

**National Water Symposium
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Source 2004

Challenge 3: Future Regulation

To design future water regulation that is better at promoting customer service, environmental protection and economic development

The water industry's strategy for the medium-term is to build a stable future on the back of present success. This means continuing to deliver the economic, environmental and service benefits everyone now takes for granted. The industry can point to a consistent record. We're creating a record of investment and operating success that is transforming our reputation.

Can the industry continue to be successful? Yes, but we have to face some tough issues. For example:

- Need for high investment set to continue for foreseeable future
- Politically sensitive and vulnerable to political risk
- The regulation system may fail to keep up with industry needs

Regulation fit for purpose

The Government has been active on water issues. The 1997 water summit, in which government set tight controls and targets for the water companies, showed strong leadership. Defra itself, which brings together water, environment and land-use issues, is a good example of a holistic policy unit. One of its outputs, the policy vision document 'Directing the flow', brings together current and future water issues. Water Act 2003 and the regulations associated with the Water Framework Directive, also show that the Government is committed to progressing water legislation.

Pollution

Floods, droughts, pollution and environmental damage are critical issues for water companies. But obviously they are not just the responsibility of the water industry. Sectors such as farming and transport have major impacts on water quality. Currently these sectors are being subsidised by water customers to the tune of hundreds of millions of pounds a year. Diffuse pollution from farming means that pesticides and nutrients must be removed from drinking water. Pollution from transport and industry is also a serious threat. It is good that Defra has adopted a strategy to tackle the problem; it has issued a consultation on catchment sensitive farming and an urban issues paper is to follow.

Needs change, so should focus

In 1997 the area for action was the water industry. In 2003 things are more complex and action to protect water must also be taken in transport, farming and planning. And the actors are more complex too. In 1997 it was government that took action. In 2003 we need better co-ordination, co-operation and collaboration; it is now everyone's responsibility to act.

Regulation now must be as streamlined and relevant as possible.

The needs have changed since the big water companies were privatised nearly fifteen years ago. Then, the public's opinion of the industry was poor and a tight economic rein was essential. The environment cried out for an aggressive regime. The quality of tap water was still lower here than in other developed countries. Now, we have some of the best tap water in the world. Rivers and beaches have been restored. And Ofwat says the biggest efficiencies have been achieved.

New direction

There is consensus that a new direction is needed. Policy-makers, regulated organisations, environmental and consumer groups are looking for answers. There is increasing interest in the idea of sustainable regulation.

The Better Regulation Task Force is influential. Its five key principles - regulation must be proportionate, accountable, consistent, transparent, targeted - have been widely adopted. Other official bodies are involved, including the National Audit Office, the House of Lords Constitution Committee, and various House of Commons committees. They give both regulators and regulated opportunities to express their views. Then there's competition. The Water Act 2003 clarified policy and increased the number of eligible customers. The industry is contributing to the debate led by Ofwat on how the new provisions should be implemented.

There's also a debate going on outside government. Water UK has identified four issues that will hold up the industry's development if they aren't tackled. The solutions to all depend on greater sharing of interests.

The first is the old mindset based on driving efficiency and low prices by 'sweating the assets'. In future the aim should be investing for long-term value. The second need is to replace 'one-size-fits-all' regulation with common aims but diverse solutions.

Third is the need to stop treating water customers as taxpayers. They shouldn't be a convenient source of subsidy to other industries. Everyone accepts that the polluter pays principle makes sense, but it can be painful to implement. However there is progress with the government's work on diffuse water pollution a significant step forward.

Fourth, we must look at increasing self-regulation and put more focus on outcomes than process. Nobody chooses complex and bureaucratic regulation. It just somehow appears. We'll be working to encourage alternative approaches.

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