



All Party Parliamentary Water Group

Welcome to this virtual meeting of the APPWG on the role of the industry during COVID-19

We kindly ask that you observe the following etiquette to ensure the meeting runs smoothly:

- Please keep your **microphone muted at all times** to avoid background noise unless called on by the Chair
- Please consider if you need to use your camera, as it may slow down your connection
- If using your camera, make sure there isn't something behind you that you don't want people to see
- If you'd like to **ask a question** please do this via the chat function
- The Chair will address questions to speakers at the end once all of the presentations are finished
- As a parliamentary forum, priority will be given questions posed by MPs and Peers

At the beginning of this meeting, the APPG Secretariat will provide a short tutorial to reiterate these rules.

Making the case for outcomes-based regulation

Enabling the water sector to make its contribution to the 25 Year Environment Plan

July 2021



Frontier Economics have been commissioned by Wessex to review the current approach to environmental regulation



We were commissioned by Wessex to **review and critique the current approach to environmental regulation** in England, and particularly in the water sector, and propose changes.

We have focused specifically on the economics of environmental regulation.

We reviewed environmental regulation in the context of Defra's ambitious 25 Year Environment Plan:

- *It's the governments ambition to leave our environment in a better state than we found it.*
- *The Plan will achieve:*
 - Reduced hazard risk*
 - Sustainable and efficient natural resource use*
 - Enhanced beauty and engagement in the natural environment*
 - Clean Air*
 - Clean and plentiful water*
 - Thriving plants and wildlife*



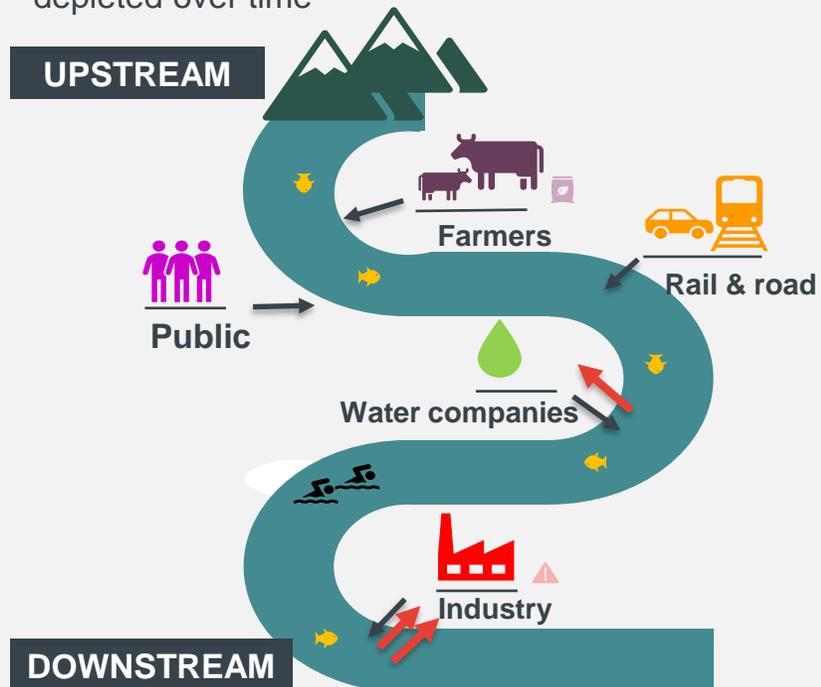
River catchments are common pool resources and are characterised by tipping points and feedback loops

We need to take the economic characteristics of river catchments into account when thinking about regulation

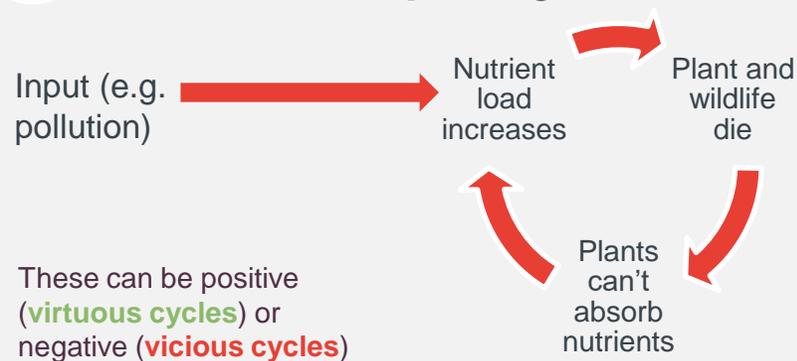
1 Common Pool Resources

Common pool resource:

- It is very difficult to limit access to them; but
- Their supply is fixed, meaning they can be depleted over time



2 Feedback loops, e.g.:

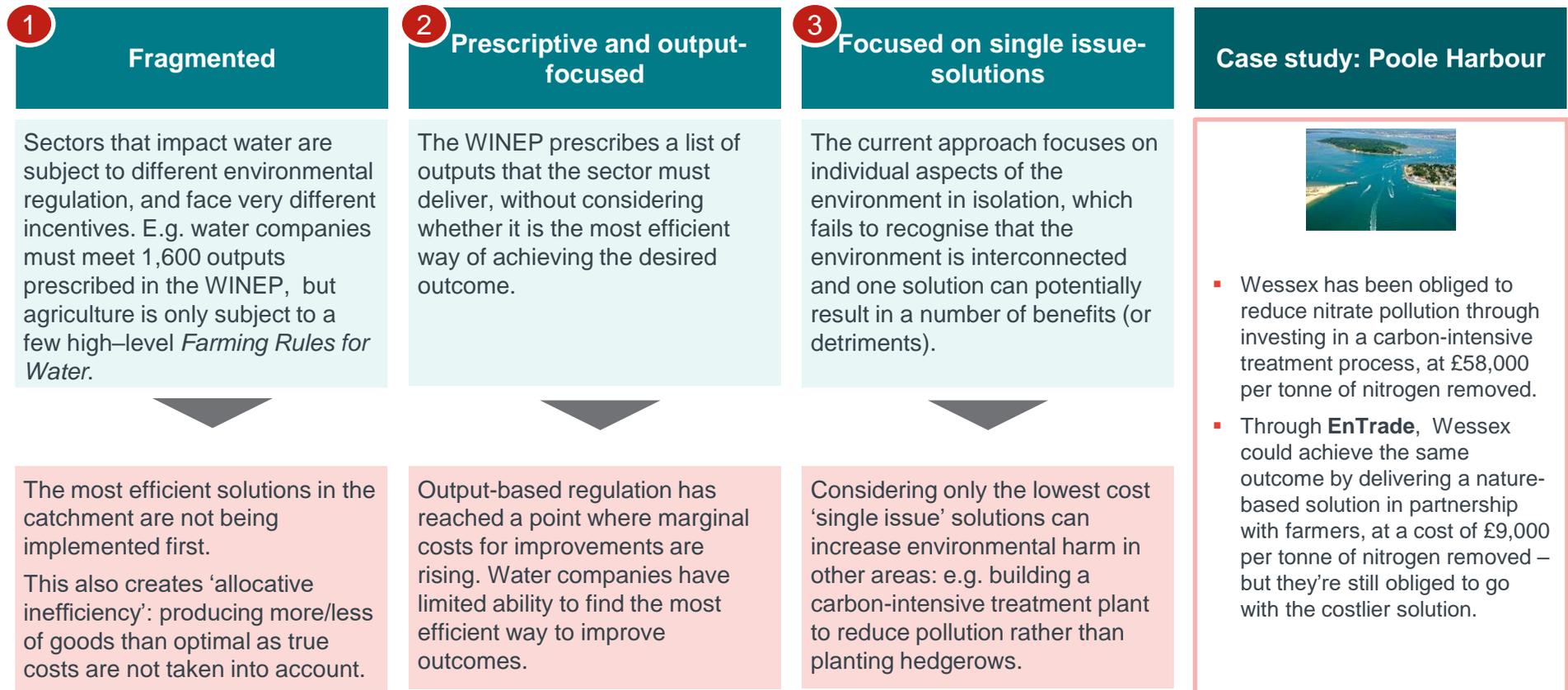


3 Tipping points



The current approach to environmental regulation is inefficient and will make it extremely costly and difficult to achieve the 25 YEP

The current approach to regulation is inefficient:



Given the issues with the current approach and the ambition of the 25YEP, continuing with the current approach will likely result in not meeting the goals of the 25YEP or costing billions of pounds in inefficiency.

Outcome-Based Environmental Reform to deliver the 25YEP in the most efficient way

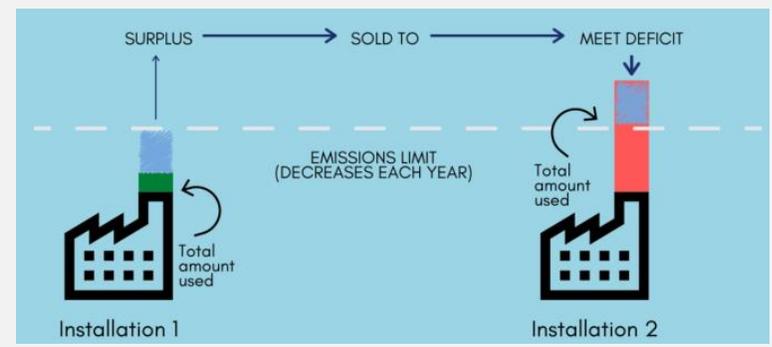
1 Targets for England:
The government needs to convert the 25 YEP into a set of **long term targets** for England covering all aspects of the environment. These targets need to be apportioned to each sector based on their “fair share” (e.g. share of pollution).



2 Targets apportioned to catchments:
These long-term targets need to be apportioned to local areas/catchments with milestones along the way.



3 Delivery in partnerships with others (through markets):
Companies should have the ability to deliver the outcomes in partnership with others. **Market instruments** could be established for externalities so that market forces can identify the most efficient solutions.



This will be difficult. But it would save billions in inefficiency, provide greater nature based solutions, catalyse private investment and ensure that the polluter pays for their pollution.

Benefits could be achieved by first pioneering it in the water sector, which is excellently placed to contribute to the 25YEP

Full outcomes-based environmental regulation would take time and substantial effort in policy/regulatory design...

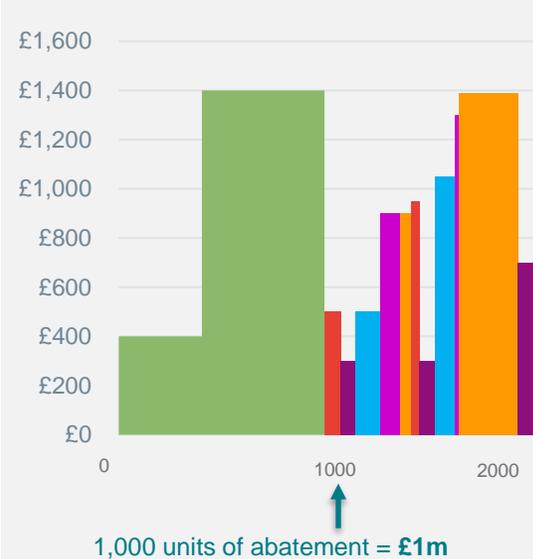
A water-sector OBER provides an efficient short-term solution that is easier to implement, without the need for significant change in regulation.

- Water companies are well-placed to contribute to the YEP. They:

- Impact environmental outcomes
- Have experience in environmental improvement
- Have local and stakeholder knowledge.

- The water sector could be subject to outcome-based targets recovered through the RCV, satisfying the 25 YEP objective of *catalysing private investment*.
- The 'Catchment abatement' graph represents the water-sector OBER. This allows the sector to implement the cheapest solutions first.

Water only pollution reduction



Catchment abatement





Department
for Environment
Food & Rural Affairs

The Government's Strategic Policy Statement for Ofwat

Kirstin Green, DEFRA Deputy Director for Water Quality

The government's strategic policy statement

- Sets strategic priorities and objectives for Ofwat
- Will replace the current SPS, covering the next price review period (2025 – 2030)
- Public consultation expected to commence in July
- Final publication due in early 2022
- One of several tools we can use to influence improvements in water quality and to deliver wider environmental value

High-level timeline



DEFRA and the Price Review 2024

Policy and regulatory framework

E.g. RBMPs, Environment Bill targets, Local Nature Recovery Strategies

SPS

Strategic Policy Statement from Defra to Ofwat.

Sets the strategic priorities for Ofwat in its role as the independent economic regulator.

WISER

Water Industry Strategic Environmental Requirements.

EA/NE to water companies to use when developing their business plans.

Expands on the strategic environment priorities in the SPS.

WINEP

Water industry national Environment Programme. £5.2bn 2020-25.

WINEP is all the schemes, monitoring and investigations water companies take to improve the environment.

Question and Answer