



The voice for water consumers  
Llais defnyddwyr dŵr

**CCW's response to  
Ofwat's Consultation on Scoping the  
Water Efficiency Fund: High Level  
Consultation**

**22 September 2023**

## 1. Introduction

CCW is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators.

We welcome the opportunity to respond to Ofwat's initial consultation on scoping the proposed Water Efficiency Fund (the Fund). We look forward to engaging in further discussions with Ofwat as their thinking develops and their proposals for the Fund evolve and are crystallised.

## 2. Consultation Questions

### 1. Do you support the objectives of the fund? How could they be improved?

We strongly support the objectives of the Fund and the arguments given for why we must see a step change in our approach to water efficiency in relation to household and non-household customers' water use.

We have been a strong voice on the need for greater action on water efficiency and for the establishment of an overarching body to drive this forward through our proposed concept for Accelerating Reductions in Demand (ARID). ARID is designed to address the need for greater oversight, co-ordination and evidence building if the scale of required water demand reduction identified by the National Framework for Water is to be achieved and, more specifically, if the water companies are to achieve the ambitious targets set for them in the Plan for Water. We have been actively promoting the ARID concept with stakeholders within the water sector, including Ofwat. A copy of our ARID proposal is included as an Appendix to this submission.

There needs to be a greater level of funding for the Fund to deliver the step change required. The challenge of meeting the supply/demand balance gap is huge, and will require significant ongoing investment. There is a danger that without appropriate funding, oversight, coordination and leadership the sector will continue to do more of the same, which will not bring about the step change in attitudes and behaviours required.

We need that leadership and oversight to allow proven water efficiency programmes to be taken forward at pace and scale. We want to ensure that there is a commitment to doing more to inform the public so they too understand why saving water is so important and the part they are expected to play. We therefore need a step change in approach and to see successful projects taken forward at pace and scaled up quickly after piloting. Some good work has already been done but we now need to support interventions not only targeting awareness raising and behavioural change leading to more efficient water use habits, but to also explore the potential for more direct and technical interventions.

### 2. Given the scale of the fund, how could it best contribute to these objectives?

There is a need for strong overarching leadership and the ability to build the evidence base so that successful projects can be scaled up across England and Wales, once they have been tested. The

Fund will need to support interventions that may be new or untried in the UK. Decisions on what to support will require the establishment of a bid assessment process that draws on a different mix of skills and experience drawn from appropriate disciplines. In our view it would make sense for ARID and the Fund to converge. The consultation acknowledges the need for oversight and monitoring for the Fund but this should go wider. It is also important that there is thorough and consistent evaluation of what has been delivered by any funded projects so we know with some confidence what works and what doesn't. All this learning will contribute to the evidence base and ensure the future delivery of the proven and most successful approaches to water efficiency.

### **3. What precedents are you aware of that could help guide the design of the fund?**

The Fund will need to encourage wide participation and collaboration with a focus on both household demand and non-household. It should go much wider than the water sector. An additional objective might also be added - namely that 'the projects it supports helps progress delivery of one or more of the 10 objectives in the UK Water Efficiency Strategy'. The Strategy has widespread support for the priorities for action and delivery. The existing UK Water Efficiency Collaborative Fund already has this link embedded in the scoring criteria for bids into it.

### **4. Should the fund be divided into segments? If so, how could we best do this to make it as effective as possible?**

The three segments suggested (Behaviour change, targeted interventions based on better understanding of water use, and technological interventions) seem appropriate.

While a well-resourced, collaborative, sustained and wide-scale behaviour change campaign, to encourage people to value water and use it efficiently should be developed as part of this work. The potential costs involved with such a campaign mean that first there needs to be a few different proposed approaches trialled first, so we know what really resonates with the public. That campaign can then be taken forward at scale and at pace.

The increase in household metering (and smart metering in particular during 2025-30) has the potential to provide better data on usage and play a part in helping to reduce demand, provided that customers can be helped to understand how they can reduce their consumption and their bills and why this is important to do. People will need more useable information to allow them to adapt their behaviours – applying behavioural science principles can help customers make a change. However, it should be acknowledged that meters are not well received by all customers with some raising affordability concerns. A better understanding of water use, as a result of the smart metering roll-out, may in turn help with, and facilitate future tariff design.

### **5. Where do you think the greatest demand reductions could be made? What examples or evidence can we draw from to make sure the most important areas are targeted?**

Those water companies already using smart meters have identified significant levels of wasted water through internal plumbing issues like "leaky loos", as well as leakage from customers' pipes which shows up as continuous flow. This applies to both household and non-household customers. This would potentially be a good starting point. We are also very conscious that the huge peaks in demand that we saw in 2022 and 2023 in response to rising temperatures which put tremendous pressure on the companies' distribution networks, and again smart metering confirms were largely driven by external garden use and leisure activities. Ways of influencing attitudes and behaviours

and particularly external water use would be interesting to explore and whether adoption of alternative behaviours is possible.

It might also be interesting to examine the potential alignment of interventions and programmes on both water and energy efficiency, as most people would prefer the minimum level of disruption for the maximum benefit. There might also be potential to extend offerings to include, for example, lead pipe replacement, as water companies often cite the challenge of engaging customers on this issue due to the perceived level of disruption and potential benefit. More holistic approaches might encourage higher levels of public engagement.

## **6. Do you support our current preference for funding a small number of large initiatives?**

No. Given that water efficiency is difficult and uncertain (as evidenced by the sector's lack of progress to date), it makes sense to mix up the approach to the size of the initiatives supported. For example, putting lots of money into a single behaviour change campaign could lead to a lot of money being put into achieving a null result (ie "don't try this approach again" is the result). While null results are helpful to build the evidence base, it would be more sensible to spread the money in a series of smaller, yet still sizeable, initiatives.

One of the well-known challenges with water efficiency is to identify effective interventions, it would therefore appear at odds with this to suddenly be able to pick winners (especially ones requiring very large financial support) through this Fund. If effective interventions could be easily identified there would be no need for the Fund. This means there may be an element of risk with the initiatives supported through the Fund and a need to accept that some will fail.

However, we certainly agree with the need to see water efficiency delivered at pace and scale once proven. Before committing to any large project there will need to be some confidence that it is likely to deliver against its objectives. A thorough assessment and evaluation process will be required which is why it will be important to have the right skills and experience on the evaluation Panel. CCW would welcome the opportunity to have a role in the oversight of the Fund.

The key elements to the proposed approach to phasing the funding seem sensible.

## **7. How can we best make the water efficiency fund work for both England and Wales and make sure it takes into account the differing policy context?**

We agree that it is important to have a fully inclusive approach covering both England and Wales. It will therefore be important to have Natural Resources Wales and Welsh Government at the table or fully/appropriately consulted as part of the assessment process.

## **8. Do you support our current thinking on eligibility and scope? How could it be improved?**

We would wish to see this kept as open as possible to allow for all proposals with potential to be given consideration and to allow as wide a range of applicants as possible from within and outside the sector and addressing as many different aspects of household and non-household water use as possible.

## **9. How can we most effectively bring in expertise from other sectors and disciplines while also making use of and nurturing the expertise that already exists in this sector?**

Raising awareness and interest in the Fund will be largely down to the way this is promoted and designed – existing networks will be able to disseminate information widely, but to bring in new ideas and collaborators wider outreach will also be needed. Lessons learnt from promoting the Innovation Fund can be used.

The Fund needs to adopt an approach that really encourages others from outside the sector to participate. The eligibility criteria for participants should therefore not be too restrictive. There should also be opportunities for innovation (while acknowledging the separate Innovation Fund is still open to water efficiency related bids) it would be good to retain scope for start-ups to join in so that fresh ideas can be tested.

Water companies should be encouraged to work with other sector bodies and partners from outside the water sector. Waterwise could be an important potential contributor to the Fund in both an advisory capacity and as potential participants in future collaborative projects. CCW likewise, can also play important role in bringing the voice of the consumer into both the leadership and operation of the Fund (essentially as we proposed with ARID – see Appendix to this submission) and as possible bidders into the Fund.

## **10. What are your views on whether the involvement of water companies in England and Wales should be a requirement or whether the fund could support initiatives with no involvement from water companies?**

Given the onus is on the water companies delivering reductions in use of the public water supply it would seem only right that they are involved. However, if a novel new approach to water saving came forward which was say appliance or fittings based, or if new influencing techniques emerged in other sectors, it would be disappointing if this was not able to be considered. For that reason we would not see water company involvement as a strict or formal requirement.

## **11. How do you think this fund should be operated?**

In our view the Fund should not seek to create a sense of competition as this is about furthering a common cause. It will need appropriate governance and resources in order to work well. It will need administrative support for the Panel, and the expertise to assess, monitor and evaluate a range of projects utilising behavioural science, data management, and technical interventions. It will also need to have a communications and engagement function – so that the Fund is adequately promoted, and progress and developments shared widely.

A merging of our ARID concept with the Fund could provide a strategic overview of all the water efficiency work that is being carried out in the sector as well as through the Water Efficiency and Innovation Funds. This would place the Fund / ARID in a stronger position to identify which proposed initiatives seek to address the wider strategic gaps in knowledge. The Fund would be operating in a sub-optimal way if it simply supported projects in isolation without the more strategic picture in mind. Therefore the leadership and strategic overview function of the Fund / ARID is essential.

## **12. What sort of governance do you think would best support this work and who should be involved?**

The proposal in the paper is a good governance structure if simply operating the Fund. We would however suggest that our ARID proposal and the Fund if combined, would create a Panel of Experts with a wider scope that not only considers proposals for the Fund, but also provides leadership and a strategic oversight of the work being done on water efficiency. In addition to our own ARID proposal, we are aware that the Environment Agency has also latterly developed some options for enhanced national regulatory governance for demand management (Strategic Demand Management Alliance), this is very similar in concept to ARID. All proposals are a response to the identified gap in oversight and leadership in relation to demand management. Given the common ground covered, and potential synergies, we think as part of Ofwat's further thinking, consideration should be given to bringing these proposals together with the Water Efficiency Fund.

The governance process should ensure proposals are assessed and assurance is provided that appropriate customer protection is in place, a delivery plan agreed, with suitable check points or gates when progress and outputs would be reviewed, and further funding potentially agreed. If a project is not delivering it can be stopped. The process must ensure that the outcomes/results of all projects/programmes, successful or otherwise, are evaluated on a consistent basis, and the learning captured and shared. And in doing so, provide a realistic sense of the time, budget, resources and governance it really takes to deliver successfully and sustain any reduction in demand as projects are scaled up.

There should also be a specific focus on the non-household market working with Retailers and non-household customers to incentivise water efficiency and maximise savings.

## **13. How can we best protect customers' investment in this area and ensure appropriate use of the funds?**

We agree that there needs to be clear separation of the projects supported through the Fund and any water efficiency related projects and programmes contained in company Water Resources Management Plans, which will be funded through the Price Review.

The successful applications to the Fund will need to have very clearly defined funding commitments and delivery expectations attached to these, with milestones for what they are expected to deliver and when. Close monitoring of the projects and regular check-ins to confirm delivery of these agreed milestones will be necessary. This could follow something similar to the Gated process that is used for the strategic supply side projects by the Regulatory Alliance for the Progression of Infrastructure Development (RAPID). These regular check-ins will give an opportunity to withdraw from a project if it is not delivering as expected or working in the way intended. The findings of pilots and projects must be shared openly and widely.

## **14. What should be the role of the fund in bringing in new thinking and facilitating exchange of ideas?**

This should be central to the operation of the Fund. It will be really important that the fund supports projects that help build the evidence base for water efficiency in both the household and non-household sectors, and that the Panel/ARID ensures all learnings are shared openly and widely.

This should allow future projects to build on this learning. In doing so it should avoid simply doing more of the same unless on a much larger scale.

We should allow for some more untried approaches, maybe looking at what has been done in other parts of the world. We are also keen to see behaviour change techniques featuring more strongly in any projects taken forward.

### **15. How can we harness and balance competition and collaboration while minimising the impact of time spent developing unsuccessful proposals?**

The Panel/ARID could provide potential applicants with clear guidance on the benchmarks being used to assess the projects. Informal initial meetings could be held to weed out early on, those unlikely to be successful. We think one additional assessment criteria should be that any supported proposal has the potential to be delivered on a bigger scale and across multiple and varied locations.

### **16. Is there anything else we should consider in terms of timescales?**

As the National Framework and Plan for Water looks long-term, the Water Efficiency Fund should do the same. We need a long term commitment to funding and for support for projects that are likely to extend beyond five year price controls before they deliver their full potential water savings.

### **17. How can we best create a legacy beyond 2030?**

Being clear there is that long term commitment to supporting work in this area. Building a strong evidence base to support future policies and practice. Identifying a portfolio of water efficiency measures that work, and can be rolled out more widely across a range of demographics and business sectors and locations, would be the most tangible legacy.

### **18. Do you support the idea of a scoping study to help focus the fund? If so, what should this look at?**

As suggested above we would like to see Ofwat give consideration to merging our ARID proposal with the Fund, the scoping study could therefore explore how the Fund and ARID could potentially work together to provide the oversight, co-ordination and leadership needed to drive water efficiency forward at the pace and scale required. Given the degree of urgency necessary in making progress in this area, this study will also need to be done at pace in order for the funding and arrangements to be in place and ready to go at the start of 2025.

### **19. Do you have any other relevant views or perspectives that you would like to share?**

It may be useful to have a specified point in time when the operation of the fund will be reviewed. This would allow all aspects to be reviewed including the sufficiency of the funding available. For that reason it would need to be ahead of the following Price Review in 2029. We believe the Fund should be bigger. The challenge of meeting the supply/demand balance gap is huge, and will require significant ongoing investment. While the creation of the Fund is a very positive step, the amount of money proposed is orders of magnitude smaller than the scale of the challenge, and when compared to the costs involved with creating additional water resources.

We have an opportunity to build on the broad consensus that there is a need for a body to provide oversight, co-ordination and leadership in relation to water efficiency to drive progress forward. We therefore encourage Ofwat to give serious consideration to the opportunity to merge our ARID proposal and the operation of the Fund.

## **Enquiries**

Enquiries about this consultation response should be addressed to:

Karen Gibbs

Senior Leader - Environment

CCW

Email: [karen.gibbs@ccwater.org.uk](mailto:karen.gibbs@ccwater.org.uk)

Telephone: 07733 044242

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## **Accelerating Reductions in Demand – ARID**

### **A proposal to deliver a step change reduction in customer demand for water**

#### **Executive Summary**

1. The future security of our public water supply and protection of our natural water resources depends on a successful, and sustained, reduction in our levels of demand for water at home, and in businesses, as well as in all other aspects of our daily lives. To achieve this we will need to bring about a significant change in public attitude and behaviour as well as put in place the policies, regulations and practical interventions and advice to help people reduce the amount of water they use.
2. This will only happen if these activities are coordinated, given direction, and importantly any learnings are used to build an evidence base that will enable future funding to be targeted at the programmes that deliver the best results. There is an opportunity at PR24 to set us on this urgent course of action. Failure to do so will mean more of the same small-scale activity, a continuing lack of public engagement and inevitable soaring peaks in water demand we saw in the last couple of years as the temperatures increased, just at the time when the environment is at its most vulnerable. We need to act now. Accelerating Reductions in Demand (ARID) would be the catalyst for a step change in demand management.

#### **Background**

3. Demand management has an essential role to play in securing the resilience of our water supplies to the impacts of Climate Change, the demands of a growing population and economy, all while ensuring we leave sufficient water in the environment so it is protected and can thrive. Reducing the amount of water people use will need to be achieved alongside significant leakage reduction, and significant investment in new water resources. Balancing supply and demand will require people to be helped and encouraged to use less water at home and in their places of work. Challenging demand reduction targets have been agreed in both England and Wales and mean that accelerating reductions in demand are important priorities for both nations.
4. According to assessments done for the National Framework for Water Resources in England the water resource deficit is around four billion litres per day by 2050 and greatest in the south and east of England. Detailed planning has shown that even after the development of new resources such as reservoirs and transfers, about a third of the volume needed to achieve water security must be met from demand management. In other words, by making better use of limited and uncertain resources. Consumers will, therefore, have a fundamental role in ensuring secure water supplies for current and future generations. However, they are largely unaware of the assumptions being made in the planning processes about the active role they are expected to play.

5. Climate Change and the need to become more resilient in the face of increasing drought severity is driving the need for demand reduction to make supplies more resilient in Wales. There are four Welsh water resource zones that are forecast to be in deficit if no action is taken, with these four zones serving just over 70% of the total population.

### **What's being done to tackle the problem?**

6. Water companies have committed to, and are investing, to halve the leakage from their distribution networks by 2050, but have made little progress in persuading their customers to reduce their water use. Indeed, post Covid, there have been significant changes in demand patterns and levels. In 2022, many companies were dealing with record breaking levels of customer demand as temperatures rose and the widespread drought took hold across England and Wales.
7. While there have been numerous trials and pilots to engage with customers through awareness raising and the provision of devices to, for instance, reduce the volumes used in toilet flushing; these have had minimal lasting impact and so the achievement of current planning assumptions – and our future water security – are in doubt. In companies' latest Water Resources Management Plans (WRMP), smart meters appear to be the core strategy for reducing demand for many but metering alone will not reduce demand as we saw during the summer of 2022 and again this summer, where even more highly metered areas also experienced huge peaks in demand.
8. The actions taken to date by the water companies have been relatively small-scale with little or no coordination or coherent overarching messaging, and the resources committed have been only a fraction of the sums set aside to explore the feasibility of water supply options. Where there have been attempts at alignment of messaging, for example the Water's Worth Saving Campaign, this has been primarily social media based and headed by the industry. Campaigns of this type are difficult to evaluate in terms of their impact given the various other factors impacting peoples' behaviours. Companies have struggled against the assumption that saving water is something that everyone intuitively understands the need to do. They don't. People have busy lives and many stresses, not least the current cost of living crisis.
9. In publishing its summary report on companies' draft WRMPs and Regional Plans the Environment Agency points out:
  - (i) "Demand reductions are crucial, particularly in the short term. The Environment Act 2021 sets a target to reduce the use of public water supply in England per head of population by 20% by 2037-38 from the 2019-20 baseline. The current draft water resources plans would deliver a 17% reduction in water use per person by this time in England. Government expects water companies to set out how the target will be delivered in updated plans and expects them to act quickly and take significant steps forward on installing smart meters and delivering on their wider water efficiency commitments.

*And*

- (ii) ....The government is seeking a 9% reduction in non-household (business) water consumption by 2037-38 from 2019-20 levels as part of delivery of the water demand target. Currently the draft plans achieve a reduction of only 1.8%. Therefore further work is needed to demonstrate that the plans will meet this non-household target.”
10. So a gap between expectation and delivery is already emerging. Furthermore CCW research shows:
    - (i) 48% of people already feel they are doing as much as they can to save water and a further 15% of people don't plan to make any changes because they don't feel they need to.
    - (ii) More than six-in-ten have not taken action in the last 6 months to reduce the effect of their water use on the environment.
  11. So, in summary, all companies' plans for securing future water supplies are predicated on achieving a significantly reduced per capita consumption (PCC) and reduced non-household demand for water, yet there is currently no coherent national or regional route map for achieving this objective.
  12. Failure to deliver the planned reductions in customer demand will mean that an additional suite of major, carbon-intensive resource schemes will be required: i.e. those which currently have not been selected on grounds of cost or environmental impact. Until they become available the risk to national water supply security will be significantly increased.

### **How do we deliver a step change?**

13. For the first time since privatisation in 1989 we are seeing progress made in the delivery of large scale new water resource projects in England. This is overseen by an alliance of regulators (Regulators Alliance for Progressing Infrastructure Development - RAPID) working together with regional water resources planning groups under a clear governance regime, an agreed funding stream, and explicit government support.
14. Ofwat has set aside some £470 million to be released in a phased/gated approach through processes established by RAPID to fund investigations into a broad range of different options such as major new reservoirs and large scale transfers of water. Inevitably, not all of these will progress through the various stages, but potentially some £14 billion of capital works could be agreed by the end of the investigation process.
15. Despite the crucial importance of achieving the necessary demand reductions to help reduce the future deficits, there has not been an equivalent level of investment or structured governance put in place to deliver this. The RAPID model has demonstrated what can be achieved with strong commitment and leadership, realistic resources and a clear framework. It therefore provides a viable potential template for an equivalent scale and rate of progress on demand management.

16. ARID could potentially adopt a similar approach, with a focus on collaboration, coordination and the provision of leadership and momentum within a similar structured framework. We believe this should extend across England and Wales, while acknowledging the need to take into account devolution and the different legislative drivers and existing structures within the two nations.
17. Ofwat has stated its desire to see more partnerships in this space to drive change, and has recently announced the establishment of a new £100 million Water Efficiency Fund; however, there is a danger that without appropriate oversight, coordination and leadership the sector will continue to do more of the same, which will not bring about the step change in attitudes and behaviours required. The details of how this fund will be administered and applied is currently the subject of a high level public consultation. We can see potential in combining the Fund and ARID proposal. However, while we welcome Ofwat's initiative we feel the scale of the demand management challenge is far greater than the proposed current level of funding would suggest.

## **Scope**

18. There is further work to be done on ARID's detailed Terms of Reference, objectives, governance and resourcing. Fundamentally, however, it should aim to ensure that companies have the ability to trial more innovative demand management measures and behavioural change techniques, and for these to be evaluated on a more consistent basis so their impact is understood in terms of water use, and for these learnings to be captured and shared. The delivery and progress of projects would be reported on in a public manner, through workshops that are open to all. The data and information gained from ARID projects would be freely available to not only the sector, but more widely. This approach would bring interested parties together, drawn from academia and commercial interests which would help generate further ideas, approaches and initiatives.
19. ARID would bring coordination and oversight of the practical delivery of projects focussed on demand side measures. The evidence base generated would then allow successful interventions to be rolled out on a much larger scale.
20. ARID could also aim to increase awareness of the importance of water to society and the economy, and the relationship between water used in homes and businesses and the environment. The objective of raising awareness is to demonstrably effect behaviour change.
21. The gap between societal expectation of service and willingness to change personal behaviour seems to be growing. Attitudes towards the water industry have also hardened in recent years - best summarised as: "fix your leaks before you expect us to act". The challenge has therefore got significantly harder since the last Price Review and is not one that the water industry can be expected to tackle alone.
22. Governments have committed to introduce water efficiency labelling on appliances which could deliver some water savings - but over an extended timescale. Appliance labelling is recognised as having a significant part to play in raising awareness with customers, in the way that energy efficiency labels have improved energy awareness

as well as appliance efficiency. In addition, by reducing hot water use in homes and businesses, water labelling would also help to reduce energy demand. There have been no other significant national initiatives to help consumers understand the real scarcity of water in what they perceive to be a wet nation.

23. ARID would encourage initiatives that help to inform consumers on the importance and value of water. It would therefore need the status and the credibility necessary to become a trusted, independent, voice in this space. This would require a specific range of skills and expertise that could be drawn from organisations already active in this area, as well as academia, the regulators and CCW.

### **The role of smart metering**

24. The increase in household metering (and smart metering in particular) has the potential to play a part in helping to reduce demand, provided that customers can be helped to understand how they can reduce their consumption and their bills and why this is important to do. Smart metering will also help to assess the impact that any programmes are having on water use. However, it should be acknowledged that meters are not well received by all customers with some raising affordability concerns.
25. Even if new homes are constructed so as to facilitate lower water consumption, customers will not necessarily achieve or exceed the theoretical standards if the occupants are not similarly aware of the need to conserve water. Behaviours are as important, or more so, than fixtures and fittings and ARID would have the potential to support activities designed to address both angles. There is still a lot of work to do to win customer support nationwide.
26. By facilitating larger scale programmes and interventions at a regional or potentially national scale, ARID will help build an evidence base which will also help to inform future strategies and also help to challenge the assumptions about reductions in demand used in water resource management plans. With sufficient funding it would be possible to consider.

### **How would ARID work?**

27. One option would be for ARID to oversee a ring-fenced and centrally-coordinated fund to be allocated in PR24 (with those funds awarded using a similar 'Gated' process to that employed by RAPID) to deliver large-scale demand management programmes initially starting in those areas where the deficits are most acute.
28. Having ring-fenced funding to facilitate innovative projects and initiatives which focus on demand reductions, would allow companies across England and Wales to explore options and so progress beyond their current risk-averse and small-scale approach. The role of ARID would be to assess proposals and provide assurance that appropriate customer protection is in place, agree a delivery plan, with suitable check points or gates when progress and outputs would be reviewed, and further funding potentially agreed. If a project is not delivering it can be stopped. ARID would ensure that the outcomes/results of all projects/programmes, successful or otherwise, are evaluated on a consistent basis, and the learning captured and shared. And in doing so, provide a

realistic sense of the time, budget, resources and governance it really takes to deliver successfully and sustain any reduction in demand.

29. ARID is intended to be the catalyst for an urgent step change in managing water demand. This means breaking out of the present situation whereby water efficiency is part of base expenditure and therefore most companies invest relatively small amounts in it because they have little confidence in the investment actually delivering sustained reductions in demand. And because the investment is piecemeal and small-scale it does not provide the evidence base to suggest that a greater investment would be worthwhile.
30. It would be essential for any ARID funded programmes to be outside of existing funding and planning processes to ensure there is no overlap, and importantly, no double counting/duplication of funding. These programmes would be helping to deliver the ultimate goal of reducing demand but should not simply replicate existing programmes in the company's WRMP that would be funded at PR24. Customers' money needs to be spent wisely on the things that will deliver tangible benefits to society at large and there should be clear lines of sight in terms of the different funding streams.
31. Demand reductions are not only integral to water security but they also have the potential to offset (or defer) some of the capital schemes currently being considered. In order to deliver a step change in outcome they need a step change in how they are accounted for when delivered at scale. This would mean water companies having confidence in how regulators would view ambitious programmes of demand management actions, in terms of a proportion of expenditure being allowed for large scale trials with a commitment to release further funding if and when the schemes delivered the projected savings. In other words, a directly comparable regulatory approach for demand management to the water resource schemes. This would facilitate and encourage the sharing of outcomes on what works and what doesn't. It would ensure that companies can build on these results so that they can take forward proven and effective programmes of work, as well as ensuring more consistent and impactful communication and engagement with consumers.
32. In addition, the economies of scale from larger scale trials would help to provide, for the first time, evidence about the costs and benefits of different options, and which deliver best value. This would enable more realistic comparisons of the costs of demand management versus water resource schemes, and where the trigger points lie in terms of options appraisal within the adaptive planning process.
33. The overall outcome would mean that water companies would have sufficient confidence in demand management measures to develop credible long-term plans that achieve reductions in demand and deliver water security. In addition, customers would benefit by saving money on their water and sewerage bills, and by reducing their hot water use, save on their energy bills too. They would also be empowered by having more control over their water use, and would have a greater understanding of why it was important to conserve water.

## **Governance and structure**

34. ARID would require a small, agile, multidisciplinary team made up of water efficiency experts, demand side experts from energy, communications experts, behavioural scientists, with a similarly small oversight Board made up of Ofwat, EA, CCW, Defra plus a few others.
35. Funding would come from Ofwat through PR24. An alternative option to mirroring RAPID would be to use the resources assigned to overseeing the Ofwat Water Efficiency Fund, and in doing so merge both proposals so that ARID would repurpose those resources. Clearly this only works if ARID and the Water Efficiency Fund become merged into a single concept.
36. There could potentially be a larger advisory steering group involving organisations outside of the water sector which might include manufacturers, supermarkets, developers and wider conservation groups – but with so many other groups already in existence it would make more sense for the oversight Board to connect with these other groups to get a steer/seek advice.
37. ARID should also link very closely to the existing regional water resource planning groups, and with RAPID to ensure seamless coordination of plans and actions. In doing so it could encourage cooperation between companies at a regional, company-wide or sub-company scale with each participating company adopting one or more from a basket of potential measures, including some more untried and therefore potentially more “risky” innovative measures, in order to demonstrate their effectiveness, or lack of. These might include: tariff trials, water efficiency audits and retrofit programmes, smart metering implementation and communication campaigns.
38. There should also be a specific focus on the non-household market working with Retailers and non-household customers to incentivise water efficiency and maximise savings.

### **Next Steps and Recommendations**

39. There is currently a window of opportunity to consider what changes are needed to deliver the multiple benefits that more efficient use of water resources might bring and for securing funding at PR24 to allow larger scale demand management schemes to then be taken forward during 2025 – 2030.
40. In responding to the Ofwat consultation on the proposed Water Efficiency Fund we have made clear the opportunity to bring ARID and the Water Efficiency Fund together in order to have a robust framework in place to deliver the reduction in demand that is necessary.
41. We think that a collaborative approach across England and Wales would be most beneficial and understand that some reflection might be required on how this would best work across national boundaries. We continue to hold open conversations with relevant stakeholders in both nations.

CCW July 2023