



The Implications of Brexit on the Water Sector

Tuesday 13th September, Committee Room 18, House of Commons

The All Party Parliamentary Water Group's September meeting was on the implications of Brexit on the water sector.

Guest Speakers:

- John Russell, Senior Director of Strategy and Policy, OFWAT
- Michael Roberts, CEO, Water UK

Lord Selborne chaired the session, and introduced **John Russell** from Ofwat and **Michael Roberts** from Water UK.

John Russell said that, compared to other sectors, the water sector is relatively stable. It operates without a Europe-wide architecture, in a transparent regulatory regime and provides a vital public service. He noted, however, that while the legal framework remains stable, the vast majority of environmental regulations are enshrined in EU law and the impact of this change on the sector depends on the exact settlement that is reached. Looking forward, he warned that the biggest threat of Brexit relates to its economic impact. If there is an economic downturn, affordability issues could impact the sector, raising questions of consumer legitimacy. He concluded by reiterating that the sector is in a strong position with a stable, transparent and independent regulatory structure. In addition, any challenges, particularly relating to environmental law, should be viewed as opportunities for the sector to improve and grow.

Michael Roberts identified four broad themes that the sector should have regard to following the vote to leave the EU; the impact of Brexit on the economy; the long-term stability of the sector; access to low cost finance; and environmental opportunities.

On the first point, he agreed with John Russell that the water sector is in a relatively stable position. However, he questioned how Brexit will affect suppliers, both in terms of the general supply chain and access to skilled labour.

Regarding his second point he said that predictability for a long-term sector such as the water sector is essential to sustain confidence and to enable water companies to deliver a sustainable framework. He argued that the Government could enhance predictability regardless of the uncertainties caused by Brexit by setting out what it expects of the sector in the National Infrastructure Commission's first National Infrastructure Assessment.

On his third point he said that it is unclear what Brexit will mean for the future of the European Investment Bank (EIB). He highlighted that the UK water Sector is the largest recipient of its funding, having received £5.5bn of funds since 2010 and questioned whether it would be possible for the UK to continue to be an EIB shareholder after Article 50 has been triggered.

Finally, he said that the sector should view Brexit as an opportunity to develop a new set of environmental legislation that delivers the same standards as existing EU legislation, but in cleverer ways. Welcoming the Department of Environment, Food and Rural Affairs's (DEFRA) recent decision to develop a 25-year plan, he suggested that the Government take the opportunity to think creatively about environmental solutions.

Lord Selborne thanked the speakers for their contributions and then opened the floor to questions.

Lord Redesdale said that the Secretary of State for Environment, Food and Rural Affairs, Andrea Leadsom has already indicated that agricultural policies will not be funded by DEFRA post-Brexit. If this is the case, he questioned who will pay for policies such as the Common Agricultural Policy.

Lord Stoddart asked whether the water industry is in touch with those working on implementing an effective Brexit deal, arguing that it is crucial for the future of the sector that it is consulted. While **Michael Roberts** said that Water UK is already engaging with DEFRA, he noted that other sectors are a bigger priority for the Government.

John Greenwood questioned whether there is a growing divergence between English, Welsh and Scottish water companies following Brexit, particularly considering that the Scottish Government is less than supportive of Brexit. Responding, both **Michael Roberts** and **John Russell** agreed that while there is no divergence at the moment, it is not clear how Brexit will lead to changes in devolution settlements, which could impact the existing regulatory framework. On this point, **John McNally (SNP, Falkirk)** said that the reputation of Scottish water is hugely important to the Scottish Government, adding that the Government is trying to drive forward a clean, green plan.

Stephen Kay argued that, in the past the Government has used EU environmental legislation as an excuse, which has increased the cost of treatment and thus increased the cost to customers. Responding, John Russell said that Brexit has provided the industry with an opportunity to do things in a different way, while **Baroness Pinnock** highlighted that in the last price review, many customers were clear about their support for high environmental standards.

Lord Selborne thanked all speakers and attendees for their contributions and concluded the meeting. He highlighted that the Annual Water Innovation Reception will take place in November.