Annual Review
2016/17

WATER UK

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Water UK Vision and Priorities

Water UK represents and works with the major water and wastewater service providers in England, Scotland, Wales and Northern Ireland.

Our vision is of a trusted water sector, providing customers and communities with world-class services and enhancing the UK's quality of life.

We promote the conditions needed to achieve our vision through leadership in bringing people together, informing debate and generating ideas.

Our priority themes are to help water and wastewater companies work with others to:

- Address short and long-term pressures on UK water and wastewater networks posed by growing demand and climate change.

  2020 goal: there is a policy and regulatory framework in place which enables the industry to meet the long term needs of the country for water and wastewater services, supported by greater public understanding about resilience.

- Inform the operation and development of markets, and their regulation, in the long-term interests of customers.

  2020 goal: market reform initiatives and the PR19 price review have created a framework which aligns delivery of better services, affordable prices and sustained investment in the next five-year planning period and beyond.

- Make the case for smart design and enforcement of legislation/regulation governing water quality and wastewater in delivering public health and environmental improvements.

  2020 goal: the industry has helped national governments secure an effective and

  proportionate UK/EU legislative framework which delivers excellent and affordable water and wastewater services.

- Increase levels of customer and stakeholder trust in the sector

  2020 goal: the industry has approval ratings as good as the most trusted consumer and retail brands for customer service, and continues to secure customer support and trust for their long-term business and investment plans.

Within Water UK, overall policy is set out through a Board and a Council of members. Detailed policy work is carried out by our staff team, led by our Chief Executive, and working through member policy groups.

Water UK also provides a wide range of specialist networks and forums allowing our members to exchange best practice and to carry out research on issues of common concern.

Resilience

Resilience - address short and long-term pressures on UK water and wastewater networks posed by growing demand and climate change.

In the UK, climate change, and a growth in population and the number of households, is adding to existing pressures on water supplies and sewers. 2016/17 has seen an increase in our activity to promote greater understanding of and action on resilience of water services. We have engaged extensively with our members, government, regulators and other stakeholders across a wide range of projects. We focussed on the following areas of activity in 2016/17.

Water resources

In September 2016, we published a ground-breaking report on the long term risks to public water supply resources in England and Wales, and what was needed to improve resilience. *Water resources long-term planning framework* was completed by an independent consortium of highly-respected consultants and organisations, overseen by a multi-stakeholder steering group chaired by Jean Spencer of Anglian Water.

The report has been widely deployed and its findings helped inform the UK Government's draft Strategic Policy Statement for water, published in March 2017: a programme of follow up work is in hand.

Wastewater and sewerage

Work has continued under the multi-stakeholder 21st Century Drainage Programme set up in 2015 and led by Tony Harrington of Dŵr Cymru to develop the tools and processes needed to understand and plan better for the future resilience of drainage systems. In October 2016, we published a Communications Document to generate a dialogue with Governments and other key parties about the challenges faced and the work being done through the programme.

On unflushables, we took part in a productive Ministerial roundtable discussion on how to reduce products not meant for our toilets getting into sewers and drains. We have also worked with the industry to highlight the risks associated with flushing such products, and on agreeing an international policy statement regarding misleading labelling of so-called "flushable" products.

Water UK also worked with companies to develop a new industry approach to the adoption of Sustainable Drainage Systems (SuDS) following the decision by Government not to implement Schedule 3 of the Flood and Water Management Act 2010. There is broad support for the use of SuDS to help relieve pressure on existing drainage systems and this work will help to overcome one of the main constraints on the increased use of such systems.

Flooding

Water UK and water companies engaged with Government during the course of its National Flood Resilience Review (NFRR), published in September 2016. Work has continued with Defra to identify water industry assets at risk in light of the latest flood risk maps arising from the review and potential mitigating actions.

Cyber security

In March 2017, Water UK published its cyber security principles for the water industry following the work done by its Cyber Security Good Practice Group led by Phil Chatterton of Thames Water. The principles help support the Water Sector Cyber Security Strategy published in the same month by Defra.

Water UK has also established a Strategic Security Board to monitor adoption of the principles by the

industry and to provide a senior liaison point with Government and regulators on the combined issues of physical, personnel and cyber security.

Water and Wastewater Resilience Action Group

In October 2016, we established the Water and Wastewater Resilience Action Group in line with a recommendation from the December 2015 Ofwat Resilience Task and Finish Group report. Independently chaired by ICE President Professor Tim Broyd, WWRAG brings together a wide range of organisations to consider best practice and leading thought on resilience across the water sector. It will provide clear guidance on where it considers parts of the sector have achieved best practice, and where innovation and thought leadership have been lacking.

A key area of work initiated during the year has been the development of an initial suite of resilience metrics to enable a better understanding both of current levels of resilience and how water companies' business plans might enhance future resilience.

Reform - inform the operation and development of markets, and their regulation, in the long-term interests of customers.

The market is undergoing many important developments as non-household retail competition is introduced in England and discussions continue on the next price review – PR19. We are working to ensure that it runs in the best interests of water companies' customers. We focussed on the following areas of activity in 2016/17.

Ofwat Water 2020 policy framework

A cost-assessment working group with Ofwat defined potential data sets for use at PR19 – making progress on how costs could be modelled. We also engaged on licence modifications and licence simplification: Ofwat has now moved on from setting the framework to implementation and developing detailed methodology.

Water UK's work on a strategic dashboard and on greater consistency of performance measurement (see next section on reputation) also complemented Ofwat's broader focus on customer engagement and outcomes under the Water 2020 policy framework.

Future of regulatory incentive measures for customer service

With the effectiveness of the regulatory incentive for improving customer service widely felt to be declining, Water UK developed an industry position to take discussions forward with CCWater and Ofwat. We secured support for water company customer service being compared against a more challenging performance benchmark of customer service in other sectors, rather than just against other water companies. Ofwat's consultation in November

2016 was consistent with industry thinking at a high level. We have also been working with Ofwat as it develops its thinking about extending these measures to the area of new connections services.

Retail competition

During the year, Water UK supported the wider efforts of companies, government and regulators to prepare for the introduction of non-household retail competition in England from 1 April 2017. We participated on the Open Water Assurance Group, and on behalf of the industry led the development and implementation of a national customer awareness campaign about market opening which ran from January to March 2017.

In August 2016, we held jointly with MOSL a "looking round corners" workshop to identify any potential risks to market opening, which subsequently led to a specific focus on industry arrangements under the new market to manage drinking water quality incidents. We engaged with MOSL and companies on issues regarding central system operation compliance with data protection law. We also promoted the Water Redress Scheme (WATRS) to retailers following the start of competition to enable them to use the water industry's customer complaints resolution service.

Household competition

We provided input to the Ofwat-led review into the costs and benefits of introducing retail competition to households. Water UK commissioned analysis of the distributional impact of introducing household retail competition (published in April 2016) which assessed the scale of cross-subsidies in household retail activities, and the potential distributional impacts if these were unwound as a result of introducing competition.

In July 2016, we also developed an estimate of the industry-level cost of introducing non-household retail competition to help inform the Ofwat review. Defra in March 2017 set out the Government's view that Ofwat should work with it to build the evidence base further regarding the extension of competition, before a decision is taken on whether or not to go down that route.

Strategic Policy Statements (SPS)

Water UK engaged with Defra and the Welsh Government to ensure their Strategic Policy Statements (SPS) were focused and impactful. Water UK welcomed the concise draft SPS published by Defra in March 2017, with its focus on the two key priorities of resilience and protecting customers.

Investors

During the year we held several well-received Defra and Treasury meetings with water sector investors, providing opportunities for engagement and the exchange of ideas and thinking.

Regulation

Regulation - make the case for smart design and enforcement of legislation/regulation governing water quality and wastewater in delivering public health and environmental improvements.

The UK water sector needs an effective and proportionate legislative framework to deliver excellent and affordable services to homes and businesses. Water UK has worked with our regulators to ensure that water companies can continue to deliver high quality services in a changing environment. We focussed on the following areas of activity in 2016/17.

EU Directives

Water UK has been active within EurEau, the European Federation of Water Associations. Through its technical networks and working groups, we have provided information to support and challenge research projects, and explored the scope of potential legislative changes as the European Commission reviews key areas of regulation such as the Water Framework Directive, the Drinking Water Directive and the Urban Waste Water Treatment Directive.

Our main European focus has been on the Commission's review of the Drinking Water Directive, which is revisiting current standards and how we assure the quality of drinking water against current risks. Water UK has advocated the industry's position that this review should recognise the investment that has gone into delivering drinking water improvements and ensure that any changes are risk-based, proportionate and based on robust science.

We have also led a group researching how pesticides and biocides regulation can be improved to protect water sources and participated in a workshop developing an emerging position on reform of the Common Agricultural Policy.

Brexit

In August 2016, Water UK set out its three priority issues for Brexit – maintaining access to a full range of low cost finance, setting out clear long-term policy direction and designing smart legislation that benefits customers and the environment. We followed up with an assessment of the potential impact of Brexit on European Investment Bank funding, which was completed in November 2016 and shared this with Government. We continue to develop both our key principles for future environmental legislation and our views on how public funding for agriculture can better help promote positive water outcomes once current arrangements under the Common Agricultural Policy come to an end in 2022.

Drinking water metrics

Water UK held a workshop with the Drinking Water Inspectorate and our members in August 2016 to help shape and develop proposals for a Compliance Risk Index (CRI) in its early stages to ensure that the new measure reflects the increasingly risk based nature of drinking water regulation. The move to a new measure for how water companies are performing against drinking water standards is a significant task but the time is right to address the limitations of Mean Zonal Compliance (MZC). We responded to consultations and followed this up with a further meeting February 2017.

Standards

The Water UK Standards Management Programme aims to shape national and international technical standards to reflect the needs of the UK water sector. During the year we have been looking at ways to improve the way the programme operates under the auspices of the Standards Board, leading to a revamping of the mission statement for this area of work, the creation of standards champions

within each company and ongoing work to prioritise the work of the programme.

Metaldehyde remains one of the biggest threats to compliance with drinking water standards. It is difficult and expensive to treat so the sector continues to focus on treatment at source and catchment management. We have continued to work with other industry groups to promote joint solutions with manufacturers and farmers. This work has involved continuous engagement with agricultural stakeholders including farmers and crop protection manufacturers.

EU Biocidal Products Regulation

During the year, the industry became aware of a risk to its use of monochloramine produced from ammonia sources in the treatment of drinking water; this had arisen from implementation of EU legislation on the regulation of biocides. This could have resulted in costs to the industry of at least £2million, but these were avoided through close Water UK and company engagement with HSE and DWI to produce proposals for authorising the in-situ generation of monochloramine. As a result, UK water companies can continue chloraminating whilst proposals are being reviewed by Commission. This is expected to take 2-4 years.

Shale Gas

While shale gas exploration and extraction has yet to begin in the UK, we continued to monitor all developments to help our members be aware of, and up to date with, the latest science and experience from around the world.

Reputation

Reputation - increase levels of customer and stakeholder trust in the sector.

Water UK has encouraged consistent engagement with companies, regulators and customers to ensure that high quality services are delivered at a reasonable price and to provide help to those customers who may be struggling to pay their bills. Companies worked throughout 2016 to encourage customers to reduce water use and only flush the 3 'P's (pee, poo and paper) and not products that can block sewers and cause sewer flooding. We focussed on the following areas of activity in 2016/17.

Strategic dashboard - Discover Water

Discover Water was launched as the website which enables customers to see quickly and easily how their water company is performing. It provides online a comprehensive range of data covering water quality, public health, customer service and environmental aspects of water and sewerage services. It is the first of its kind in Europe and was created to help improve trust and confidence in the sector, and to encourage customers to talk to their water companies and influence decisions on how their services are run.

The project was coordinated by Water UK and funded by our members, with a collaborative, sector-led approach to governance and oversight through a cross-sector steering group to oversee delivery. This included representation from water companies, Ofwat, Defra, Welsh Government, DWI, EA, NRW and CCWater who have all expressed very positive feedback about Discover Water - which has also been recognised as best practice by the OECD and the European Commission.

Consistency in performance measures

Having consistent and reliable comparative data is vitally important to building the reputation of the water industry. Water UK has been leading a project with key stakeholders to develop greater industry-wide consistency in measuring leakage, supply interruptions and sewer flooding. During the year, UKWIR commissioned Atkins to review proposals put forward by practitioner groups and work continues to enable the industry to adopt the revised methodologies for measurement by PR19.

Consumer vulnerability

Water UK worked with Defra to secure an amendment to the Digital Economy Bill (February 2017) giving water companies access to DWP data. This will enable water companies to identify and support more of their customers who face financial difficulties with their bills.

We have sought to facilitate greater customer awareness about the schemes provided by their energy company which could provide additional assistance. We have done this by working with energy company representatives and regulators to establish reciprocal cross-sector signposting for customers, involving water companies, Ofwat, Ofgem, UKRN, Energy UK and the Energy
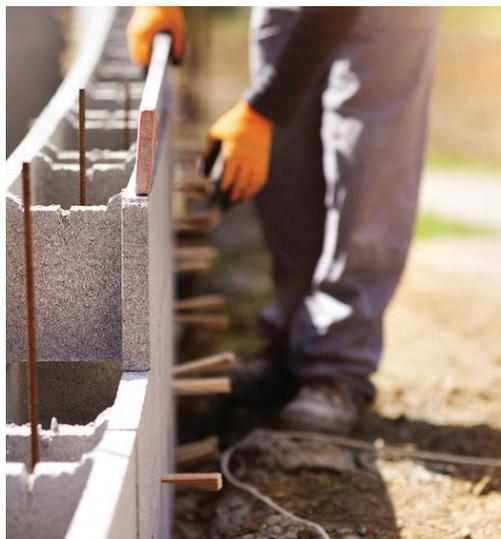
Networks Association. Water UK is also exploring with energy sector stakeholders how we could better align, and ultimately integrate, the priority services provided by the two sectors to consumers in vulnerable circumstances.

Housing and growth

Water UK is committed to supporting the construction industry to continue to play its part in the delivery of new homes in the UK. We have liaised with government, developers and other stakeholders to work toward a service that is effective both now and into the future. We secured Ofwat/Defra support for Water UK's role in implementing rules on new connections charging. A project was initiated with stakeholders to provide confidence, consistency and compliance among water companies with Ofwat's new rules for charging for connections for new developments.

Water UK collects and publishes quarterly an extensive set of performance statistics relating to the services provided by water and sewerage companies for their developer customers. Water companies have seen a sustained average improvement across a range of targets in 2016, with overall levels of performance in March rising to 98% for water supply and 99% for sewerage services.

To maintain trust and confidence in the figures, Water UK commissioned an independent audit of companies' reporting of developer service levels to ensure they are robust while reviewing the level of consistency in reporting across the industry.

Water UK also produced a single industry version of the criteria which determine whether domestic home extensions which might impede access to the public sewer network can proceed. All companies have now adopted these criteria and in the process have introduced simplified approval procedures. This work was carried out with companies and stakeholders including the Glass and Glazing Federation.