour that we can see in other sectors of the economy. This includes efforts to help customers play their part in reducing water consumption and avoiding damage to the wastewater system. And it is more important than ever that careful attention is paid to what customers can afford to pay.

For the price review, we want to develop a simpler, more targeted and more effective approach to capture customers' views. We also want to consider how, and on what issues, customer research can capture customers' views meaningfully. We plan to work with the sector to conduct collaborative customer research for England and for Wales, to complement companies' own engagement. This will focus on aspects of the determinations common across companies so that we can easily compare differences between customer groups. We will aim to publish this information in advance of the business plans.

This research will aim to provide a significant amount of the information on customer views required to inform our determinations, so we propose not to require each company to have a customer challenge group at PR24. Instead, companies would put in place challenge and assurance solutions that meet their specific needs and ambitions. Companies can also continue to use customer challenge groups where they find them helpful for focusing on, and working with, customers, as part of their day to day business outside the price review.



## Driving improvements through efficiency and innovation

Since 2011, productivity growth in the water sector has appeared weak. At PR19 some companies really stepped up their commitments to improve services while reducing costs. Given the challenges the sector is facing, all companies need not only to embed these ambitions across their businesses, but to accelerate improvements and create space to do more for their customers and the environment. PR24 needs to ensure consumers do not pay more than they need to, so it will only reward companies that meet these challenges.

We expect companies to develop a much better understanding of how they can efficiently improve service as they deliver PR19. This should include working in partnership with other organisations and making better use of data, including by embracing open data. This insight should inform their PR24 business plans.

Markets can also drive innovation and efficiency. In PR24, where consistent with government guidance, we will further develop markets for developer services, bioresources, water resources and the provision of large infrastructure.

We are also considering setting targeted challenges to encourage a step change in performance on areas where there are long standing sector wide issues. These areas could include water efficiency and reducing harm caused by discharges from the wastewater network. And, building on the experience of our innovation competitions, we will explore whether we can increase incentives or revise the protections in the control to unlock a step-change in innovation.



## Next steps

To build a PR24 to meet the challenges ahead we need your views on the ideas we are setting out. We welcome [responses to this document](#) and will carry on the discussion through working papers, workshops and working groups. This will help us further develop the price review framework in advance of our draft methodology, due in summer 2022.

**Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.**

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