



UK Water Sector: Opinion Matters

Collating diverse opinions on options to improve the performance and trust in water services, the current ownership models and the potential for reform.

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Background and Objective



Public and stakeholder trust in the water sector is below the level that many working in the sector would hope to see and independent research suggests that it continues to fall. Between March and December 2022, public trust in the sector to deliver all outcomes reduced by as much as 11%, due to environmental performance and focus on issues such as profits, underinvestment and CEO incentives.^[1] A report by CCW found that company profits and bonuses are not at the forefront of the public's mind, but instead contribute to the general frustration and disempowerment felt with respect to all issues within the industry. The public want water companies to be transparent and improve how they protect and enhance the environment.^[2]

Alongside this dissatisfaction, the water sector faces a need for a stepped increase in investment to meet new environmental standards, adapt to climate change, improve service, and manage ageing assets. These imminent pressures are likely to exacerbate the challenges faced, and a passive approach risks further erosion of trust and performance.

CCW commissioned WRc to obtain opinions from a diverse audience in the context of ownership, financing, and governance of the water sector in the UK. The work assessed ownership and service delivery options and identified opportunities for water companies to deliver a more affordable, fair, resilient, and transparent service for the public and the environment.

[1] <https://www.ofwat.gov.uk/publication/trust-and-perceptions-peoples-views-on-the-water-sector-full-report/>

[2] <https://www.ccw.org.uk/publication/bridging-the-gap-awareness-and-understanding-of-water-issues/>

Trust and Perception



How is the water sector performing?

Public opinion – A recent survey undertaken by Ofwat indicates a steady decline in trust to deliver all outcomes in the water sector, particularly with respect to environmental performance and financial management: only 65% of customers trust they will receive good quality water, just over half (54%) believe they will be notified of problems in their area, and 35% trust companies will do no environmental harm.^[3] A survey by CCW found that trust in water companies was greater than in the water sector as a whole, with nearly half (46%) of people having positive associations with their water company, whilst half (50%) of respondents had a negative perception of the water industry. 62% of respondents stated that their perceptions of their water company had not changed over the past year, whilst 23% stated that their view of the sector had worsened over the past year. Consumers stated that to restore trust, leakage and sewage pollution should be improved.^[4]

Financial – The financial and ownership models for water and wastewater services in England and Wales are complex and often poorly understood. A combined lack of understanding and low levels of transparency have eroded confidence in financial fairness such that only 40% of those surveyed have confidence that the sector provides good value for money.

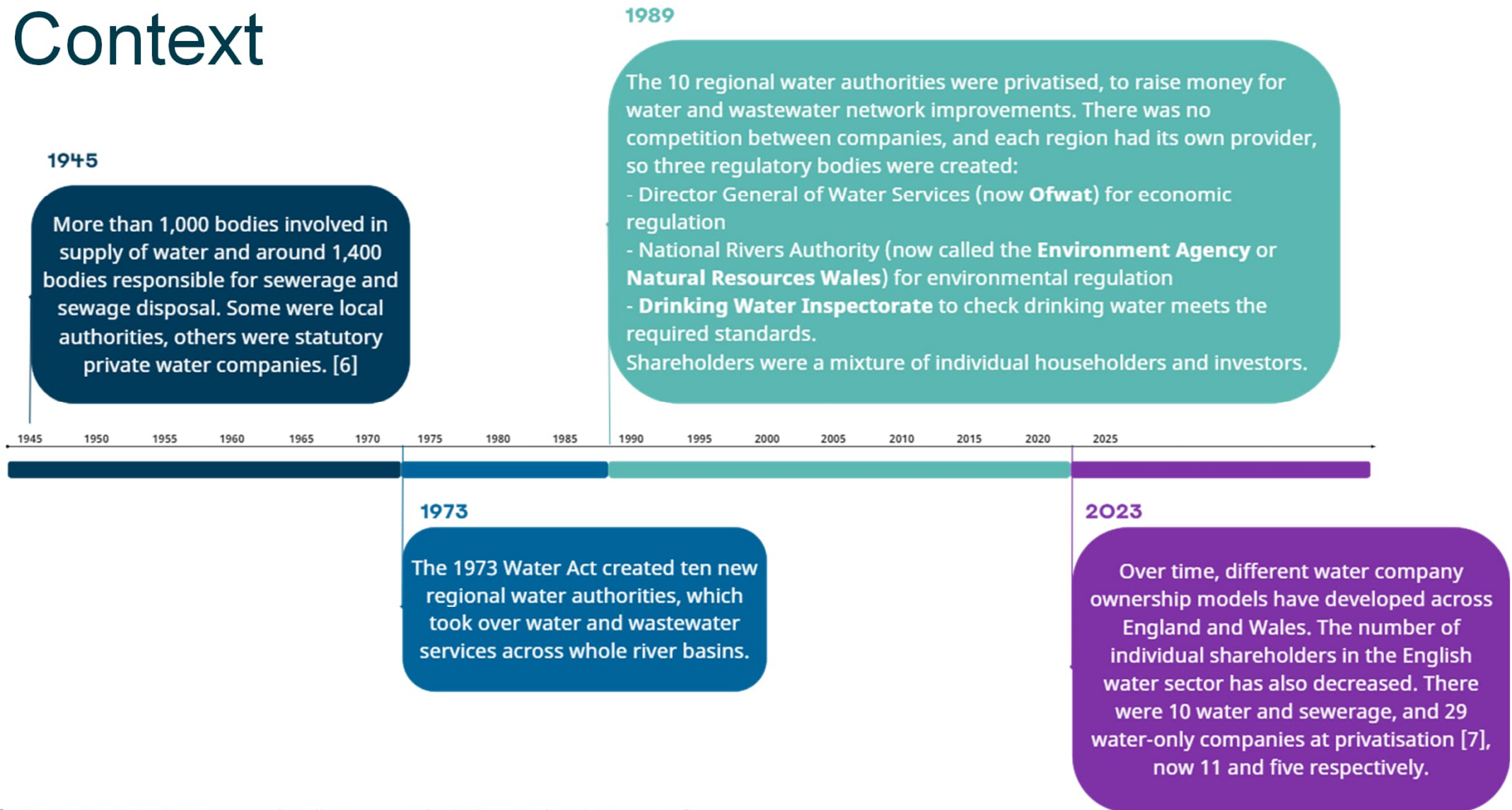
Environmental – Performance has been brought into question with significant societal focus on sewage discharge and pollution.^[5] Public expectations for environmental health and its link to wellbeing are often not being met. This has been further exacerbated by perceived poor accountability across the different regulatory institutions and a perceived lack of leadership.

[3] <https://www.ofwat.gov.uk/publication/trust-and-perceptions-peoples-views-on-the-water-sector-full-report/>

[4] <https://www.ccw.org.uk/publication/perception-and-trust-in-water-companies/>

[5] <https://www.parliament.uk/business/lords/media-centre/house-of-lords-media-notice/2023/march-2023/failures-of-water-regulators-water-companies-and-the-government-are-leaving-the-public-and-environment-in-the-mire/>

Context



[6] Ofwat history of the England and Wales water sector (<https://www.ofwat.gov.uk/regulated-companies/ofwat-industry-overview/>).

[7] The Development of the Water Industry in England and Wales, Ofwat, November 2015

Our Approach



Ownership and delivery model evaluation

The study involved a literature review which focused on 5 alternative ownership models and 3 differing delivery models. This was accompanied by a series of semi-structured interviews to assess how these alternative models might add value for consumers and the environment.

The literature review considered 185 papers, reports and articles on company ownership, structures, financial performance and public perceptions.

Over 20 interviews were undertaken, drawing on expert knowledge from the UK and with international experience. The interviewees included senior experts from the water, energy, transport, environmental, charity, and finance sectors. Interviews were providing an “outside in” perspective at this stage.

Whilst the UK provides a useful mix of water industry ownership and service delivery models, the international experience provided further, broader insights where response to climate change might be more pronounced and where differing models of regulation may result in different perspectives. Several of the challenges being faced by the water sector in England and Wales are also being experienced in other countries with similar priorities to be suitably prepared and resilient to a rapidly changing environment.

Ownership models considered



	Model	What is it?	Examples
Ownership	Private ownership	Organisations that are <i>not</i> owned by a government body or state. Variations include publicly listed or private equity owned companies.	All English water companies.
	Mutual ownership	An organisation owned by and run for its members, who are actively involved in deciding how the business is run.	Dŵr Cymru Welsh Water has 62 members that hold its board to account. ^[8]
	Public ownership	Ownership by government or the state. There are a range of public ownership models, from state-owned enterprises to municipally owned services. The upfront cost of nationalising the English and Welsh water companies has been estimated at £14.4-£100 bn, ^[9] with likely implications for pension funds invested in the sector.	Scottish Water and Irish Water. Northern Ireland Water was originally a government-owned company but is now a regulated non-departmental public body.
	Employee ownership	Employees have a financial stake in the business (e.g. shares) and a say in how it is run.	The John Lewis Partnership is one of the better-known employee-owned businesses in the UK.
	'Prosumer' or community energy model	Prosumers are consumers who become involved with designing, customising or making products for their own needs. They participate more actively in production of a product or service.	The Together Housing association installed solar panels and batteries in 250 properties, working with Utilita and Octopus Energy to help tenants save money and carbon. As well as storing solar energy during off-peak periods for use during peak times, it is possible to sell energy to the grid during peak periods to reduce energy bills.

[8] Our Members, Dŵr Cymru Welsh Water

[9] Mahoney, The Cost of Nationalisation, Centre for Policy Studies, January 2018

Delivery models considered



	Model	What is it?	Examples
Delivery	Direct Procurement for Customers (DPC) and Specific Infrastructure Projects Regime (SIPR)	Relatively new models (2010s) in the water sector to raise funds for large infrastructure projects. Construction of a new 25km 'mega sewer' along the Thames in London is being carried out by a separate company (Bazalgette Tunnel Limited), which holds a license with Ofwat as an 'Infrastructure Provider' and has government support to insure for risks that cannot be underwritten by insurance providers.	Haweswater Aqueduct Resilience Programme (DPC), Thames Tideway Tunnel (SIPR).
	Competitive market	Businesses compete to deliver a service or product, offering consumers more choice.	Non-household customers in England and large non-households in Wales can choose their water and wastewater supplier. Customers can choose their energy supplier.
	System operators	A system operator for water could provide a national or centralised approach to managing certain aspects of water and wastewater management.	Whilst not a direct parallel, Energy System Operators exist, for the water sector the role may be more focused on efficient use of resources and efficient co-ordination and decision making.

Responses



Is the current system working?

"It's clearly not working for everyone – positive aspects of the current regime are being overshadowed by a few key areas of concern."

"It's not working and has lost public trust, so something needs to change."

"No – the sector isn't integrated and there is no real incentive for collaboration."

"No, and it's more complex than just ownership and structures and governance."

"There are some positives in terms of the Welsh model as this doesn't have the same issues that lead to mistrust."

What enhancement options should we consider?

"Hold companies to account in terms of their plan delivery."

"Nationalisation would be expensive, and run into the same old problems (lack of efficiency, competition with other public services). The start needs to be a change in direction in regulatory frameworks and policies."

"The regulatory system is too focused on price and incentives – it needs to also look at what the long term outcomes and needs are."

"Look at what the Financial Conduct Authority are doing in terms of the new consumer duty ... designed to make the banks sell products that are good for customers."

"Find ways of making the planning process better – more integrated, holistic, true long-term best value planning."

"There are a number of fundamental gaps to address – knowledge, information, vision, regulation, behaviour change, community resilience, collaboration, cross sector action and funding. It's not going to be fixed just by ownership."

Findings



Is there one industry model that is best?

We conclude that an overhaul and substantial change to the industry and company ownership would not address the main problems experienced within the water sector in the short time-frame required.

The study did not identify any one model that is universally 'best'; no strong correlation between ownership model and performance for people or the environment was identified. Faster and more efficient improvements are considered preferable to renationalisation to resolve public concerns.

How effectively a model works depends on governance, cultural, regulatory and financial factors, as well as customer needs and opinion. We therefore think that focus needs to be on why some models work better than others in some contexts and whether these conditions can be created in the water and wastewater sector.

Feedback indicated that public trust can be harder to maintain under the privatised model than under public or mutual ownership models. The 2022 net trust data published by Ofwat shows that 31% of DCWW customers find the company trustworthy, compared to an average of 22% of English customers. 52% of DCWW customers trust that they get value for money, compared to 40% of English customers, whilst 56% of DCWW customers trust that DCWW acts in the interest of the environment, compared to 41% of English customers.^[10]

Interviewees also suggested that any benefits assumed from possible radical changes would need to be offset against financial and performance risks.

An evidence-based approach is recommended, with scenario testing validated throughout their implementation. An adaptive approach will be required, based on the evidence, to provide long term and sustainable value.

[10] [Trust and Perception Survey Main Data Tables](#)



Recommendations

The study concluded that changing company ownership is unlikely to address the challenges that the water sector, communities and nature face. Major changes to water industry ownership in England and Wales would cause a distraction when focus should be on adapting to climate change and improving affordability, resilience, environmental protection, transparency and service.

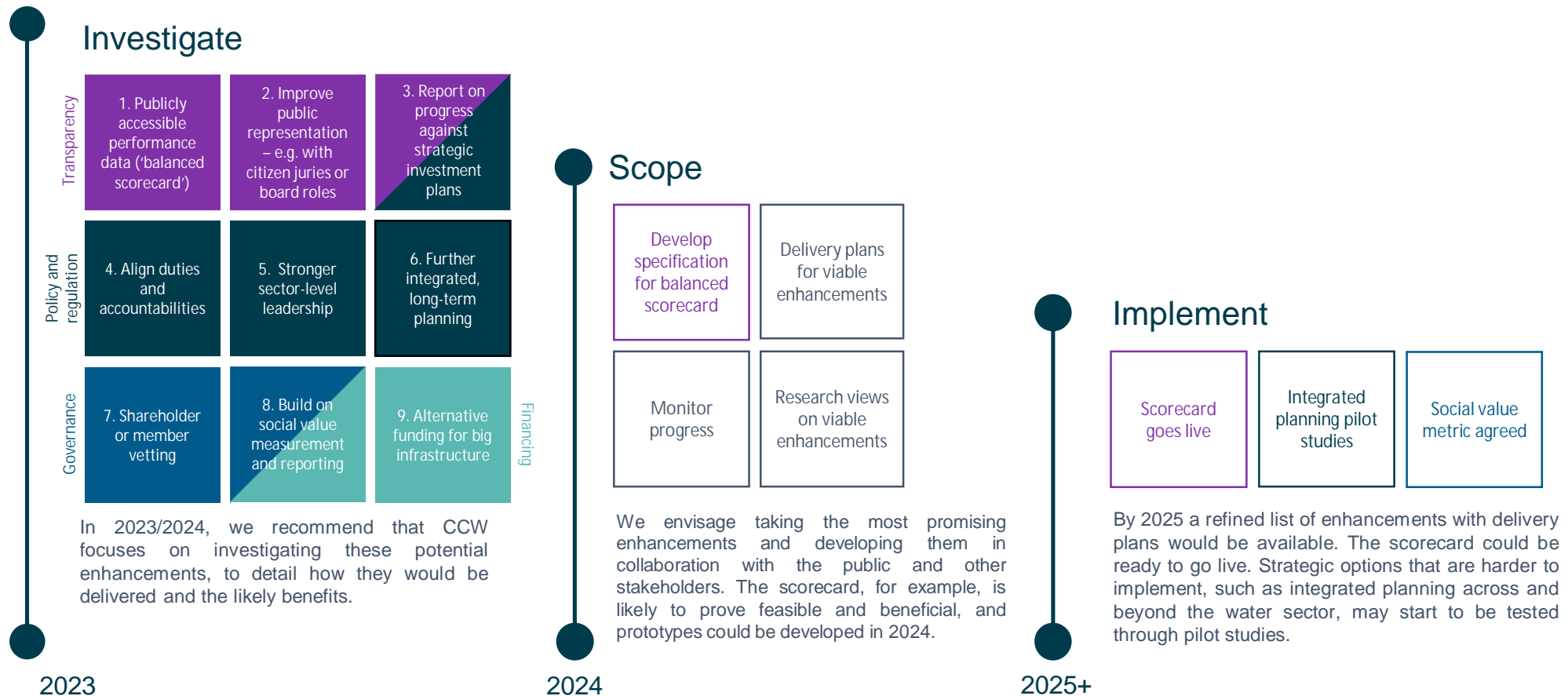
Nine priority areas for enhancement have been identified, based primarily on the interviews but informed by the literature. Some enhancements will be relatively quick to implement ('tactical'), whereas others require longer-term, strategic changes. The nine areas are mutually supportive and may work best in combination.

All nine enhancement options require sector-wide collaboration and support. They are based on the challenges identified by the study and how these could be addressed by CCW in collaboration with regulators, government, water companies and the public. The sector can then evaluate whether longer-term changes to ownership and service delivery models are needed.

The nine enhancements are summarised on slide 11, with more detail on slides 12 and 13.



Recommendations



	Summary	What might this involve?	Why?
Transparency	1. Publicly accessible performance data ('balanced scorecard')	Make water company performance data available through a 'balanced scorecard' that provides the public with key information that is easy to access and understand, in a single location. This study suggested that the scorecard could include: financial and performance data, comparison between companies, UK in the global context (e.g. world leading on water quality compliance) and some historical trends and context. This might also seek to address the more emotive aspects, for example providing a simple breakdown of how customer money is spent, and putting CEO pay into a wider context for the public.	There are significant trust issues facing the sector, and whilst most information is published somewhere, it is not necessarily easy to access, all in one place or customer friendly. The source of information needs to be independent rather than for example through Water UK.
	2. Improve public representation	Improve public representation in decision making through giving non-executive directors a greater role, setting up citizen juries, facilitating ongoing engagement sessions or open challenge sessions, and giving the public a say in how or where poor performance fines are spent.	Improve public trust in the water sector and increase participation in services.
	3. Report on progress against strategic investment plans	Provide greater focus on regulating companies on what they said they'd deliver in their business plans, and not just the high-level outcomes, to reduce the risk of underinvestment being portrayed as efficiency.	There are concerns around how effective governance and regulation is at separating efficiency from under-investment. Providing greater focus on what is being delivered.
Policy and regulation	4. Align duties and accountabilities	Consumer duty regulations are being implemented in the financial sector to set higher standards of care and clearer standards of consumer protection, along with greater consistency across the sector. Regulators like the Environment Agency or Natural Resources Wales might be required for example, to consider the cost implications for customers of their monitoring or overflow spill reduction targets. This is likely to take years to develop and implement, but would mean that all regulators have to consider how their work impacts the public from all perspectives – as a citizen, consumer, nature user, etc.	Not all regulatory bodies have to consider customer impact i.e. bill payers. Consumer duty regulations could reduce competing priorities and provide a focus to ensure all regulators have to consider affordability and fairness as part of their remit.
	5. Stronger sector-level leadership	Clearer strategic direction for the water sector through a specific Chief Advisor who provides leadership and develops ethical and evidence-led policies, setting long-term outcomes at a national level.	There are separate regulatory bodies with different requirements and agendas, and this can provide a perception of a lack of clear leadership.
	6. Further integrated, long-term planning	Water management affects local flood authorities, the Environment Agency/Natural Resources Wales, energy production, economic development, housing development and agriculture, amongst others. Although considerable time and effort goes into long-term planning in the water sector (e.g. Water Resource Management Plans and Drainage and Wastewater Management Plans), a more cross-sectoral perspective could be beneficial.	Addressing future challenges will require more integrated long-term planning across different functions and sectors.



	Summary	What might this involve?	Why?
Governance	7. Shareholder or member vetting	Vetting of shareholders and equivalent company members. This is important as shareholders or members provide direction, scrutiny and funds influencing boards and the direction of travel for individual companies. This aims to improve the management and mitigation of risk associated with ownership/shareholders.	There is currently limited control over whether shareholders are appropriate for a sector that provides a public service and can impact on the environment. Some owners can act responsibly, whereas others are less responsible. Some form of mechanism to reduce the risk of 'poor' owners could be positive for the sector.
	8. Build on social value measurement and reporting	An increased focus by both regulators and companies on social value, i.e. the value companies are adding to society, communities and nature. Measures of social value might include: <ul style="list-style-type: none"> • Human capital – valuing employee knowledge, skills, good health and education. • Stakeholder opposition – further considering transparency and ethics, including controversial sourcing, supply chain transparency and community relations. • Social opportunities – ensuring companies contribute positively to society. This might include finance and equitable access to services, donations, skill sharing, volunteering. 	The current model faces challenges, such as increasing staff turnover, that are particularly acute in some supply chains and are likely to be largely unnoticed by the current regulators due to a lack of social performance measures. Greater visibility in terms of social value is likely to be positive for the sector overall.
Financing	9. Alternative funding for big infrastructure	New funding models have developed for big infrastructure projects, including Direct Procurement for Customers and the Specific Infrastructure Projects Regime. Further investigation into funding models for big infrastructure projects is recommended. Possible options vary in terms of who assumes ownership when, and when independent finance is introduced through the lifecycle of the asset(s).	Significant capital investment schemes can have significant bill impact, and appropriate funding mechanisms are needed for large schemes.

Examples of good practice



- Integrated water resource management and governance
- Demand management is a strength as is managing stormwater
- Value of the industry has grown as demand has reduced
- National water grid investment framework



- Financing is sustainable through customer bills and outside investment
- DrinkWater quality compliance
- Generally seen as a leader in terms of both research and innovation
- Typically compares well in terms of bill charges/tariffs whilst being profitable – overall good value



- Infrastructure resilience and a programme of dam building demonstrates investment in key infrastructure
- The value of the industry has grown as demand has fallen
- Few issues from stormwater discharges to the environment



- Strong history of investment (reflected in higher charges)
- Long-term sustainable approaches to water
- HamburgWasser ranks highly and provides a good example of explaining costs to customers
- 100% of sewage treated in line with EA legislation



- Innovative and sustainable with significant water reuse to ensure a reliable supply
- Community engagement and enhancement of recreation
- Significant focus on technology and innovation
- Strong policy and smart roadmap to meet future needs



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