



IN CONVERSATION WITH DAVID BLACK

Date	Tuesday, 25 April 2023
Time	10:00 – 11:30
Venue	Room P, Portcullis House, Westminster and on Zoom The meeting was hybrid, with some virtual attendees.
Chair	Liz Twist MP Co-Chair of the All-Party Parliamentary Water Group. In attendance Baroness Anne McIntosh of Pickering Co-Chair of the All Party Parliamentary Water Group
Speakers	David Black Chief Executive of Ofwat

NON VERBATIM MINUTES

Chair Liz Twist MP opened the meeting and welcomed David Black, Chief Executive of Ofwat.

David gave an opening statement on how Ofwat is working to improve water quality in England and Wales.

David spoke of some of the fundamental issues the water sector currently face and must address, and the role that Ofwat must play in delivering for consumers and the environment. He also noted the importance of having a forum for open discussion and engagement with Members of Parliament, Lords and the sector in meetings such as this. He covered the topics of sewage discharges, investment in the sector, the price review system (PR24), storm overflows, how Ofwat monitor performance and hold companies to account as well as the challenges of improving the sector's environmental performance and drought resilience during a cost of living crisis.



David also acknowledged that there are huge challenges and changes ahead for the water companies, and the wider sector, and it is vital that they respond cohesively in a way that strengthens environmental performance and rebuilds customer and public trust. This will require sustained investment, stronger operational performance and a turnaround in performance for several companies. As well as much better engagement and openness with parliamentarians, stakeholders and customers.

David finished by noting that Ofwat is doing all it can to play its part as a regulator, and spoke of its ambition to enable new investment, drive better performance and stringently hold companies to account where they fall short.

The Duke of Wellington asked about the competition between water companies and how that has impacted water standards.

David noted that there needs to be a change in behaviour from water companies and their boards. There is a real challenge to have the regulator set the investment standards, as each business will need to determine how they best invest in the market, but if performance standards are not met the regulator will then step in to ensure standards are met.

On competition, **David** remarked that although some industries are able to have the regulator step away and industry competition take over, this is not the case for water. As there are limits to competition in this space the regulator is looking to set high performance expectations and comparative benchmarks to drive down pollution incidents.

He restated that as limits are capped for water companies the regulator is concerned about resilience of water companies thus dividend payments are calibrated against finance of companies and their performance.

Baroness Anne MacIntosh asked about how Ofwat plans to address the issue of housebuilders building four to five bedroom homes which produce high levels of sewage and waste water, which the current sewage system will struggle to take. She also asked after methods of how to convert sewage into energy.

David replied that through water efficiency standards and working with developers these issues can hopefully be addressed in the beginning of the planning process rather than after. The law has a role to play but water companies are in a unique position to address the issues we see on the ground currently. He noted that there is currently a lot of interesting research being done by waste-water management on anaerobic digestion for renewable energy, while the current DEFRA rules allow it to be spread to farm-lands. This is currently under discussion between water companies and the Environment Agency.

Baroness Berridge asked about the difference between 'taking into consideration' and 'requirement' for water companies on sewage disposal measures, the privatisation vs. public investment in water companies. She also asked after those water companies who are not as financially resilient and what risk that poses to water utilities.

David noted that South West Water offers shares in their company to customers and around one in sixteen customers own shares in the company. Ofwat is requiring all companies to hold 'your company, your say' events so water companies are engaging with their customers. The programme is supported by CCW. David noted that whilst it is important that we continue to get that quality of engagement, ultimately Ofwat does not have power over how companies are owned.

He noted that Ofwat expects all companies to have appropriate financial backing to be able to withstand changes in the market. As part of the new regulations, Ofwat has raised the minimum



credit rating that companies must have before credit lock-up applies, and is monitoring the companies they have identified as financially unstable.

Lord Dafydd Wigley asked if Ofwat would be approaching the transfer of water in Wales on a partnership basis.

David recognised it is a sensitive issue and said Ofwat is working closely with the Welsh Government and stakeholders to come to an agreement. He noted they are working within a framework set out by Wales.

Paul Horton noted that Future Water Associations ran sessions on pipes and sewers and that the highest grade to come out of the school grade type report they ran was a C. He asked if it is time to review the sector as a whole, including skills, diversity, and capacity.

David replied that it is a very difficult time for the sector but recognised that talking about these issues will likely lead to change. He said we need a structured way to implement such change immediately and in the long-term. Ofwat is trying to get water companies to work together through innovation.

Liz Twist MP asked the first pre-submitted question: *Water company customers are concerned about the impact of storm overflow discharges and have invested their trust and money in the companies to deal with adverse environmental activities. How would you explain to the customers that to fully address their concerns, multi £billion investment and the consequential high impact on bills together with disruption to towns and cities would be required if that investment is made?*

David replied that as was discussed there are various ways to address these issues through short term gains, customer behaviour, and companies complying with the law. Ofwat has been clear with companies there needs to be signs of change in the short and long term.

Liz Twist MP asked the second pre-submitted question: *With average asset age and consequential risk of catastrophic failure increasing year on year, standards falling, unsustainable levels of company debt, massive skills shortages and a very low public perception of the industry, is the current regime of regulation capable of delivering a sustainable sector for future generations?*

David agreed that regulation needs to change but the situation is not as bleak as the question has made it out to be. Around 40% of water mains have been replaced since privatisation, but there are concerns about the rate of replacement currently. Companies need to understand the risks and be prepared for further challenges that climate change and other factors will present.

Liz Twist MP asked about how suitable the current regime and regulation structure is to tackle the issues discussed earlier in the session.

David replied that Ofwat is able to be flexible under the current framework. He noted that changes to such framework would require change in how the Government sees Ofwat's role and that such change would need to consider consumers and the environment.

Wayne Preece asked how Ofwat is encouraging innovation in technology and sharing between water companies.

David noted that Ofwat had established the Innovation Fund in 2019 and the scope of the fund will be expanded to include parties other than water companies. He agreed it is challenging in a monopoly sector. Some companies have been slow to adopt innovation measures and Ofwat is happy to discuss innovation with organisations. They are also working to push open data sharing.



Liz Twist MP asked the final question of the session on the effectiveness of the five-year cycle and if Ofwat should move to a longer cycle.

David said although the long view is important, the five-year review has been found to be the best cycle. Ofwat was originally on a ten-year cycle, but those periods often collapsed around five years. The world changes fast and locking something in for so long does not allow for flexibility.

Liz Twist MP thanked both in person and online participants for attending, and David for his contributions. She brought the meeting to a close.