# Source 2006

Lancaster House London
Thursday 2 February 2006

**Pamela Taylor, Chief Executive, Water UK**

I would like to thank Elliot Morley warmly for his address this evening. We are grateful for the encouragement and support Elliot gives us.

We have a full and substantive programme this evening. This is the third Source event and it is great that so many of you have joined us to look at the priorities for the water sector in the years ahead. S*ource* is the national water symposium which brings together the top people whose work influences the delivery of water services throughout the United Kingdom.

Water is the most basic and vital element in everybody's quality of life and prosperity and it is dependent on the natural environment. These two simple facts present us all with a huge and complex responsibility. The purpose of Source is to help us build a common strategic agenda for discharging this responsibility in the years ahead.

In a moment I will speak about our aims, our progress with the challenges of *Source* in October 2004 and the three challenges we take on this evening at the heart of *Source* 2006. But before this I would like you to see a powerful short film made by Defra as part of its climate change information programme. It sets a context for our meeting tonight.

I think you will agree that the picture presented is disturbing and throws down a challenge to everyone to be aware of what is happening. But for the water industry it is a corporate challenge as well. We are committed to reducing our carbon impact but as the evidence of unstoppable change builds up, it is also critical that we do whatever is necessary to adapt.

We exist for the people and communities we serve and we will be judged by the quality of our service and the positive contribution that we make to the quality of life in every neighbourhood. We must accept from now on that our capacity to deliver this level of service will be increasingly affected by a more volatile climate. Tonight, I hope we can focus on how we can turn the challenges we face – including this one – into a strategy for sustainable policy to the benefit of our customers and all our stakeholders.

**Progress since october 2004**

But first let's look briefly at progress since S*ource 2004.* How has the industry performed against the challenges? I'll start with water and health.

Since 2004 we have been working closely with the growing Water for Health Alliance, to increase the amount of drinking water consumption in schools, care homes and hospitals. And it's working.

Free fresh water is now recognised as a fundamental part of UK school nutrition.
We've seen the launch of a best practice hydration kit for care homes which has been endorsed by the sector regulator. And as a direct result of the *Source 2004* challenge we expect to see minimum care standards changed to guarantee that free fresh water is offered regularly to residents and available around the clock.

Also millions of pounds are being invested in hospital water coolers and a series of new initiatives began in December last year to keep the hydration momentum going across hospital nutrition and health policy.

I can hardly move away from health, without commenting briefly on *Sport Relief 2006*. As you know, one of our primary goals is to raise awareness of the health benefits and high quality of UK tap water, and I'm delighted to announce that the industry will be a supporting partner in the *Sainsbury's Sport Relief Mile* in 2006. This is a BBC flagship event and tap water will receive a high profile across the country with participants, spectators and viewers getting the message that premium quality drinking water is always available and just the drink to help you go the 'extra mile' for charity. I hope you will all take part!

**Water Resources**

Our second challenge in 2004 was the sustainable management of water resources in the face of climate change, increased demand and tighter regulations that have been necessary to tackle pollution.

The importance of this Challenge has been emphasised over the past year by the serious drought in south east England. We have had the first wide-scale restrictions on domestic garden and external use of water for a decade. The companies are working with the Environment Agency to hold the impact of low rainfall on the environment and public supply to a minimum. If the drought continues we cannot rule out extending the limits on non-essential use beyond the household sector. Whatever happens we will not delay in taking the necessary steps.

But this is essentially a long-term challenge, and we have seen some useful steps in the right direction.

First, the 2004 review of water prices has ensured that between 2005 and 2010, water companies in England and Wales will have invested an additional £6 billion pounds in managing water resources. Second, Water UK has set up *waterwise*, an independent non-government organisation that aims to reverse the upward trend in water consumption by 2010. Third, Elliot Morley is chairing a national Water Saving Group with representatives from the regulators, CCWater and Water UK. And fourth, as part of the implementation of the Water Framework Directive, the first steps have been taken towards integrated *Catchment Management*, but more still needs to be done.

**Regulation**

We have seen encouraging progress in our third challenge too – economic regulation. The outcome of the 2004 Price Review was balanced and succeeded both in holding investor confidence while setting some very tough efficiency targets. The independent group set up by Ofwat under the chairmanship of John Baker to examine and comment on the 2004 Price Review process supported improvements and the areas it highlighted for development were in line with the industry's own proposals. The Baker Review incidentally also backed Water UK's calls for a longer term approach, clear definition of roles and responsibilities and better co-ordination between regulators.

Our own *Water UK Future Regulation Consultation* was well-received and feedback confirmed that there is consensus among our stakeholders on many of the proposals. We are working with Defra and the regulators themselves to find ways of cutting the administrative burden on companies and regulators because we all want simpler and smarter regulation. We are also working with the Environment Agency to help delivery of their 21$^{st}$ Century regulation agenda that emphasises risk-based regulation.

Before I move on to look at the industry's performance, to give you a feel for the kind of success we're having in a very specific area I would like you to hear from Gary Fitzgerald. Gary represents the Elder Abuse Organisation and he will talk about improving hydration in care homes.

**Industry performance**

Let me take a minute to comment on how the industry has performed in the past year.

In Scotland a new quality and service programme has been agreed. It will deliver investment worth over £2 billion pounds. It sets very demanding targets but Scottish Water has already made great strides. The new settlement will allow them to build on these solid foundations.

In Northern Ireland there has been real progress towards the new structure that will provide essential improvements. The Water Service is working with government to introduce water prices for the first time. It is controversial but a pre-requisite of the more efficient system everyone knows is necessary.

I have already mentioned the outcome of the price review in England and Wales. It provided an increase in investment in infrastructure and the things that really matter to customers such as preventing sewer flooding. It has put us on the way to becoming a more sustainable industry.

But I want to raise a warning flag here. At the moment investors are happy to provide finance, but we cannot be complacent. Debt continues to rise. If the need for funds continues on its present upward path the financial pressure on companies will also grow.

Meanwhile, energy costs have gone up way beyond expectations and the pension fund crisis is just as much a worry for us as for other sectors.

We must monitor and manage these rising costs very carefully and not just for good business practice. For many customers prices have risen significantly since the 2004 review. From now on we must constantly monitor affordability and indeed I will come back to it again in moment when I'm talking about the social agenda.

But let me say something first on the broader issue of service and the relationship between water companies and their customers. Service is the reason the industry exists. We provide a service to customers and we collect money from them. It's a simple – and complex – as that. Service begins with the basics: delivering a constant supply of high quality water and removing waste water completely and efficiently.

But when times get tough, the basics aren't enough. When prices rise or there are floods or droughts or hose-pipe bans, what really matters is the relationship between the company and the customer, not just the facts of the situation. The customer will make more effort to understand the challenges if a relationship of trust has been built up than if they feel they are just a number on a bill. Companies can achieve this by providing services tailored to customers' needs. This of course means they may well be different in different parts of the country and I'm pleased that Ofwat is taking part with us in a process of reflection on how regulation of service quality can be adapted to regional diversity.

The industry's relationship with all its stakeholders of course depends mainly on a good flow of information between customers, other stakeholders and the companies and these Source meetings are a part of that flow.

**Social Agenda**

I said earlier that I wanted to refer to the social agenda which is an important part of the industry's strategic planning.

In 2004 in a study of water affordability the government estimated that up to 35% of non-working households would be spending more than 3% of disposable income on water charges by 2010. (To be clear I should say that when we speak of 'affordability' we're referring to those who can't pay, not those who won't, who are a different matter altogether.) The latest industry research shows that 20% of debtors are responsible for 70% of debt unpaid after a year or more. These are particularly young and middle-aged people who have little involvement in the credit market. So the question is: what can we do to help, while maintaining our financial viability and credibility with all our customers?

One option is a Social Tariff that would help the less well off by charging the rest a little more. But we would have to devise a system that ensured that Tariffs still reflected payment for a Service received – and did not increase cross-subsidy beyond the levels most people find sensible. Another option is the 'affordability tariff' recently announced in Northern Ireland. This includes an income cap on those living in lower-value properties. It would be paid for from the public purse and would guarantee that these customers spend no more than 3% of their income on water and sewerage. We will hear more on this important matter in a few minutes. It is a positive idea, but government should also consider people in similar circumstances in England and Wales and adjust the benefit system in a similar way to Northern Ireland.

We will hear more of this in a moment but now there is one person who is more qualified than almost anyone else to comment on the overall performance of the industry so I'm going to ask Philip Fletcher, Director General of Ofwat, to give us his current assessment.

**The challenges**

Now let me conclude by headlining briefly the three challenges we shall be discussing tonight. They are first the environment from catchment to tap; encouraging the consumer's voice; and the continuing challenge of financing the industry. We have a number of contributions on all of them so I will just point out the issues.

First, the environmental challenge, from catchment to tap. The issue here is how to achieve a cleaner water environment that supports a constant high quality supply to customers at an affordable and sustainable cost. We'll hear from Dr Roberto Bertollini from the World Health Organisation in Rome; then from Grant Lawrence, Director of Environment at the European Commission.

Our second Challenge tonight is how we can ensure that the voice of consumers is heard throughout the water sector. On this one we're going hear from Dame Yve Buckland, Chair of CC Water, and Ian Smith, the Convenor of Waterwatch Scotland.

The third challenge is financing investment. This is a constant for us and a hot topic across all the utilities. If investment is to be delivered at a reasonable cost to customers, we must retain the confidence of the City. Water is just one sector in which investors can place funds and they must be able to see that the returns will be reasonable relative to the risk involved. Peter Bucks, a consultant on financial issues to Ofwat and Ofgem, Robert Miller-Bakewell, water and waste analyst at Merrill Lynch, and Dr Angela Whelan, senior investment analyst at Ecofin willl take part in a charied conversation.

**Conclusion**

So we have moved a good way forward since our last gathering at Source in October 2004. The industry is coming to grips with the need for long-term planning and investment and there has been a general lift in confidence that we can do the job, that we are developing the right Partnerships and that we will be able to sustain this positive movement forward.

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