

**Tuesday 15 October, House of Commons  
Committee Room 11, 5.00 – 6.30pm  
Is there a case for strengthening the water regulator?  
(Non-Verbatim Minutes)**

The All-Party Parliamentary Group's October meeting was on the topic of the case for strengthening the water regulator? The following were guest speakers:

- **Phil Graham, Chief Executive, National Infrastructure Commission**
- **Milo Purcell, Deputy Chief Inspector, Drinking Water Inspectorate**

**Angela Smith MP** chaired the session, welcomed attendees and hosted the AGM before introducing the panellists to speak.

**AS** proposed herself and Baroness McIntosh (**BM**) as chairs which was agreed by Lord Selbourne (**LS**). **LS** then proposed Neil Parish MP as vice-chair which was seconded by **BM** and **AS** and the Baroness Young of Scone.

**AS** thanked everyone for their appointments and said she was happy to continue with the work of the group. **AS** then thanked the sponsors, Affinity, Plastic Pipes, Water UK and Wessex Water

**Phil Graham (PG)** said the National Infrastructure Commission (NIC) had published a report on the future of utilities regulation. The report included an investigation into economic, water, communications and energy regulation and whether the regulation was sufficient or not and fit for the challenges of the future. These challenges include a dryer future and preparing for long term resilience from the water sector to meet the challenges of climate change.

He continued that there had been reduced rainfall in the UK and water companies have an ambitious target to reduce leakage by 50% by 2050. This includes more ambitious metering so long-term water supply needs can be met. At current levels, this is not possible. Options to meet demand include water transfer and increasing reservoir capacity.

Mr Graham continued that there needed to be transformational change to meet the Government target of becoming carbon neutral by 2050. This includes decarbonising heating and introducing more electrical vehicles and updating the power system for 0 net obligations on power. To achieve this, there will have to be a delivery of major new infrastructure and systems. In the view of the NIC, regulation is needed for stabilisation and it is not currently set up well for the requirements of the future.

In order to meet the wholesale changes, important shifts are needed in the system to be strong enough for the challenges it faces. This takes four forms. Firstly, a clearer strategic direction about long term and infrastructure. Secondly, stronger tools to deal with challenges such as the risk of politics and how consumers will pay. Thirdly, the different parts of the utility sector need to work together effectively. Lastly, strategic direction, the regulation needs more consistent duties to support the net government target of zero carbon emissions by 2050 by using strategic policy statements.

He said that the water sector had taken a good step forward but it takes a long time to get the strategy into place. Stronger tools such as those of Ofwat would be helpful. Water currently has soft power but more hard power is needed to input the regulations necessary. Regulations that could help are more power on executive pay, retail markets and great and more efficient use of competition in order to deliver for consumers. The competition will

also help with innovation in the sector. There is a current need to tender within the market for better solutions to problems in the water sector which makes the case for a stronger role for UK water regulators. Mr Graham argued for a UK regulators network with an independent chair to oversee issues such as vulnerable consumers, data sharing and regulators working together. If effective, the regulator can help with solutions to regulatory issues across the utilities network. There is a strong role for regulators but the answer is not wholesale change. There are benefits in the current system that needed to be adapted and competition needs to be focussed in the right place and with strategic direction.

AS thanked MR Graham for his clear and good starting point and agreed with his point on new infrastructure.

Milo Purcell (**MP**) from the Drinking Water Inspectorate (**DWI**) said he came from a unique position where the DWI were of significant interest but not the focus of the report. He said that Ofwat need to have a closer relationship with the DWI. He agreed with Mr Graham that there is a role of competition to meet strategic objectives and for public confidence. Mr Purcell said the current regime has failed to deliver on societal needs. He said that the drinking water quality is good but the current regime does not facilitate for transformational change. He said the DWI has instigated a plan to develop a 25 year programme to meet consumer needs. He accepts and agrees with NIC's general premise for long term planning although there are issues and frustrations. Mr Purcell said he wants to identify the role of competition and delivery and put the role of contingency planning aside. He believes regulation should be for the public purpose and competition should be used to promote innovation to meet long term challenges. Although he supports competition, he does not agree with the narrow-minded ideology of cost and believes this has done damage to society. He wants to focus on genuine competition for the purposes of support and public confidence, delivering on public health and he would welcome a focus to ensure public confidence and legitimacy. He agreed with Mr Graham on the umbrella regulator but complains this was not in the report. Mr Graham supports the provision of the three pillars of regulation and believes they should be put in by parliament, he also suggested that the NIC should be a legal entity. To ensure the Government is held to account and able to facilitate delivery. Mr Graham said the Government is better at endorsing strategic direction but is not good at delivering it. It needs a body like the NIC to advise the Government. The implementation of the 2018 NIC report is happening due to the NIC following it up, to provide policy development. He said there have been four lessons on the delivery of long-term programmes. They are, the clarity of outcomes from the beginning, starting immediately, keeping the treasury committed to the work programme and understanding the support ministers can provide but there are challenges through the lack of support. Mr Purcell raised that there have been 14 Secretaries of State for Environment since he joined the DWI and over 20 Ministers. He said this leads to a quick win, with their own view rather than continuing the policy of their predecessors. He finished that the supply chain is very important and is significant to maintaining existing assets.

Baroness McIntosh said that there was an evidence session on 16<sup>th</sup> October of the European sub-committee led by George Eustice which planned for No Deal and the Environment Bill. Therese Coffey had asked for the scrutiny. At the committee, it was raised that there were concerns on the regulators. DEFRA had parliamentary legislation and water regulation for Scotland and Wales. The DWI, Environment Agency and Natural England also provided evidence. She continued that whether there was a deal or no deal from the EU, the UK leaves the remit of the EU Commission. She is concerned about the removal of fines on the Government for missing targets. In the Queens speech, measures were

introduced to improve quality of water into legally binding environmental targets. Baroness McIntosh asked what the role of the OEP is as well as OfWat and the EA. She said there needs to be scrutiny of both houses to commit continuing environment standards. She said that retail competition gives benefits and confidence breeds trust. She said that the bills are as they should be and applauded the work of the water companies.

AS asked PG about the idea of an independent chair of a regulatory network and if that regulation can be economic? She said there should be a different set of regulators for quality and environment. She also asked how to resolve these tensions.

PG responded that there are a set of issues from regulators and questioned how to balance the need for investment. He continued that the system is there and functioning relatively well and that regulators do not need rebuilding. The water industry needs to think more coherently and strategically about its requirements and supply challenges. He is pleased with the progress of the regional groups but the 2050 water framework needs to be considered. The structures are in place for that.

Questions were then considered from the audience

Barbara said that the report focusses on water, drinking water and energy with a customer relationship focus. She would like to see democratic accountability and deficit. The people using the services are not customers, they are inhabitants of local areas.

PG responded that the recommendation is that accountability is not operating effectively. Regulators are forced or do nothing and that has political consequences. He wants to provide strategic policy statements. The democratic picture looks very different to how it once did and is not a patchwork of unsatisfactory relationships between administrations and regulators. Politicians need to work on policy for deliberative democracy and identify the challenges.

Another question from the audience came from Larry who said that DEFRA and the regulators need to work closer together especially on strategic programmes. He said the instruction of the OEP can complicate or resolve an issue. There has been no replacement of a commission role. He continued that we are in a new era, not total change but the system does need change. On vulnerable consumers he said there has been a failure of companies. The water cut off leaves people vulnerable and they're not sure whether to contact their council or water company. There needs to be an introduction of a priority services register and companies need to be more accessible.

MP responded by saying he was not surprised by Larry's poor experience of water companies. He said the current vulnerable registers are inadequate and efforts have been made to improve these but it needs to be more than an interface between the supplier and person. Both sides need to input for best interests. He continued that no action is taken on the consumer side unless something goes wrong due to apathy. The key to solving this is community engagement.

PG added that vulnerable consumers are in isolation by sectors. If regulators had consumer views then they would understand the aggregate of people rather than totality.

BM asked if water companies could enquire to all customers about their vulnerability. There hasn't been an OEP set-up in the event of a no deal and there is a big gap.

Carl Pheasy from OfWat agreed that the issue of vulnerable customers needs to be addressed to identify and support the most vulnerable which should be seven percent of customers. He said the NIC report could go easily unnoticed. An example of good regulatory collaboration is between OfWat and OfGem where they have increased customers on private registers which could be expanded and regulators should look at it more closely.

Paul Hickey from the Environment Agency said there needs to be changes to the long term planning and create a national framework for regional groups for water supply and the environment. He said regulators should join up a new unit for a programme for infrastructure. The regulatory framework should have the right incentives and bring quality and economic regulators closer together.

Nigel Hawkins, a City Investment Analyst said that OfWat has many failings and that the driver of water companies has been profits and excessively paid dividends from 2012-2018. There has been no corporation tax and too much gearing for private equity. The main issue of leaking was lower in 1989 than it is now. He pushed for competition and said that Severn Trent is doing very well and getting good numbers but OfWat is reducing its profit,

PG said that he unpicked previous Of Wat decisions and it is clear that trust is low and consumers have been paying for leakage. A system needs to be created that is not at risk of political intervention and regulators need the tools to deal with that. Of Wat should have powers in their back pocket in order to do this, not necessarily to use but as a deterrent.

Another question came from Laurie who complained there had been no discussion around flooding and argued that communities are an entity of water.

PG responded that the report didn't look at flooding as this was explored in 2018 as flood resilience and funding for defences.

Dido complained that there had been no mention of the climate emergency during the discussion. There had also been no mention of integrated water management and the UK could sell itself on it. She said grey infrastructure is out of date and there is a bias for infrastructure over other options.

Lydia from WaterWise raised drought and water scarcity as issues to address in the industry. She questioned how the increased competition would help drive down PCC.

PG said that the climate emergency is at the heart of the report and the driver of resilience in the industry is around the changing climate. He wants to deliver blue and green infrastructure and increase resilience in isolation but the direction system forces you in.

AS said the climate change lobby rarely talk about water.

Liz Sharpe from UoS said green infrastructure is limited by funding.

MP said regulators need to come together and move networks into something fit for the next 20 years.

PG said there is a duty to collaborate but this is difficult to achieve with regulators.

Simon Cox said there is a role of competition.

PG said he didn't suggest moving towards competition but a five year control period.

Wessex Water said in the next five years will either drive further innovation or make companies retreat.

Brian Cox said there is a zero pollution network and a lack of cooperation between local authorities and regulators.