

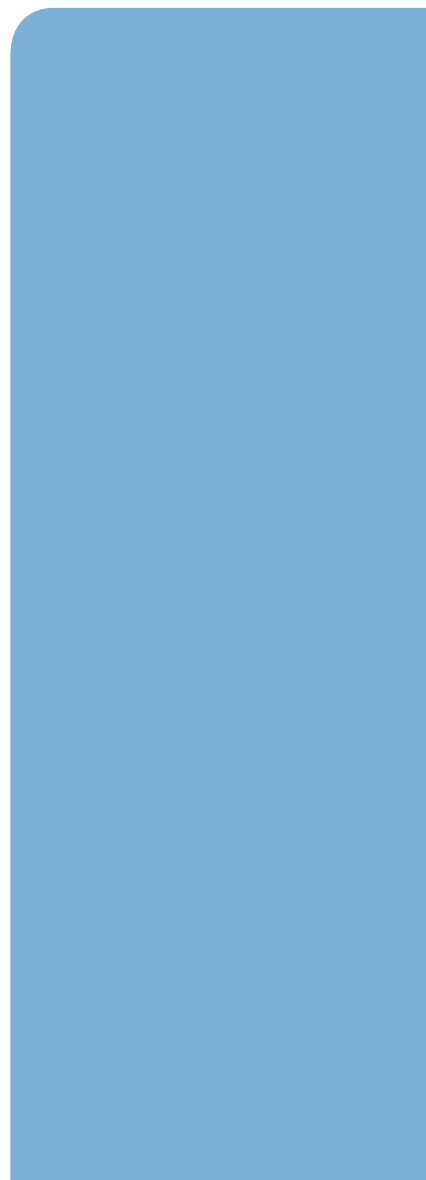


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Welsh Government

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Welsh Government

**Social and Environmental Guidance
to Ofwat issued under section 2A of the
Water Industry Act 1991 (as amended by
section 40 of the Water Act 2003)**



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1. Introduction

1.1 Social and Environmental Guidance presented to the National Assembly for Wales by the Welsh Minister for Natural Resources and Food in pursuance of section 2A of the Water Industry Act 1991.

1.2 Draft guidance to lie for forty days, during which the National Assembly for Wales may resolve that the guidance not be issued.

1.3 Section 2A of the Water Industry Act 1991 (as inserted by section 40 of the Water Act 2003) provides powers for the Welsh Ministers to give Social and Environmental Guidance to the Water Services Regulation Authority (Ofwat) about the contribution Ofwat can make to the attainment of the Welsh Government's social and environmental policies¹. Ofwat is required to have regard to such guidance in the exercise of its powers and duties as economic regulator of the water and sewerage industry.

1.4 The Welsh Ministers' guidance applies with respect to the appointment areas of water and sewerage undertakers whose areas are wholly or mainly in Wales. Guidance relating to the areas of appointment of water and sewerage undertakers wholly or mainly in England is a matter for the Secretary of State.

1.5 In formulating the guidance, the Welsh Ministers have, where practicable, given due regard to costs and benefits which may be expected as a result of this guidance.

1.6 Where Welsh Ministers wish to implement specific social or environmental policy measures which would have significant financial implications for customers or for the regulated water and sewerage undertakers, these will be implemented by the Welsh Ministers rather than Ofwat, by means of specific primary or secondary legislation. The Welsh Government does not seek to do this through this Guidance.

1.7 This Guidance is not intended to provide a comprehensive picture of what Ofwat may wish to do over the next five years or of any other Guidance the Welsh Government may provide. It is in no way intended that the proposed Guidance should act as a 'Directive' to Ofwat, but Ofwat should have regard to the Guidance when exercising its powers and duties in accordance with section 2A(3) of the Water Industry Act 1991.

¹ Section 2A is set out in full at Annex A.

2. Social and Environmental Guidance

The role of Ofwat

2.1 The Water Services Regulation Authority (Ofwat) is the independent economic regulator of the water industry. Every five years it undertakes a "periodic review" of the prices charged by each water and sewerage undertaker in England and Wales. Ofwat has begun work on its next periodic review (PR14), which will culminate in 2014 when it sets new price limits for each water and sewerage undertaker, to take effect from 1 April 2015.

2.2 Ofwat's general duties as a regulator are laid down in Section 2 of the Water Industry Act 1991 (WIA91)². Ofwat must:

- protect the interests of consumers, wherever appropriate by promoting effective competition in relation to the provision of water and sewerage services;
- secure that the functions of each water and sewerage undertaker are properly carried out and that they are able to finance their functions, in particular by securing reasonable returns on their capital; and
- secure that companies with water supply licences (i.e. those selling water to large business customers, known as licensees) properly carry out their functions.

2.3 Subject to these duties, Ofwat must also:

- promote economy and efficiency by water and sewerage undertakers in their work;
- secure that no undue preference or discrimination is shown by such companies in fixing charges;
- secure that consumers' interests are protected where companies sell land;
- ensure that consumers' interests are protected in relation to any unregulated activities of companies;
- contribute to the achievement of sustainable development.

2.4 In addition, Ofwat must have regard to the principles of best regulatory practice.

2.5 These duties are supplemented by general duties in relation to the environment and recreation (see, for example, Sections 3 and 4 of the Water Industry Act 1991).

² Section 2 of the Water Industry Act 1991 - <http://www.legislation.gov.uk/ukpga/1991/56/contents>, as amended by the Water Act 2003 <http://www.legislation.gov.uk/ukpga/2003/37/contents>.

2.6 The Welsh Government's role is to determine the policy framework that may affect the factors that determine price limits and to bring to Ofwat's attention the Welsh Ministers' priorities for water and sewerage undertakers wholly or mainly in Wales. This includes improvements to their environment and drinking water services. In doing so we will also seek to ensure that we meet our European obligations.

Purpose of the Social and Environmental Guidance

2.7 Our Social and Environmental Guidance is intended to ensure that Ofwat has due regard to the Welsh Government's social and environmental policies in carrying out its powers and duties as economic regulator of the water and sewerage industry.

2.8 This Guidance reflects our current and future policy direction. This includes previous policy statements made in relation to water policy in Wales and wider Government priorities including sustainable development³, our Tackling Poverty Agenda⁴, the Minister for Natural Resources and Food's statement of 22 October 2013 entitled 'Shaping a more prosperous and resilient future'⁵ and the White Paper entitled 'Towards the Sustainable Management of Wales' Natural Resources – A consultation on proposals for an Environment Bill' (This consultation started on 23 October 2013 and will end on 15 January 2014)⁶.

2.9 We want the water and sewerage industry in Wales to deliver economic, social and environmental benefits now and for future generations. We also want the water and sewerage industry to provide fair and value for money services for their customers.

2.10 This guidance applies to the exercise of Ofwat's powers and duties mentioned in Section 2(1) of the Water Industry Act 1991 (subject to section 2(6))⁷. Ofwat is expected to have regard to this guidance whenever it is exercising those powers and duties (and not only during the setting of price limits during PR14).

2.11 In May 2013, the Department for Environment, Food and Rural Affairs (Defra) published its own Social and Environmental Guidance as part of its Strategic Policy Statement to Ofwat which is applicable to areas served by water and sewerage undertakers wholly or mainly in England⁸.

³ Welsh Government sustainable development policy - <http://wales.gov.uk/topics/sustainabledevelopment/?lang=en>.

⁴ Welsh Government Tackling Poverty Agenda - <http://wales.gov.uk/about/programmeforgov/poverty/?lang=en>.

⁵ The Minister for Natural Resources and Food's Statement of 22 October 2013 entitled "Shaping a more prosperous and resilient future" - <http://wales.gov.uk/topics/environmentcountryside/consmanagement/natural-resources-management/policy-statement/?lang=en>.

⁶ White Paper - "Towards the Sustainable Management of Wales' Natural Resources – A consultation on proposals for an Environment Bill" - <http://wales.gov.uk/consultations/environmentandcountryside/environment-bill-white-paper/?lang=en>.

⁷ Section 2 of the Water Industry Act 1991 - <http://www.legislation.gov.uk/ukpga/1991/56/contents>, as amended by the Water Act 2003 <http://www.legislation.gov.uk/ukpga/2003/37/contents>.

⁸ Defra's Strategic Policy Position Statement to Ofwat – Incorporating Social and Environmental Guidance – May 2013 - <https://www.gov.uk/government/publications/strategic-policy-statement-to-ofwat-incorporating-social-and-environmental-guidance>.

Welsh Government Policy Priorities for Ofwat

2.12 To help Ofwat to support the achievement of our policy detailed within the body of this Guidance, we have identified the following overarching policy priorities for the Welsh Government. It is intended that these should inform Ofwat's decision making, where it may need to manage any tensions or trade offs that might arise between the different policies in this guidance, in a manner consistent with its outcomes based approach to regulation. These priorities are presented below, in no particular order.

2.13 **Regulatory proposals:** The Welsh Government expects Ofwat to provide a thorough assessment of the impacts of any proposed changes to its regulatory framework for the water and sewerage sector, on both consumers and investors. This should take into account the long term stability of the sector, in terms of financing, stability of infrastructure and services, and the overall well being of the economy, people and environment in Wales. Ofwat should seek to avoid regulatory uncertainty wherever possible, taking appropriate account of the views of investors and other stakeholders. Any costs and benefits presented for the citizens of Wales should be evidenced specifically in the Welsh context.

2.14 **Environmental and statutory obligations:** The Welsh Government expects Ofwat to facilitate water and sewerage undertakers to comply with domestic and European legislation within the timescales set and to regulate to prevent any barriers to these being met. Whilst we are keen to ensure that the wishes of water bill payers should be given a high priority within the price review process, the Welsh Government's view is that some essential actions must be taken forward, although they may not fit with public opinion. While we recognise it is not central to its role, the Welsh Government encourages Ofwat to continue to play an active part in delivering Water Framework Directive⁹ objectives.

2.15 The Welsh Government recognises that this price review cycle (PR14) does not align with the planning cycle for River Basin Management Plans for 2015–2021. We would encourage Ofwat, the Environment Agency and Natural Resource Wales to work together with the water and sewerage undertakers to help them identify and deliver measures required under the Water Framework Directive.

2.16 There may be circumstances in complying with European Directives where water and sewerage undertakers will be required to undertake additional work to ensure that there is no risk of infraction outside of the set price review period. For these matters we would expect Ofwat to give due regard to evidence based requests from water and sewerage undertakers, supported by Natural Resources Wales, to facilitate compliance with Directives.

2.17 **Sustainable development¹⁰:** It is among Ofwat's duties to contribute to the achievement of sustainable development and the Welsh Government expects Ofwat to take account of and to contribute to the achievement of its own sustainable

⁹ Water Framework Directive - <http://naturalresourceswales.gov.uk/our-work/policy-advice-guidance/water-policy/water-framework-directive/?lang=en>.

¹⁰ Welsh Government sustainable development policy - <http://wales.gov.uk/topics/sustainabledevelopment/?lang=en>.

development objectives. In the context of economic regulation for which Ofwat is responsible, the Welsh Government considers that Ofwat should also have regard for the interrelated social and environmental needs of Welsh citizens in the present as well as those we anticipate for the future.

2.18 Affordability: Ofwat should take account of the affordability issues specific to Wales and ensure that these are reflected in its approach to regulating charges for Welsh customers. Ofwat should therefore give due consideration to innovative charges from water and sewerage undertakers, including social tariffs, in line with Welsh Government 'Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010', to help address affordability issues¹¹. The Welsh Government expects Ofwat to be supportive of water and sewerage undertakers' proposals for charges which are both fair and protect vulnerable and low income groups.

2.19 The cost of delivering water services are reflected in the bills paid by the customers. But it is important that we do not keep costs down for current customers by putting off investment. This could result in much higher bills in the future. We will therefore consider carefully the impact of policy proposals, both individually and cumulatively, to ensure that we have the right balance between investing for the long-term whilst keeping bills at a realistic level. Customers, both current and future, will need to be at the heart of our approach.

2.20 Efficiency and cost effective solutions: It is among Ofwat's duties to promote economy and efficiency by water and sewerage undertakers in their work. Ofwat should seek to drive innovation in the water sector, within the boundaries set by the Welsh Government, to ensure improvements in efficiency. This should include continuing to incentivise efficiency alongside ensuring that water and sewerage undertakers can raise the revenue needed to fund their assets, invest in resilience and make necessary improvements in services. The Welsh Government expects water and sewerage undertakers to provide cost-effective and efficient solutions that link different policies and approaches.

2.21 Resilience and joined up outcome based solutions: Ofwat is expected to set price limits which enable water and sewerage undertakers to carry out those works that are essential to ensure resilience against natural and other hazards, e.g. vandalism, theft etc and to be able to carry out work for security purposes. Ofwat has an important role to play in helping to achieve the Welsh Government's priorities for adapting to the impacts of climate change by incentivising water and sewerage undertakers to improve resilience of water infrastructure where this relates to the effects of climate change, and by mainstreaming adaptation into their considerations and decision making. We would encourage Ofwat to support investment in evidence based asset maintenance and renewal programmes which will ensure we have a sustainable infrastructure for future generations.

¹¹ Welsh Government "Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010 - "<http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/social-tariff-guidance/?lang=en>.

2.22 Research and evidence based decisions and policy making: The Welsh Government is committed to evidence based policy making and sees relevant research as a key element of delivering the right results for customers in Wales. We expect Ofwat to have consideration for appropriate research and associated costs where the need for research is an integral part of delivering agreed outcomes in Water Resource Management Plans.

2.23 As well as informing water resource planning, best available evidence should be used to underpin future investment decisions for sewerage infrastructure. We would encourage Ofwat to support funding for research and evidence which assists trial projects to facilitate catchment based solutions to problems. This could include incentivising land managers to improve their land management practices to improve water quality. This sort of approach can reduce the need for additional infrastructure investment by water and sewerage undertakers.

2.24 Drinking Water Quality: The Welsh Government regards the continuing supply of safe, clean drinking water as paramount. Ofwat is expected to ensure that investment related to the improvement of assets to ensure compliance with statutory obligations for drinking water quality is maintained and is fully considered when setting price limits.

2.25 Integrated Water Management Solutions: The Welsh Government's vision for water management in Wales is to ensure that our water assets are resilient and managed using an integrated approach that optimises the social, economic and environmental benefits that they deliver. This is consistent with our wider approach to natural resource management. Integrated Water Resources Management promotes the coordinated development and management of water, land and related resources in order to maximise economic and social welfare in an equitable manner without compromising the sustainability of vital ecosystems and the environment. We would expect Ofwat to regulate the industry in Wales in a way that is consistent with this approach, which encourages water and sewerage undertakers to adopt sustainable and innovative integrated water management solutions and which removes any barriers to water and sewerage undertakers being able to implement them.

2.26 Future resource management: Ofwat should encourage water and sewerage undertakers to develop new ways of tackling issues on both a short term and a more strategic long term basis. We strongly support action by Ofwat to change water and sewerage undertaker and customer behaviours to value water, use it wisely and to reduce demand. In line with Ofwat's outcomes based approach, we would expect Ofwat to take account of integrated and comprehensive approaches to forward planning where these are supported by a robust and justified options appraisal. The Welsh Government expects Ofwat to allow for investigations into innovative and sustainable solutions for water resource management, including abstraction, in the setting of future price limits.

2.27 We would expect Ofwat to provide feedback on the management of these overarching priorities as part of its annual reporting process.

3. Current position and reasons for change

3.1 The previous Social and Environmental Guidance was issued to Ofwat in March 2009 to coincide with Ofwat's last periodic review of water charges (PR09) and was reflective of the previous Welsh Government's policies and priorities as outlined in 'One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009'¹².

3.2 This new Guidance has been drafted to take account of the new priorities of the Welsh Government and to reflect those areas where previous Welsh Government strategies have developed and changed.

3.3 The current price review process is under way and Ofwat has published its final methodology and expectations for water and sewerage undertakers' business plans, setting out their final approach to setting price controls for 2015-20.

3.4 Since the last price review the Welsh Government has developed a number of key policies, of which Ofwat will be expected to take account in its future regulation including:

- Welsh Government Programme for Government¹³
- Tackling Poverty Action Plan - 2012- 2016¹⁴
- Written Statement - The Natural Environment Framework 'A Living Wales'¹⁵
- Strategic Policy Position Statement on Water 2011¹⁶
- Written Statement on Water Policy in Wales – 12 December 2011¹⁷
- Wales Infrastructure Investment Plan for Growth and Jobs - 2012¹⁸
- Written Statement - Shaping a more Prosperous and Resilient Future – Autumn 2013¹⁹
- White Paper - Towards the Sustainable Management of Wales' Natural Resources - Consultation on proposals for an Environment Bill – 23 October 2013 – 15 January 2015²⁰

¹² One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009 - <http://wales.gov.uk/topics/sustainabledevelopment/publications/onewalesoneplanet/?lang=en>.

¹³ Welsh Government Programme for Government -

<http://wales.gov.uk/about/programmeforgov/?lang=en>.

¹⁴ Tackling Poverty Action Plan - <http://wales.gov.uk/about/programmeforgov/poverty/?lang=en>.

¹⁵ Written Statement - The Natural Environment Framework 'A Living Wales' -

<http://wales.gov.uk/about/cabinet/cabinetstatements/2011/110615nat/?lang=en>.

¹⁶ Strategic Policy Position Statement on Water 2011 -

<http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/statement2011/?lang=en>.

¹⁷ Welsh Government Written Statement on Water Policy in Wales – 12 December 2011-

<http://wales.gov.uk/about/cabinet/cabinetstatements/2011/12decemberwaterpolicy/?lang=en>.

¹⁸ Wales Infrastructure Investment Plan for Growth and Jobs -

<http://wales.gov.uk/funding/wiipindex/wiipfull2012/?lang=en>.

¹⁹ Written Statement - Shaping a more Prosperous and Resilient Future -

<http://wales.gov.uk/about/cabinet/cabinetstatements/2013/resilientfuture/?lang=en>.

²⁰ White Paper - "Towards the Sustainable Management of Wales' Natural Resources – A consultation on proposals for an Environment Bill" -

<http://wales.gov.uk/consultations/environmentandcountryside/environment-bill-white-paper/?lang=en>.

3.5 The Welsh Government is also developing a range of work including:

- The Future Generations (Wales) Bill (previously the Sustainable Development Bill) which will help tackle the generational challenges Wales faces in a more joined up and integrated way - ensuring Welsh public services make key decisions with the long term well being of Wales in mind²¹.
- The Water Strategy for Wales²², which will be set within the context of our commitments which are highlighted in the Welsh Government Programme for Government²³. This Strategy will set out the Welsh Government's position on a range of water policies for Wales. The Strategy will also set out our proposals for integrated water management to meet future challenges and to ensure that we maximise the benefits a water and healthy eco-system can provide for our citizens, our economy and our environment.

3.6 Overall sustainability lies at the heart of the Welsh Government's policy and legislative programme for Wales. Taken as a whole, it will promote the economic, social and environmental wellbeing and enhance people's quality of life in Wales. In Wales, we aim to achieve a long term development path for our nation. This means healthy, productive people; vibrant, inclusive communities; a diverse and resilient environment and an advanced and innovative economy.

3.7 The Welsh Government's aim is to streamline and simplify the way we work in Wales and to ensure that we have the legislation, regulation and planning processes that are effective and fit for purpose to manage our natural resources. We want a future where we are able to work in a more integrated, holistic way to ensure that we deliver the best results for the citizens of Wales and that the work of Natural Resources Wales is able to contribute effectively to delivering environmental, economic and social benefits. We see this as very much in harmony with the outcome based approach now being taken forward by Ofwat.

3.8 During the PR14 price review period Ofwat will be expected to take account of the views of a range of stakeholders. This will include the views of the Welsh

²¹ Future Generations Bill information - <http://wales.gov.uk/topics/sustainabledevelopment/future-generations-bill/?lang=en>.

²² Water Strategy for Wales information - <http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/water-strategy/?lang=en>.

²³ Welsh Government Programme for Government - <http://wales.gov.uk/about/programmeforgov/?lang=en>.

Government, the Drinking Water Inspectorate²⁴, Natural Resources Wales²⁵, the Environment Agency²⁶, Natural England²⁷ and the Consumer Council for Water²⁸.

3.9 As a key part of the price review process water and sewerage undertakers will have to demonstrate that they have effectively engaged with their customers. This will involve helping customers understand water and sewerage undertaker responsibilities and priorities and ensuring that customer views on these are have been taken into account where appropriate and reflected in business plans.

3.10 To support this process, all water and sewerage undertakers have been required to set up Customer Challenge Groups. Customer Challenge Groups are independent local groups of customer representatives and other stakeholders. They have been established for the PR14 process to provide challenge to water companies' business plans. The Customer Challenge Groups should ensure that local and regional issues are properly considered and that the views of the water and sewerage undertakers' entire customer base are taken into account. Each Group will provide an independent report to Ofwat at the same time as water and sewerage undertakers submit their business plans.

3.11 The groups are independently chaired and consist of a cross-section of customers or their representatives. In Wales these include members from those organisations listed above as well as Local Authorities, land managers, organisations representing businesses, representatives of consumer groups with specific needs and other interests.

3.12 The Welsh Government has established a PR14 Forum to provide a platform for Dee Valley Water and Dŵr Cymru Welsh Water to be supported through the Price Review process and to engage with wider stakeholders involved in the Price Review process. The PR14 Forum provides a mechanism for ensuring that Welsh Government policy priorities are reflected upon in the development of water and sewerage undertaker business plans.

²⁴ The Drinking Water Inspectorate (DWI) was formed in 1990 to provide independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers. It provides independent scrutiny of water and sewerage undertaker activities for supplying drinking water, working with other stakeholders for the improvement of drinking water quality and to secure drinking water safety.

²⁵ Natural Resources Wales brings together the work of the Countryside Council for Wales, Environment Agency Wales and Forestry Commission Wales, as well as some functions of Welsh Government. Its purpose is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used, now and in the future.

²⁶ The Environment Agency is an Executive Non-departmental Public Body responsible to the Secretary of State for Environment, Food and Rural Affairs. Its principal aims are to protect and improve the environment, and to promote sustainable development. It plays a central role in delivering the environmental priorities of central government in England.

²⁷ Natural England is an Executive Non-departmental Public Body responsible to the Secretary of State for Environment, Food and Rural Affairs. Its purpose is to protect and improve England's natural environment and encourage people to enjoy and get involved in their surroundings.

²⁸ The Consumer Council for Water (CCWater) represents water and sewerage consumers in England and Wales. It ensures that the consumers' collective voice is heard in national water debate, that consumers remain at the heart of the water industry and will take up consumers' complaints, where issues have not been resolved with water and sewerage undertakers.

3.13 The Forum includes the water and sewerage undertakers operating in Wales as well as the above regulators (with the exception of Ofwat), the Consumer Council for Water and the Welsh Local Government Association²⁹. Following the submission of business plans to Ofwat, the Welsh Government will write to Ofwat setting out its views on the respective plans of the water and sewerage undertakers in the context of their engagement with the PR14 Forum and how they have taken into account Welsh Government policies and legislative requirements.

²⁹ The Welsh Local Government Association (WLGA) represents the interests of local government and promotes local democracy in Wales. It represents the 22 local authorities in Wales and the 3 fire and rescue authorities and 3 national park authorities are associate members. The WLGA's primary purposes are to promote better local government and its reputation and to support authorities in the development of policies and priorities which will improve public services and democracy.

4. Welsh Government Policy and Guidance to Ofwat

4.1 In each of the sections that follow, the Welsh Government policy context is provided first. The specific guidance on the areas we expect Ofwat to have regard to follows in the boxed sections, as appropriate.

Strategic Policy Position Statement on Water 2011

4.2 In March 2009, the Welsh Government published its first Strategic Policy Position Statement on Water. The Statement was produced to give Ofwat, the water and sewerage undertakers, regulators and other interested parties a clear steer on the Welsh Government's priorities for water in the context of the water price review. The Statement contained both clear statements of policy on key issues and specific actions to be taken forward.

4.3 This Statement was reviewed and updated in 2011³⁰. This revised Statement updates the position reflecting key developments over the last two years and highlights areas that will be a priority in the future.

4.4 Our core objectives are ensuring access to safe drinking water, maintaining water and sewerage services at an affordable price and compliance with statutory obligations that drive all round water quality.

Welsh Government Programme for Government

4.5 The Programme for Government - 2011³¹ sets out the Welsh Government's commitments for the current term, the key actions it will take and how it will judge whether its actions are on track. Its central organising principle is sustainable development with an emphasis on social, economic and environmental well-being for people and communities, now and in the future, embodying its values of fairness and social justice. It aspires to a healthy people living productive lives in a more prosperous and innovative economy; safer and more cohesive communities, with lower levels of poverty and greater equality and inclusion; and a resilient environment with more sustainable use of Wales' natural resources.

Water Strategy for Wales³²

4.6 The Programme for Government highlighted a commitment for the Welsh Government to publish a Water Strategy for Wales, which we intend to publish for consultation in January 2014. The Strategy will set out the Welsh Government's position and provide a steer to key stakeholders in the water sector on a range of water policies for Wales.

³⁰ Strategic Policy Position Statement on Water 2011 - <http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/statement2011/?lang=en>.

³¹ Welsh Government Programme for Government - <http://wales.gov.uk/about/programmeforgov/?lang=en>.

³² Water Strategy for Wales information - <http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/water-strategy/?lang=en>.

4.7 The Strategy will be set in the context of wider Welsh Government policy including our Tackling Poverty Agenda – 2012 - 2016³³, the Environment Strategy for Wales - 2006³⁴, the Climate Change Strategy for Wales - 2010³⁵, One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009³⁶, the Historic Environment Strategy for Wales – May 2013³⁷, Shaping a more Prosperous and Resilient Future – Autumn 2013³⁸ and our White Paper - Towards the Sustainable Management of Wales’ Natural Resources - Consultation on proposals for an Environment Bill – 23 October 2013 – 15 January 2015³⁹.

4.8 The Strategy will respond to relevant recommendations which the Welsh Government intends to take forward from Martin Cave’s Independent Review of Competition and Innovation in Water Markets⁴⁰, Anna Walker’s Independent Review of Charging for Household Water and Sewerage Services⁴¹ and David Gray’s Review of Ofwat and Consumer Representation in the Water Sector⁴².

4.9 The Strategy will set out how the Welsh Government will take an integrated and sustainable approach to water management. This will ensure that the future water needs of Wales are met, taking account of climate change, population growth and patterns of demand. The Strategy will also set clear guidelines to ensure regulation remains consistent with Welsh Government policy.

- Ofwat is expected to take into account all relevant Welsh Government policy. This will also include the Water Strategy for Wales when published.
- It is essential that Ofwat acknowledges differences in policies between the UK and Welsh Government and regulates accordingly.

³³ Tackling Poverty Action Plan - <http://wales.gov.uk/about/programmeformgov/poverty/?lang=en>.

³⁴ The Environment Strategy for Wales 2006 -

<http://wales.gov.uk/topics/environmentcountryside/epq/envstratforwales/?lang=en>.

³⁵ The Climate Change Strategy for Wales -

<http://wales.gov.uk/topics/environmentcountryside/climatechange/publications/strategy/?lang=en>.

³⁶ One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009-

<http://wales.gov.uk/topics/sustainabledevelopment/publications/onewalesoneplanet/?lang=en>

³⁷ Historic Environment Strategy for Wales -

<http://wales.gov.uk/topics/cultureandsport/historic/cadw/historicenvironstrat/?lang=en>.

³⁸ The Minister for Natural Resources and Food’s Statement of 22 October 2013 entitled "Shaping a more prosperous and resilient future" -

<http://wales.gov.uk/topics/environmentcountryside/consmanagement/natural-resources-management/policy-statement/?lang=en>.

³⁹ White Paper - "Towards the Sustainable Management of Wales’ Natural Resources – A consultation on proposals for an Environment Bill" -

<http://wales.gov.uk/consultations/environmentandcountryside/environment-bill-white-paper/?lang=en>.

⁴⁰ Independent Review of Competition and Innovation in Water Markets -

<https://www.gov.uk/government/publications/competition-and-innovation-in-the-water-markets-cave-review>.

⁴¹ Independent Review of Charging for Household Water and Sewerage Services -

<https://www.gov.uk/government/publications/the-independent-review-of-charging-for-household-water-and-sewerage-services-walker-review>.

⁴² Review of Ofwat and Consumer Representation in the Water Sector -

<https://www.gov.uk/government/publications/review-of-ofwat-and-consumer-representation-in-the-water-sector>.

- We expect Ofwat to consider water and sewerage undertaker plans on a case by case basis.
- We expect water and sewerage undertakers to have developed their business plans in line with guidance set by Ofwat and these plans should also take into account where appropriate feedback from customers and the respective Customer Challenge Groups.
- We encourage Ofwat to support plans which are ambitious, provide value for money, ensure delivery of mandatory regulatory requirements and ensure a safe, secure, resilient infrastructure for water and sewerage services in Wales. We expect the citizens of Wales, both householders and businesses, to be able to receive these services without any risks to public health.

Sustainable Development

4.10 Sustainable development has a statutory footing as the Government of Wales Act 2006⁴³, which requires the Welsh Ministers to make a sustainable development scheme. Section 79 of the Government of Wales Act 2006 states that:

“Welsh Ministers must make a scheme (“the sustainable development scheme”) setting out how they propose to promote sustainable development.”

Welsh Ministers must also:

- report each year on how the proposals set out in the scheme have been implemented; and
- report, after every National Assembly for Wales election, how effective they have been (through the scheme) in promoting sustainable development.

4.11 The current scheme, One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009⁴⁴ sets out the vision of a sustainable future for all of Wales where actions and decisions taken by the Welsh Government, working with others, lead to the best possible long-term economic social and environmental wellbeing of Wales.

4.12 The Welsh Ministers have committed through the Scheme to making sustainable development the central organising principle of the Welsh Government and is proposing to bring forward legislation to mandate this approach both for the Welsh Government and for the wider devolved public sector in Wales. The Welsh Government also aims to create a new sustainable development body to safeguard this approach and to help achieve its aspirations for a sustainable future.

⁴³ Government of Wales Act 2006 - <http://www.legislation.gov.uk/ukpga/2006/32/contents>.

⁴⁴ One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009 - <http://wales.gov.uk/topics/sustainabledevelopment/publications/onewalesoneplanet/?lang=en>.

4.13 Sustainable development in Wales means enhancing the economic, social and environmental wellbeing of people and communities, achieving a better quality of life for our own and future generations in ways which:

- promote social justice and equality of opportunity; and
- enhance the natural and cultural environment and respect its limits – using only our fair share of the earth’s resources and sustaining our cultural legacy.

4.14 Ofwat is under a statutory duty to contribute to the achievement of sustainable development.

- Ofwat is expected to draw on a wide range of expertise in its decision making and to work in partnership with all relevant stakeholders – including, but not always limited to Natural Resources Wales, the Drinking Water Inspectorate, water and sewerage undertakers, the Consumer Council for Water, Cadw⁴⁵, the Welsh Local Government Association and the Welsh Government’s Water Industry Forum for Wales.
- The Welsh Government measures its progress towards sustainable development through its confirmed suite of Sustainable Development Indicators. These provide a high level framework, which sets the context for water and sewerage undertakers to measure their own Sustainable Development performance⁴⁶. We would expect Ofwat to take into account measures being taken forward by water and sewerage undertakers to meet the Welsh Government Sustainable Development Indicators in Wales.

4.15 The implementation of sustainable development practices requires a major change in culture and working practices for many organisations. Translating the Welsh Government's vision into action will mean that sustainable development underpins and drives everything the water industry does and advocates others to do.

- Ofwat’s decision making should be firmly underpinned by sustainable development principles, taking account, where possible, of the long and short term effects on the economy, society and environment and the costs and benefits of action and inaction.
- As part of its sustainable development duty, Ofwat should seek to visibly and demonstrably encourage and highlight examples of good practice in relation to sustainable development.
- Early intervention is key to taking a sustainable development approach. The Welsh Government considers that wherever

⁴⁵ Cadw is the Welsh Government’s historic environment service working for an accessible and well-protected historic environment for Wales.

⁴⁶ Sustainable Development indicators used to measure progress: <http://wales.gov.uk/statistics-and-research/sustianable-development-indicators/?lang=en>.

practicable pollution issues should be addressed at source. Water and sewerage undertakers should seek and use the best available scientific knowledge to aid decision making and to take account of the full range of costs and benefits when making or approving plans and decisions. This should include those costs and benefits which cannot easily be valued in monetary terms. For example, cost/benefit analyses of the social as well as the environmental impacts of their decisions. The Welsh Government believes that Ofwat should support this approach and encourage undertakers to identify solutions to issues which deliver multiple benefits.

Long Term Outcomes

4.16 The Welsh Government expects water and sewerage undertakers to provide cost effective and efficient solutions that link different policies and approaches. This includes the integration of the operation, maintenance and renewal of assets with new provisions to meet new requirements. It also requires a water cycle approach taking account of water resources, drinking water quality, environmental considerations and flood risk management.

- We support and further encourage Ofwat's approach to longer term planning horizons and to require that water and sewerage undertaker programmes are designed in an integrated way.
- In line with Ofwat's outcomes based approach, we would expect Ofwat to take account of integrated and comprehensive approaches to forward planning where these are supported by a robust and justified options appraisal.
- In so far as statutory timetables allow, in some cases it may be that the most long-term effective solution involves the deferral or the acceleration of action or the combining of two measures that might otherwise be taken at different dates. Nevertheless, the Welsh Government acknowledges that there may be sound arguments for an incremental approach, on grounds of cost-effectiveness or of uncertainty.
- In all cases we expect Ofwat to monitor emerging information and to take account of new evidence.
- We would encourage Ofwat to support investment in evidence based asset maintenance and renewal programmes which will ensure we have a sustainable infrastructure for future generations.

Corporate Social Responsibility

4.17 As set out in *Securing the Future* (Department for Environment, Food and Rural Affairs, 2005)⁴⁷, sustainable organisations can be powerful drivers for more sustainable patterns of consumption and production. The Welsh Government's vision for Corporate Social Responsibility is 'to see UK businesses taking account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate'.

- Ofwat should encourage the water and sewerage undertakers covered by this guidance to adopt corporate social responsibility, as described above, with the objective of securing a full commitment to environmental and social responsibility and also to achieving high standards of corporate governance.
- As part of its approach to sustainable development, Ofwat should encourage water and sewerage undertakers to look at their own operations and performance. Ofwat is expected to encourage outcomes by water and sewerage undertaker which help to achieve the Welsh Government's vision.

Water Industry Reporting (Better Regulation) - Reducing administrative burden on water and sewerage undertakers

4.18 The Welsh Government is not formally party to the cross-Whitehall policy on reducing administrative burdens, but it is supportive of it. We are keen that all regulators work in a more effective way to reduce unnecessary burdens, without compromising regulatory outcomes.

- In consultation with others, Ofwat should continue to consider ways to reduce or streamline its information requirements of the industry while justifying any new burdens on compelling cost-benefit grounds.

⁴⁷Securing the Future (Department for Environment, Food and Rural Affairs, 2005) - <https://www.gov.uk/government/publications/securing-the-future-delivering-uk-sustainable-development-strategy>.

5. Social Objectives Policy

Tackling Poverty Action Plan 2012 – 2016⁴⁸

5.1 The Tackling Poverty Action Plan sets out the Welsh Government's key objectives to prevent poverty in the long term, to help people out of poverty and mitigate the impact of poverty. The Action Plan recognises that there is a need to become more joined up with our partners to achieve better outcomes for everyone in Wales. We are committed to improving the lives of those living in poverty and keeping water bills at an affordable level will help reduce debt and protect vulnerable groups.

5.2 Furthermore, the Tackling Poverty Action Plan will be taken forward in ways which link with the Equality Objectives within the Strategic Equality Plan – 2012 -2016⁴⁹.

Water Affordability and Charging

5.3 The Welsh Government's ambition is a Wales where everyone achieves their full potential and everyone can live a life free from poverty and inequality. We are particularly concerned about the impact of water charges and the impact of rises in water bills on those customers who are least able to pay. This is especially important when considered alongside other utility and household bill increases.

5.4 More generally the Welsh Government is concerned about affordability for all customers and the comparatively high level of water bills in large parts of Wales, even though the gap in prices between England and Wales has narrowed over recent years.

5.5 The cost of delivering water services are reflected in the bills paid by the customers. But it is important that we do not keep costs down for current customers by putting off investment. This could result in much higher bills in the future. We will therefore consider carefully the impact of policy proposals, both individually and cumulatively, to ensure that we have the right balance between investing for the long-term whilst keeping bills at a realistic level. Customers, both current and future, will need to be at the heart of our approach.

- It is among Ofwat's duties to promote economy and efficiency by water and sewerage undertakers in their work and also to contribute to the achievement of sustainable development. The Welsh Government would therefore expect Ofwat to regulate to minimise the potential financial burden on water customers in Wales while maintaining services and enabling the water industry in Wales to meet its national and European statutory obligations. This should include continuing to incentivise efficiency alongside ensuring that water and sewerage undertakers can

⁴⁸ Tackling Poverty Action Plan - <http://wales.gov.uk/about/programmeformgov/poverty/?lang=en>.

⁴⁹ Strategic Equality Plan 2012 - 2016 - <http://wales.gov.uk/topics/equality/equalityactatwork/?lang=en>.

raise the revenue needed to fund their assets, invest in resilience and make necessary improvements in services.

- Ofwat should take account of the affordability issues specific to Wales and ensure that these are reflected in Ofwat's approach to regulating charges. Ofwat should give due consideration to innovative charges from undertakers, including social tariffs, in line with Welsh Government Guidance⁵⁰, to help address affordability issues. Where appropriate Ofwat should seek to involve officials from the Welsh Government and the Consumer Council for Water Wales in this work.
- When it publishes its decisions on future price limits, Ofwat should explain how it has taken account of any representations from stakeholders in Wales.

5.6 On 1 March 2013, the Welsh Government published its 'Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010'⁵¹. This sets the framework within which a water and sewerage undertaker can bring forward a social tariff if it chooses to do so. It will also set the framework which Ofwat should consider when exercising its power to regulate charges schemes.

5.7 The level of Bad Debt carried by the water industry in Wales is equivalent to £20 per household per year. Between 17 July and 6 November 2013, we published a consultation entitled 'Tackling Bad Debt within the Water Industry in Wales: The Water and Sewerage Information (Non-owner Occupiers) Regulations'⁵².

5.8 The aim of the draft Regulations is to implement Section 144C of the Water Industry Act 1991 in order to help tackle bad debt in the water industry in Wales. The proposed Regulations would require landlords to provide details of their own name and address, along with a tenant's name, date of birth and the date they started occupancy, to the relevant water and sewerage undertaker. This would make it easier for the water and sewerage undertakers to collect payment for bills and reduce costs currently borne by other customers, leading to reduced water bills for all. The Welsh Government intends to publish final Regulations before spring 2014.

5.9 Debt can often be linked to a householders' ability to pay. There should be support provided from water and sewerage undertakers to ensure that vulnerable

⁵⁰ Welsh Government "Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010" - <http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/social-tariff-guidance/?lang=en>.

⁵¹ Reference as set out in 49.

⁵² Consultation on Tackling Bad Debt within the Water Industry in Wales: The Water and Sewerage Information (Non-owner Occupiers) Regulations' - 17 July and 6 November 2013 - <http://wales.gov.uk/consultations/environmentandcountryside/tackling-bad-debt-in-the-water-industry/?lang=en>.

householders are able to pay for their water bill whilst at the same time actively pursuing those householders who choose not to pay their bills.

5.10 By offering support, water and sewerage undertakers will be able to reduce the current level of Bad Debt. The Welsh Government would expect Ofwat to encourage water and sewerage undertakers to meet the needs of their customers and offer appropriately targeted tariffs and payment plans to help minimise the number of householders who are falling in to debt.

- The Welsh Government expects Ofwat to be supportive of water and sewerage undertakers' proposals for charges which are both fair and protect vulnerable and low income groups. The Welsh Government is keen to see suggestions for innovative tariffs and structures that could help address affordability issues and debt collection.
- The Welsh Government supports the maintenance of the existing ban on household water and sewerage disconnection. Ofwat should continue to provide incentives to water and sewerage undertakers to minimise any additional costs being borne by those customers who pay their bills on time.
- The Welsh Government will expect Ofwat to consider its Social Tariff Guidance when regulating any future charges proposed by water and sewerage undertakers in Wales.

Metering

5.11 The Welsh Government is aware that there is a growing body of evidence to support metering as a fair means of charging for water and for encouraging customers to reduce their demand for water.

5.12 The Environment Agency and Natural Resources Wales published their final classification of water stressed areas in England and Wales in July 2013⁵³. Based on the current definitions and apart from in a few isolated areas, Wales' water resources are not currently at serious risk and there are no areas of serious water stress in Wales. However, we are mindful of the need to consider the implications of climate change, which will place greater pressure on our water resources.

5.13 The Welsh Government also fully recognises the environmental benefits that result from more efficient and sustainable use of water and the associated benefits this may bring in terms of a reduced carbon footprint, as a result of having to treat and pump less water as well as reducing both the amount of water used and energy required to heat it. Reduced demand leads to reduced wastewater, which in turn

⁵³ Classification of water stressed areas in England and Wales - <http://naturalresourceswales.gov.uk/content/Our-work/Policy-advice-and-guidance/water-policy/water-stressed-areas?lang=en>.

results in reduced infrastructure requirements and energy costs and increased resilience to climate change.

5.14 However, the Welsh Government is mindful of the costs associated with a full extension of metering, and the impact this will have on households, particularly for poorer households.

5.15 The Welsh Government commissioned, jointly with Defra, an independent review of charging for water and sewerage services in England and Wales, which amongst other things considered the effectiveness and fairness of methods of charging and the role of metering.

5.16 The Walker Independent Review of Charging for Household Water and Sewerage Services⁵⁴ recommended that the UK and Welsh Government issue clear policy decisions on metering, setting out what is required and when. The review suggested systematic area wide metering where a wider cost benefit analysis indicates that it would be beneficial. Other recommendations included the metering of households on change of occupier, meters placed in the property boundary (where possible) and customers billed quarterly, based on actual meter readings. The review also recommended an assessed charge to be brought in where it is not feasible to install a meter.

5.17 The Welsh Government's forthcoming Water Strategy will set out proposed future policy relating to metering in Wales.

- Alongside any natural expansion of metering in their areas (that is, where customers opt for meters or meters are installed in new properties), Ofwat should encourage water and sewerage undertakers to introduce water efficiency measures to help reduce water use.
- We are aware that technology is moving forward and would welcome further exploration of opportunities to make metering affordable and to develop tariffs which encourage a sustainable use of water.
- Where water and sewerage undertakers are considering the expansion of metering, Ofwat should encourage them to examine the potential impact on customer affordability and take mitigating actions to assist vulnerable customers who might experience bill increases as a result. These actions should also be taken forward in line with our guidance to water and sewerage undertakers and Ofwat, in relation to social tariffs.⁵⁵

⁵⁴ Independent Review of Charging for Household Water and Sewerage Services - <https://www.gov.uk/government/publications/the-independent-review-of-charging-for-household-water-and-sewerage-services-walker-review>.

⁵⁵ Welsh Government "Guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under Section 44 of the Flood and Water Management Act 2010 - "http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/social-tariff-guidance/?lang=en.

Community Engagement and Consultation

5.18 When developing any price determinations the Welsh Government expects that Ofwat will take account of the views of customers through its Customer Challenge Groups. These views need to be balanced with the ongoing need to protect current and future water customers.

5.19 The Welsh Government has established a PR14 Forum to provide a platform for Dee Valley Water and Dŵr Cymru Welsh Water to be supported through the Price Review process and to engage with wider stakeholders involved in the Price Review process. The PR14 Forum provides a mechanism for ensuring that Welsh Government policy priorities are reflected upon in the development of water and sewerage undertaker business plans.

- Ofwat should encourage water and sewerage undertakers to take decisions which reflect the needs and priorities of local communities and the Welsh economy. This may go beyond provision of essential services, through for example engagement in local flood forums.
- Ofwat should take account of the specific circumstances of Wales when developing and consulting on new proposals to undertake its regulatory functions. Ofwat should analyse responses to consultations separately for Wales and, where appropriate and justifiable, should set new measures in the context of Welsh Government policy priorities for Wales.
- Whilst recognising that some essential actions may not fit with public opinion, the Welsh Government is keen to ensure that the wishes of water bill payers should be given a high priority within the price review process and beyond. This should involve water and sewerage undertakers taking account of feedback from customers and their respective Customer Challenge Groups.
- Ofwat, in exercising its duties or powers, is expected to engage positively and purposefully with the Consumer Council for Water and others. It should have regard to such information collected by them on issues such as adequacy and affordability of the services provided by water and sewerage undertakers and relating to water needs of the vulnerable groups of consumers.
- Ofwat should work with the Welsh Government to ensure there are effective procedures and resources in place to enable them to deal with any customer disputes for which they are responsible in an efficient, timely manner.
- Ofwat, when making decisions must take account of costs as well as benefits, but those costs and benefits should consider the wider social and environmental costs and benefits.
- The Welsh Government expects Ofwat to take account of views from the PR14 Forum for Wales and to be transparent in the decisions it makes in response to the representations from the PR14 Forum and the Customer Challenge Groups.

Economic Development and Delivering Results for Customers

5.20 Jobs and economic growth are among the Welsh Government's over-riding priorities and a sustainable, resilient, affordable water supply is essential to help support these. Alongside our setting out a clear and realistic role for the Welsh Government in the economy, the water industry also has a central role in meeting the future needs of businesses and industry and of a growing population in the years ahead.

5.21 The principles of investing in infrastructure, skills, innovation and improving the business environment will guide the Welsh Government approach. This includes further integrating economic, education, skills, procurement and planning policies to deliver greater benefits to the Welsh economy; encouraging greater levels of private sector investment and employment; increasing the links between academia and businesses; and positioning Wales as a low carbon, green economy.

5.22 One of Ofwat's objectives is to protect the interests of consumers of regulated water and sewerage services through promoting effective competition, wherever appropriate. As part of this, Ofwat is proposing to set separate price caps for retail and wholesale activities.

5.23 One of the highest priorities for the Welsh Government is infrastructure investment. Our Wales Infrastructure Investment Plan for Growth and Jobs⁵⁶ is designed to prioritise, scope, and coordinate delivery of our major infrastructure investments, whilst making a significant contribution to the long term economic, social and environmental wellbeing of people and communities in Wales. This plan has driven collaboration across Government and further afield to develop a shared strategic understanding of both infrastructure needs and opportunities. Water and sewerage services are critical in supporting the delivery of this plan and economic activities across Wales, from construction and housing to power generation and industry.

5.24 The forthcoming Water Strategy for Wales will shape the priorities for water and water services in Wales, including priorities for infrastructure investment. It will also set out options for how the Welsh Government will deliver effective results for business customers in Wales. This will include a package of measures to encourage innovation in the water sector and to drive improvements in efficiency and levels of customers' service.

- The Welsh Government would expect any changes to the regulatory framework that affect investor confidence to be fully evidenced, with a thorough assessment of the impacts, highlighting both costs and benefits, specific to Welsh stakeholders.
- The Welsh Government expects Ofwat to take account of the different respective policy positions of the Welsh and UK Governments such that

⁵⁶ Wales Infrastructure Investment Plan for Growth and Jobs - <http://wales.gov.uk/funding/wiipindex/wiipfull2012/?lang=en>.

any divergence in policy between the UK and Welsh Governments is fully reflected in regulatory reform and practice, and Welsh consumers are not detrimentally affected.

- Ofwat should seek to demonstrate to the Welsh Government the long-term benefits of its decisions relating to the promotion of competition and innovation for customers.
- We would encourage Ofwat to support economic growth in Wales by allowing infrastructure investments that are attractive, sustainable, efficient, deliver benefits for customers and financeable.
- Ofwat should consider developing incentives to promote partnership working between water and sewerage undertakers and developers where it can lead to the development of truly sustainable communities, e.g. the delivery of sustainable urban drainage systems.

Equality Act 2010

5.25 The Welsh Government is committed to putting people, and their quality of life now and in the future, at the centre of its concern. Equality is enshrined in the Welsh Government's founding legislation and is reflected within its guiding principles, and together with sustainability and wellbeing, make up the foundation stones underpinning all that it does.

5.26 The Equality Act 2010 brought together the legal requirements on equality. The Act seeks to integrate consideration of equality and good relations into the day-to-day business of public authorities.

- As it exercises its functions and duties Ofwat, under the 'general equality duty' within the Equality Act 2010, must consider how it can eliminate discrimination, advance equality of opportunity and foster good relations between those sharing or not sharing protected characteristics .

Welsh Language

5.27 The Welsh Government is committed to promoting the use of the Welsh Language. The Welsh Language (Wales) Measure 2011 was given Royal Assent in February 2011. It includes provision about the status of the Welsh language and establishes the post of the Welsh Language Commissioner. It also provides that the Commissioner's principal aim in exercising his or her functions is to promote and facilitate the use of the Welsh language. The Measure also establishes the principle that, in Wales, the Welsh language should not be treated less favourably than the English language.

5.28 The Measure establishes a framework to impose duties on public bodies (and some private companies and third sector organisations) to comply with standards relating to the Welsh language. The Standards will be specified by the Welsh Ministers by order.

5.29 Ofwat are potentially liable to comply with such standards under the Measure and may therefore have to comply with standards in the future, if standards are made specifically applicable to them, and if served with a compliance notice.

5.30 Welsh language schemes under the Welsh Language Act 1993 will remain in force until Standards under the Measure are introduced. As a result, until such time as Ofwat is under a duty to comply with Standards, the Welsh Government expects Ofwat to comply with its own Welsh language scheme which was approved by the Welsh Language Board (the Welsh Language Commissioner now has responsibility for approving and monitoring schemes, following abolition of the Welsh Language Board in March 2012).

- We expect Ofwat to comply with its own Welsh language scheme which was approved by the Welsh language Board (now the Commissioner).

6. Environmental Policies

Research and Evidence

6.1 Good research and evidence is required to underpin our policy direction. We place particular importance on gathering robust information and evidence in developing our policy. With this knowledge we can develop better ways of tackling matters of importance in Wales, now and in the future.

6.2 In order to ensure evidence based policy, appropriate environmental regulation and properly targeted investment for future maintenance and improvements, a monitoring programme is essential. This should help to ensure that problems are tackled earlier, when it is more cost-effective to do so, instead of them going unnoticed until a severe issue occurs resulting in remedial action at a higher cost.

- We see relevant research as a key element of delivering the right results for customers in Wales. We expect Ofwat to have consideration for appropriate research and associated costs where the need for research is an integral part of delivering agreed outcomes in water and sewerage undertakers business plans.
- We expect Ofwat to work with the Welsh Government to ensure that water and sewerage undertakers are working effectively with Natural Resource Wales and the Environment Agency to incorporate effective environmental monitoring processes in their respective business plans.

Sustaining a Living Wales - A Green Paper on a new approach to natural resource management in Wales⁵⁷

6.3 The Sustaining a Living Wales – 2012 consultation paper set out our proposals for a fresh approach to the management of our natural resources.

6.4 The Welsh Government is keen to take a long-term, 25 years plus approach to natural resource planning and our long term aspiration is for natural resource management at each level to demonstrate our focus on sustainable development. By enhancing and managing our natural environment more holistically, we will not only secure our environmental wellbeing but also maximise the economic and social benefits for the long term.

6.5 Sustaining a Living Wales will sit directly under ‘One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009’⁵⁸ and it will help to ensure that sustainable development is at the heart of how Welsh Government operates.

⁵⁷ Sustaining a Living Wales - A Green Paper on a new approach to natural resource management in Wales <http://wales.gov.uk/consultations/environmentandcountryside/sustainingwales/?lang=en>

⁵⁸ One Wales: One Planet, the Sustainable Development Scheme for Wales - 2009 - <http://wales.gov.uk/topics/sustainabledevelopment/publications/onewalesoneplanet/?lang=en>.

6.6 The Welsh Government recognises that our environment has an intrinsic value of its own, is our life support system, is a finite source of vital resources and is central to our quality of life, sense of place, health and wellbeing and underpins our economic development

6.7 The emphasis in Sustaining a Living Wales is on the long-term economic, social and environmental benefits of healthy ecosystems. Healthy ecosystems support healthy populations of species which inspire and delight both the people of Wales and visitors. It is also important to recognise the wider economic benefits of healthy ecosystems, such as food and timber production, clean air and water, flood prevention, economic success and health and well being.

6.8 This will be delivered through embedding an integrated approach to natural resource management into future decision making processes. This means looking wider at the opportunities that the natural environment provides – ecosystem services – to ensure long-term, resilient solutions that have multiple benefits for people, for business and for the environment. We are taking this approach across Government and are committed to ensuring that this is reflected in everything we do that guides and impacts natural resource management.

6.9 Natural Resources Wales is required to employ the integrated approach to natural resource management across its activities. Work to test and embed this has started and will continue to develop. Our White Paper entitled ‘Towards the Sustainable Management of Wales’ Natural Resources – A consultation on proposals for an Environment Bill⁵⁹ sets out how we embed this approach through legislation.

6.10 The Welsh Government is keen to prevent pollution where possible, and to make the polluter pay for the damage done by pollution, i.e. to ensure that costs are met by those whose actions incur them.

- Ofwat, the Welsh Government, Natural Resource Wales and the Environment Agency should incentivise water and sewerage undertakers to respect environmental limits, so that resources are not irrecoverably depleted or the environment irreversibly damaged. We expect water and sewerage undertakers to meet statutory obligations, be consistent in their approach to the different planning frameworks and deliver improvements sought by customers.
- In some circumstances it will be justifiable to support measures to prevent possibly serious environmental damage where there is scientific uncertainty about the risks and solutions. In such cases the Welsh Government supports further investigation by water and sewerage undertakers and the implementation of innovative solutions.

⁵⁹ White Paper - “Towards the Sustainable Management of Wales’ Natural Resources – A consultation on proposals for an Environment Bill” - <http://wales.gov.uk/consultations/environmentandcountryside/environment-bill-white-paper/?lang=en>.

- Ofwat should proactively engage with Natural Resources Wales, the Environment Agency and water and sewerage undertakers, to ensure that long-term, resilient solutions that have multiple benefits for people, for business and for the environment are put in place.
- We expect Ofwat to incentivise and where appropriate, ensure there are no barriers to water and sewerage undertakers adopting sustainable and innovative integrated water management solutions, such as catchment management.

Environment Strategy for Wales 2006⁶⁰

6.11 The Welsh Government's commitments for water are outlined in the Environment Strategy for Wales - 2006. It highlights our aims for achieving sustainable water management, maintaining good water quality and reducing water pollution whilst meeting the needs of society and considering the issues of affordability. These include outcomes for the sustainable management of water resources; more efficient use of water across all sectors; goals for drinking water and water quality; climate change; flood risk management and for the condition of sites of international, Welsh and local importance.

6.12 The Environment Strategy for Wales also includes objectives to enhance the quality of our coastal waters, and to ensure our seas are clean and support healthy ecosystems. In addition, the biological and chemical standards of our rivers should be protected and enhanced and sites of international, Welsh and local importance should be in a favourable condition and capable of supporting the species and habitats for which they have been identified.

- Ofwat is expected to have regard to the Welsh Government's priorities as set out in the Environment Strategy for Wales and the approach set out in Sustaining a Living Wales. It should incentivise water and sewerage undertakers to develop evidence based, value for money, long term and innovative solutions where appropriate. This should include whole catchment approaches which recognise the role and function of natural processes.
- Ofwat should have regard to the fact that customers may support water and sewerage undertakers carrying out activities within their competence that provide wider environmental benefits, such as the promotion or protection of biodiversity, energy generation, landscape benefits, regulation of flood risks or the provision of environmental information and education to promote behaviour change around water use or appropriate use of the drainage system.

⁶⁰ The Environment Strategy for Wales 2006 - <http://wales.gov.uk/topics/environmentcountryside/epq/envstratforwales/?lang=en>.

Climate Change

6.13 The water industry is already vulnerable to current weather and climate. The impacts of climate change will put further pressure on the water industry due to changing rainfall patterns and increased temperatures.

6.14 The Climate Change Strategy for Wales⁶¹ was launched in October 2010 and sets out how the Welsh Government intends to reduce greenhouse gas emissions, invoke meaningful behaviour change and adapt to the impacts of climate change. Everyone in Wales has a contribution to make in tackling it – individuals, households, businesses, public services and community groups.

6.15 The Strategy outlines the actions to be taken to realise the Programme for Government⁶² objective of 3% annual reductions in carbon equivalent emissions in areas of devolved competence from 2011.

6.16 The Strategy has set specific sectoral targets in relation to transport, residential, business, agriculture and land use, public sector and waste. It is not the Welsh Government's intention, at this time, to set sector targets for the water sector but as a significant energy user the water sector is a significant contributor to greenhouse gas emissions and has a role to play in reducing these.

6.17 As well as the drive to reduce emissions, the impacts of climate change will also have a profound effect on the industry. In the future, Wales is expected to experience rising temperatures, wetter winters, drier summers, more intense rainfall events and greater climate variability.

6.18 Without action, based on the UK Climate Projections 2009⁶³, it is likely that there will be discrepancies between peak water demand and availability, more widespread water stress for humans and ecosystems, more ecological water quality problems and increased flood events from rivers and urban drainage systems.

Adapting to the impacts of climate change

6.19 The Welsh Government expects water and sewerage undertakers to take steps to adapt to future climate change. Adaptation is an evolving policy area and building capacity within organisations to understand and plan for climate change will enable the water industry to identify the adaptation action needed to build resilience for the future.

6.20 Working within this context, the Welsh Government needs to ensure that the best evidence available on climate change is fully integrated into its water policies.

⁶¹ The Climate Change Strategy for Wales - <http://wales.gov.uk/topics/environmentcountryside/climatechange/publications/strategy/?lang=en>.

⁶² Welsh Government Programme for Government - <http://wales.gov.uk/about/programmeforgov/?lang=en>.

⁶³ The UK Climate Projections (UKCP09) provide climate information designed to help those needing to plan how they will adapt to a changing climate. The data is focussed on the UK - <http://ukclimateprojections.defra.gov.uk/>.

6.21 Water and sewerage undertakers should take a risk based approach to adaptation measures, informed by the best evidence available, including climate change projections such as those provided through UK Climate Projections' UKCP09 and the UK Climate Change Risk Assessment⁶⁴.

6.22 Water and sewerage undertakers need to recognise their role as identified Reporting Authorities under the Climate Change Act 2008⁶⁵ and mainstream adaptation into their decision making processes as set out in the Welsh Government's Climate Change Act guidance – 'Preparing for A Changing Climate'⁶⁶.

6.23 Reduction in water availability is a major potential impact of climate change, which would be exacerbated if there is an increase in the magnitude and frequency of droughts. If adaptation measures are not taken this could have severe consequences for homes, businesses, agriculture and other water users.

6.24 According to the UK Climate Change Risk Assessment report for Wales⁶⁷, low river flows are projected to become lower by the order of 10% to 20% by the 2020s, and 30% to 40% by the 2080s (as compared with the 1961-90 baseline).

6.25 The availability of water in Wales is projected to reduce in the future. It is provisionally estimated that about 40% of the population of Wales might be affected by a shortage of water by the 2020s, rising to over 90% by the 2080s.

6.26 The number of river sites in Wales that meet Water Framework Directive Environmental Flow Indicators⁶⁸ is projected to reduce, by the order of 40% by the 2020s rising to 90% by the 2080s compared with the 1961-90 baselines. This reduction is a "without mitigating action" projection, i.e. a business as usual scenario.

6.27 Flooding from Combined Sewer Overflows is projected to increase, causing additional flooding and pollution. Projections for Cardiff suggest an increase of over 50% in overflow frequency by the 2080s. This increase is a "without mitigating action" projection, i.e. a business as usual scenario.

⁶⁴ UK climate change risk assessment: Government report - <https://www.gov.uk/government/publications/uk-climate-change-risk-assessment-government-report>.

⁶⁵ Climate Change Act 2008 - <http://www.legislation.gov.uk/ukpga/2008/27/contents>.

⁶⁶ Guidance on preparing for a changing climate - <http://wales.gov.uk/topics/environmentcountryside/climatechange/preparing/how/guidance/?lang=en>.

⁶⁷ Climate Change Risk Assessment for Wales - <http://wales.gov.uk/topics/environmentcountryside/climatechange/publications/riskassess/?lang=en>.

⁶⁸ Water Framework Directive Environmental Flow Indicators - <http://www.environment-agency.gov.uk/business/topics/water/135357.aspx>.

- Ofwat is expected to reflect the Welsh Government's priorities on adapting to the impacts of climate change by incentivising water and sewerage undertakers to improve resilience of water infrastructure, where this relates to the effects of climate change, and by mainstreaming adaptation into their considerations and decision making.
- The Welsh Government understands that it is not Ofwat's role to deliver adaptation on the ground and that it is for water and sewerage undertakers themselves to understand the risks of climate change and to plan to deal with those risks to service in a sustainable way. Rather, we expect Ofwat to provide the right regulatory incentives to enable the water and sewerage undertakers to adapt to climate change, and to take action if they fail to meet their obligations.
- In line with the actions identified in Ofwat's Climate Change Adaptation Report the Welsh Government expects that Ofwat will:
 - enable adaptive action by setting the right regulatory incentives to bring about effective, efficient and equitable adaptation;
 - build adaptive capacity by improving its own understanding and the evidence base available to the water and sewerage undertakers; and
 - monitor and evaluate by measuring outcomes in the sectors and the water and sewerage undertakers performance to inform its regulatory actions.

Emission reduction

6.28 The Welsh Government expects water and sewerage undertakers to continue to reduce their energy usage and to find new ways of minimising demand in the future.

6.29 The Welsh Government would like to see continued reductions in the industry's carbon footprint. This could include maximising efficient energy production from the industry's own processes and resources, including anaerobic digestion and the capture of greenhouse gases, and through sourcing alternative renewable energy supplies.

6.30 A key regulatory tool for reducing carbon emissions within the water industry is the Carbon Reduction Commitment Energy Efficiency Scheme⁶⁹ which commenced in 2010.

⁶⁹ Carbon Reduction Commitment (CRC) Energy Efficiency Scheme - <https://www.gov.uk/crc-energy-efficiency-scheme>.

- We encourage Ofwat to incentivise attempts by water and sewerage undertakers to reduce their energy demand, to increase their uptake of renewable energy sources, and to reduce non-CO₂ greenhouse gas emissions.
- We encourage Ofwat to incentivise water and sewerage undertakers to explore the potential of using renewable energy solutions and minimise energy consistent with our policies and statutory obligations.
- The Welsh Government expects water and sewerage undertakers to fully meet their obligations under the Carbon Reduction Commitment. Ofwat should regulate to avoid any barriers to achieving the scheme's objectives and requirements.

Water Resource Management

6.31 Water and sewerage undertakers have a statutory obligation under Section 37A of the Water Industry Act 1991⁷⁰ to produce Water Resource Management Plans which set out their projected water resource needs over the next 25 years to support the public supply, whilst taking into account environmental needs, climate change projections and population growth predictions.

6.32 The Welsh Government recognises the value of water as a natural asset in Wales and will be exploring how to improve management of water resources in the context of the Natural Resources Programme.

6.33 The Environment Agency have been undertaking the Restoring Sustainable Abstraction programme across England and Wales since the 1990s in order to find a balance between abstraction from rivers, reservoirs and groundwater sources, and the needs of the environment. From April 2013, Natural Resource Wales took over responsibility for the Restoring Sustainable Abstraction⁷¹ programme in Wales.

6.34 The Welsh Government believes that the environmental impact of water and sewerage undertaker abstractions should be reduced, where these impact upon sites within the scope of the Restoring Sustainable Abstraction programme (in particular on designated national and international nature conservation sites) and where there is a need to reduce flows to meet the environmental objectives of the Water Framework Directive⁷².

⁷⁰ Section 37A of the Water Industry Act 1991 - <http://www.legislation.gov.uk/ukpga/1991/56/section/37>.

⁷¹ Restoring Sustainable Abstraction - <http://naturalresourceswales.gov.uk/apply-buy-report/apply-buy-grid/water/abstractions-impoundment/restoring-sustainable-abstraction/?lang=en>.

⁷² Water Framework Directive - <http://naturalresourceswales.gov.uk/our-work/policy-advice-guidance/water-policy/water-framework-directive/?lang=en>.

6.35 A number of abstraction licence changes have been identified as being needed across Wales.

- When assessing business plans or Water Resource Management Plans Ofwat should ensure that water and sewerage undertakers have identified and embedded demand management solutions which can help restore sustainable abstraction and reduce the risk of environmental damage.
- In June 2012, the Environment Agency, Ofwat, Defra and the Welsh Government jointly published the 'Water resources planning guideline – the technical methods and instructions'⁷³. This guideline sets out the Welsh Government's policy priorities relating to water resource management and we would expect all water sector regulators and the water and sewerage undertakers in Wales to take these into account.
- The Welsh Government believes that water and sewerage undertakers should undertake investigations into the impacts of their abstractions, to inform the need for changes to abstraction licences. It therefore expects Ofwat to allow for such investigations in price limits.
- As part of the price review process Ofwat is expected to take into consideration the costs that will be borne by water and sewerage undertakers in order to make the licence changes needed under the Restoring Sustainable Abstraction programme⁷⁴, in order to comply with the Habitats Directive⁷⁵.

Supply-demand balance

6.36 Water and sewerage undertakers have a statutory duty, under Section 3(2)(a) of the Water Industry Act 1991⁷⁶ (as amended) to further water conservation in exercise of its functions. Ofwat also has a statutory duty, as a public authority under Section 83 of the Water Act 2003⁷⁷, in the exercise of its functions, to take into account the desirability of conserving water supplied or to be supplied to premises.

6.37 When considering the need for new resources, water and sewerage undertakers would be expected to explore demand side solutions and provide sufficient analysis and evidence of the appraisal before considering new supply measures. This approach will help to offset the need for increasing supplies and associated social and environmental costs.

⁷³ Water resources planning guideline – the technical methods and instructions - <http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CDIQFjAA&url=http%3A%2F%2Fcdn.environment-agency.gov.uk%2Fgeho0612bwpe-e-e.pdf&ei=WLaUUpyWG4GBhAequIHwBg&usg=AFQjCNH84yZ8XG7BQ22Yj1AoSthsumosA&bvm=bv.57155469,d.ZG4>.

⁷⁴ Restoring Sustainable Abstraction - <http://naturalresourceswales.gov.uk/apply-buy-report/apply-buy-grid/water/abstractions-impoundment/restoring-sustainable-abstraction/?lang=en>.

⁷⁵ Habitats Directive - <http://wales.gov.uk/topics/environmentcountryside/consmanagement/conservationbiodiversity/habitatdirective/?lang=en>.

⁷⁶ Water Industry Act 1991- <http://www.legislation.gov.uk/ukpga/1991/56/contents>.

⁷⁷ Water Act 2003 - <http://www.legislation.gov.uk/ukpga/2003/37/contents>.

- The Welsh Government expects Ofwat to reflect on its duty, as a public authority under Section 83 of the Water Act 2003, in the exercise of its functions, to take into account the desirability of conserving water supplied or to be supplied to premises, when consulted on Water Resource Management Plans and when considering water and sewerage undertaker proposals for demand management measures within the measures to balance supply and demand in the price review. Meeting the balance between supply and demand will contribute towards the environmental objectives of the Water Framework Directive.
- The Welsh Government seeks the cooperation of Ofwat to incentivise a greater focus on increased demand management measures by water and sewerage undertakers. These measures should include consumer education, water efficiency measures and consideration of an appropriate metering programme that builds in protection for vulnerable customers.
- As part of this, Ofwat should consider water and sewerage undertakers proposals for achieving a supply-demand balance on the basis of an innovative and long term approach to water resources management.

Water Efficiency

6.38 The Environment Strategy for Wales 2006⁷⁸ places considerable emphasis on water resource management, including sustainable management of water resources, meeting the needs of society without causing damage to the environment and seeking to ensure that water is used more efficiently across all sectors. Improving water efficiency across all sectors, in both new and existing homes, is an important way of reducing future demands on water supply.

6.39 There are currently no areas in Wales suffering from prolonged periods of water stress; therefore we do not anticipate water and sewerage undertaker Water Resource Management Plans with programmes of universal metering in the near future. However there are areas of potential water deficit, where forecast future demand exceeds available supply. In these deficit areas and where there is potential for environmental damage due to over abstraction, action to reduce demand is particularly important. In addition, we recognise the need to prepare for changes in supply and demand due to changing rainfall patterns and increased temperatures as a result of a changing climate and the need to manage demand effectively and promote efficiency.

- We strongly support action by Ofwat to help change water and sewerage undertaker and customer behaviours to better value water, to use it wisely and to reduce demand.
- When examining outcomes proposed by water and sewerage

⁷⁸ The Environment Strategy for Wales 2006 - <http://wales.gov.uk/topics/environmentcountryside/epq/envstratforwales/?lang=en>.

undertakers in relation to their Water Resource Management Plans, the Welsh Government would encourage Ofwat to consider whether wider social and environmental benefits (including environmental externalities such as abstraction and greenhouse gas emissions) have been considered.

- We would encourage Ofwat to promote partnership working and the sharing of best practice between water and sewerage undertakers, in order to drive forward improvements in water efficiency.

Leakage

6.40 Water leaking from water and sewerage undertakers' pipes is wasteful of water and energy if the benefits of reducing it outweigh the costs. This is a high priority issue for customers that can damage the reputation of the industry. Ofwat have set annual leakage reduction targets for each water and sewerage undertaker through to 2015 which the Welsh Government expects the water and sewerage undertakers to deliver.

6.41 The industry has shown that it can become more effective in detecting and fixing leaks. Leakage has fallen by 36% since 1994-95 and is expected to fall by a further 3% by 2015.

6.42 Water and sewerage undertakers must fully consider managing water leakage as an efficient way to balance supply and demand. Leakage of water from a water and sewerage undertaker distribution network is a significant component of demand for water.

6.43 As part of its demand forecast, a water and sewerage undertaker must estimate its baseline leakage over a 25 year planning period and demonstrate how this is forecast, alongside setting out its current policy with regard to leakage detection and control.

6.44 As a minimum the Welsh Government does not expect baseline leakage forecasts within Water Resource Management Plans to drive the need for new supply or demand options i.e. total leakage should not be causing a supply shortfall.

6.45 The Welsh Government also expects water and sewerage undertakers to include leakage detection and reduction management as a fully explored feasible option to achieve a secure public water supply where deficits have been identified.

6.46 We expect water and sewerage undertakers to continue to innovate and develop expertise in preventing, identifying and repairing leakage more effectively during the Water Resources Management Plan period. Should investigations reveal the need for supply side solutions, including the development of new major infrastructure in Wales, any decisions would be a matter for the Welsh Government.

- The Welsh Government expects Ofwat to continue to drive improvements in respect of leakage, building on improvements already achieved since targets were introduced.

- To help maintain this trend, Ofwat is expected to take a long term and strategic view of Water Resource Management Plans for leakage management including proposals for the proactive replacement and maintenance of clean water distribution systems in a phased manner to mitigate disproportionately burdening future customers with costs.
- Ofwat is expected to keep leakage under review. This should be informed by the review of the Sustainable Economic Level of Leakage⁷⁹ and consideration of any wider social and environmental externalities. As new technology and management techniques develop, and as the value of water as an essential natural resource increases, the Welsh Government expects the level of leakage to reduce accordingly.
- The Welsh Government will expect Ofwat to take action in line with its policy on monitoring leakage if water and sewerage undertakers fail to deliver the annual leakage reduction targets it sets.

Floods and Resilience

6.47 Flooding and coastal erosion are already a significant risk for communities across Wales. As the climate changes we can expect those risks to increase, with more frequent and severe floods, rising sea levels and faster rates of erosion of the coast. We can also expect more communities to be affected by flooding and coastal erosion, including many that are not currently considered to be at risk.

6.48 The European Unions Floods Directive⁸⁰ promotes a catchment approach to manage flood risk from all sources and ensures that there are no regulatory barriers for water and sewerage undertakers working with risk management authorities to plan and deliver long-term solutions. The Directive sets out requirements to manage flood risk from all sources in order to reduce the consequence of flooding on human health, economic activity and the environment.

6.49 The response to all flooding incidents is handled by responders at the local level. This could range from minor impacts affecting a few houses to major emergencies affecting hundreds of properties where a full multi agency response would be coordinated by Local Resilience Forum organisations through a Strategic Coordination Group.

6.50 The Civil Contingencies Act 2004⁸¹ requires responding organisations to maintain plans for preventing emergencies; reducing, controlling or mitigating the effects of emergencies; and taking other action in the event of emergencies. Effective and well-rehearsed emergency plans at organisational and multi agency level will help enable a consistent and coherent response to flooding incidents.

⁷⁹ Ofwat report on sustainable economic levels of leakage - http://www.ofwat.gov.uk/sustainability/waterresources/leakage/prs_web121012sellsmc.

⁸⁰ European Unions Floods Directive - <http://wales.gov.uk/topics/environmentcountryside/epq/flooding/eudirective/?lang=en>.

⁸¹ Civil Contingencies Act 2004 - <http://www.legislation.gov.uk/ukpga/2004/36/contents>.

National Strategy for Flood and Coastal Erosion Risk Management in Wales

6.51 In November 2011 the Welsh Government published their first National Strategy for Flood and Coastal Erosion Risk Management⁸² in Wales.

6.52 The National Strategy sets out four overarching objectives for managing flood and coastal erosion risk and establishes a delivery framework that meets the needs of Wales now and in the future:

- reducing the consequences for individuals, communities, businesses and the environment from flooding and coastal erosion;
- raising awareness of and engaging people on flood and coastal erosion risk;
- providing an effective and sustained response to flood and coastal erosion events; and
- prioritising investment in the most at risk communities

6.53 Implementing these objectives is the responsibility of everyone involved in or affected by flooding or coastal erosion, including: the Welsh Government; the Welsh Risk Management Authorities; and the people of Wales.

6.54 Water and sewerage undertakers are Risk Management Authorities as defined by the Flood and Water Management Act 2010⁸³. Risk management authorities must exercise their flood and coastal erosion risk management functions in line with the National Strategy.

6.55 Water and sewerage undertakers lead on a number of flood management activities, not least those in relation to sewerage flooding, and are now included in partnership arrangements where appropriate. The Welsh Government recognises that water and sewerage undertakers hold valuable information on flood risk which could greatly aid the understanding of flood risks faced by communities across Wales. As Risk Management Authorities, water and sewerage undertakers are under a statutory duty to co-operate with other operating authorities in the exercise of their flood and coastal erosion risk management functions and to share information for that purpose.

Surface Water Flooding and Local Strategies

6.56 Local Authorities are principally responsible for managing surface water flood risks. The Environment Agency has modelled and mapped areas susceptible to surface water flooding. This information has been combined with historic surface water flooding records to provide local authorities and other responders with an improved understanding of the flood risk within their areas.

⁸² National Strategy for Flood and Coastal Erosion Risk Management - <http://wales.gov.uk/topics/environmentcountryside/epq/flooding/nationalstrategy/strategy/?lang=en>.

⁸³ Flood and Water Management Act 2010 - <http://www.legislation.gov.uk/ukpga/2010/29/contents>.

6.57 Each Local Authority in Wales is required to complete a local flood risk management strategy for their area which must be consistent with the National Strategy. Water and sewerage undertakers should develop investment plans in a way that will contribute to the objectives and measures of the National Flood and Coastal Erosion Risk Management Strategy by:

- when exercising a flood or coastal erosion risk management function having regard to the local flood risk management strategies and any associated guidance; and
- when exercising any other function in a manner that may affect a flood or coastal erosion risk having regard to both the national and local strategies and any associated guidance.

- Climate change, housing and other development are likely to place greater pressure on drainage networks, increasing the risk of surface water and sewer flooding. Ofwat should incentivise water and sewerage undertakers to use best available evidence to understand potential risks of flooding from their networks and how to respond to this.
- We expect Ofwat to promote and incentivise sustainable management of surface water.
- We expect water and sewerage undertakers to demonstrate how they will take account of Ofwat's Drainage Strategy Framework⁸⁴ for water and sewerage undertakers to prepare Drainage Strategies – May 2013, in line with Welsh Government policy priorities.
- Central to this is the development of plans to manage surface water and Ofwat should encourage water and sewerage undertakers to engage proactively with local authorities and other stakeholders in the effective planning for surface water management making use of the Sustainable Drainage Systems (SuDS) approach. This should include considering the potential benefits that surface water management planning could bring to drainage investment planning – for example, making it more risk-based and informed by wider surface water considerations. This would include the application of an integrated approach across the business to deliver water quality, biodiversity, flood risk and water efficiency benefits together with wider benefits for the local communities that can be achieved by installing green infrastructure.
- The Welsh Government expects Ofwat to support its aim for water and sewerage undertakers in Wales to undertake a sustainable approach to reducing the impact of sewer flooding in Wales as quickly as is possible.

⁸⁴ Drainage Strategy Framework for water and sewerage companies to prepare Drainage Strategies - Good practice guidance commissioned by the Environment Agency and Ofwat - http://www.ofwat.gov.uk/future/sustainable/drainage/prs_web201305drainage.

Resilience to natural hazards

6.58 Regulatory requirements are placed on water and sewerage undertakers by the Security and Emergency Measures Direction (SEMD) 1998⁸⁵ and Security and Emergency Measures Direction Notification and Guidance (6) (SEMG(6))⁸⁶. This, amongst other things, requires undertakers to carry out security work on vital installations, and protect other installations and facilities according to guidance issued by the Welsh Government and Defra to water and sewerage undertakers.

6.59 In consultation with other stakeholders, Ofwat produced 'Resilience - outcomes focused regulation - Principles for resilience planning'⁸⁷ - 2012. Water and sewerage undertakers should undertake an appropriate assessment of all natural hazards including the risk of flooding and coastal erosion to their assets and infrastructure. Resilience planning should be integrated throughout business planning, and measures put in place to protect the environment as well as supply to customers. Resilience measures should be adaptive and take account of climate change.

- Ofwat is expected to set price limits which enable water and sewerage undertakers to carry out these essential works to ensure resilience against natural hazards as defined in the Government's National Risk Assessment⁸⁸. The assessment for identifying hazards that impact infrastructure will increasingly include the predicted effects of climate change.
- Ofwat is expected to ensure that the price limits set ensure that water and sewerage undertakers are able to carry out work for security purposes which is identified under the Security and Emergency Measures Direction 1998.

⁸⁵ Security and Emergency Measures Direction (SEMD) 1998 -

<http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CC0QFjAA&url=http%3A%2F%2Farchive.defra.gov.uk%2Fcorporate%2Fabout%2Fhow%2Fcontingency%2Fdocuments%2Fwater-semd98.pdf&ei=Ur6UUqK0BfDB7AbsvYCoDQ&usg=AFQjCNHFuvaSnkyTuidO5gzESTDVI93gFA>.

⁸⁶ Security and Emergency Measures Direction Notification and Guidance (6) (SEMG(6)) -

<http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CC0QFjAA&url=http%3A%2F%2Fdwi.defra.gov.uk%2Fstakeholders%2Fguidance-and-codes-of-practice%2Fsemg6-dec09.pdf&ei=jr6UUuqZDsaBhAfJpoDQCA&usg=AFQjCNHpk1iis2Z2EOGGVpoAF2NzYQRvA>.

⁸⁷ Resilience -outcomes focused regulation - Principles for resilience planning

http://www.ofwat.gov.uk/sustainability/climatechange/adapt/prs_web120503resilience.

⁸⁸ Risk assessment: how the risk of emergencies in the UK is assessed - <https://www.gov.uk/risk-assessment-how-the-risk-of-emergencies-in-the-uk-is-assessed>.

Drinking Water Quality

6.60 The Drinking Water Inspectorate's report for Wales for 2012⁸⁹ confirms that water and sewerage undertakers' overall compliance of drinking water supplies in Wales with relevant quality standards was 99.96%.

6.61 The continuing supply of safe, clean drinking water is paramount. The Programme for Government⁹⁰ identified the importance of maintaining high standards of drinking water quality. Consumers have high expectations of drinking water quality and public confidence in water supplies must be sustained. The Welsh Government supports the risk based approach to managing water supplies, based on water safety planning which is widely recognised as good practice. It also recognises the benefits of a long-term approach to the stewardship of assets and the need for a proactive, preventative strategy to deliver the primary duty of public health protection.

6.62 Nevertheless, enhancements may also be required to secure the safety of drinking water quality and to meet statutory obligations, including the water industry's contribution to deliver the more challenging requirements of the Water Framework Directive.

- Ofwat is expected to ensure that investment related to the improvement of assets to ensure compliance with statutory obligations (including the European Drinking Water Directive and national water quality regulations) for drinking water quality is maintained and is fully considered when setting price limits.
- Ofwat should support actions by the water and sewerage undertakers to comply with their primary duty to supply wholesome water, together with the maintenance of levels of service to maintain public confidence in water supplies, and the meeting of consumer expectations of drinking water quality, by facilitating a risk based approach to water supply based on water safety planning from source to tap.

⁸⁹ Drinking Water 2012 - <http://dwi.defra.gov.uk/about/annual-report/2012/>.

⁹⁰ Welsh Government Programme for Government - <http://wales.gov.uk/about/programmeforgov/?lang=en>.

Environmental Water Quality

6.63 Monitoring by the Environment Agency and Natural Resources Wales has shown that the quality of rivers and coastal waters in Wales is generally high. It is important to the Welsh Government that these high standards of environmental water quality are maintained and enhanced. This includes compliance with the 'no deterioration' requirements of the Water Framework Directive and consistency with the Environment Strategy's objectives of maintaining the quality of our coastal waters and the biological and chemical standards of our rivers in Wales.

6.64 Achieving these high standards will require constant attention to sewage treatment to ensure environmental permit levels are complied with. It also requires good operational procedures to anticipate problems such as sewer blockages and to ensure appropriate and timely response when things do go wrong.

6.65 In order to achieve these objectives for water quality, water and sewerage undertakers must understand the condition of their assets and maintain and replace them as appropriate to safeguard the continuity of service to customers. Without adequate maintenance and replacement, the substantial progress made in the last decades in delivering quality improvements will be compromised.

6.66 There is still much to be done to achieve the good ecological standards as required by the Water Framework Directive across Wales. Land management will be key to making further improvement in some catchments and in others it may be more beneficial to change land management practices instead of putting in place further expensive and carbon intensive treatment in waste water treatment works. In these catchments we want to encourage water and sewerage undertakers to work with local land owners and communities to find suitable solutions at a catchment level. We will be looking to Natural Resources Wales to take forward this approach and identify where catchment level solution would provide most benefit.

6.67 The measures which water and sewerage undertakers will need to take to meet Water Framework Directive objectives will be determined through the river basin planning process, and so the links need to be made between the river basin planning process and the periodic review of water prices.

- While we recognise it is not central to its role, the Welsh Government encourages Ofwat to continue to support the delivery of Water Framework Directive objectives, in particular by contributing to the debate on the proportionality of the responsibilities given to the water industry for their delivery.
- Ofwat should ensure that water and sewerage undertaker business plans identifying levels of investment ensure that assets are protected against deterioration or enhances their performance in the most cost effective way.
- Ofwat should encourage water and sewerage undertakers to explore catchment level solutions and to work with others to find suitable solutions.

- The Welsh Government recognises that this price review cycle (PR14) does not align with the planning cycle for River Basin Management Plans for 2015 – 2021. We would encourage Ofwat, the Environment Agency and Natural Resource Wales to work together with the water and sewerage undertakers to help them identify and deliver measures required under the Water Framework Directive.
- There may be circumstances in complying with European Directives where water and sewerage undertakers will be required to undertake additional work to ensure that there is no risk of infringement outside of the set price review period. For these matters we would expect Ofwat to give due regard to evidence based requests from water and sewerage undertakers, supported by Natural Resources Wales, to facilitate compliance with Directives.

Water and Sewerage Undertaker Partnership working

6.68 The Environment Strategy and Sustaining a Living Wales approach recognises how land use can impact on water quality. It identifies the need to better understand diffuse pollution and for appropriate actions to reduce and manage the problem.

6.69 Water and sewerage undertakers are well placed to contribute to and develop innovative, integrated ecosystem based solutions to achieve multiple benefits, including environmental outcomes at river basin and catchment scale. In particular, the Welsh Government favours a partnership approach to addressing diffuse water pollution. There is a growing body of evidence and knowledge about the range and effectiveness of these approaches and how they can complement other Government policy instruments such as agri-environment schemes in generating environmental benefits for society as a whole.

6.70 The Welsh Government expects water and sewerage undertakers to play their part in this river basin planning process, contributing to the work of Natural Resources Wales (and where applicable Environment Agency) led river basin district liaison panels and working in partnership with a range of public and private organisations.

- The Welsh Government expects Ofwat to incentivise water and sewerage undertakers to adopt innovative approaches to improving water quality, including working with land managers to control diffuse water pollution at source, where this is to the benefit of water customers.

Sewerage

6.71 Sewerage services are an essential and often overlooked part of water and sewerage undertakers operations.

6.72 Following the private sewer transfer on 1 October 2011 the public sewer network in Wales has almost doubled. The newly adopted network is in a very poor

condition in some areas and will need significant investment to ensure that the sewerage network is resilient and fit for purpose, reducing the number of sewer collapses and the potential for pollution incidents.

6.73 The Welsh Government expects water and sewerage undertakers to take a long term and strategic view to how they manage and maintain their waste water network to ensure that the infrastructure is appropriate and can cope with the future challenges we face, including climate change and population growth, without disproportionately burdening future customers with the costs of adapting.

6.74 The Welsh Government will be investigating where improvements are needed in relation to the management of highways drainage to ensure that our infrastructure is properly managed for future generations.

6.75 The Welsh Government would encourage water and sewerage undertakers to investigate and implement sustainable solutions for the disposal of waste water where it is cost effective to do so, and wherever possible look for opportunities to harness energy from effluent where cost effective.

6.76 The Welsh Government encourages water and sewerage undertakers to further investigate and implement sustainable solutions for the diversion of surface water from sewerage systems as an alternative to increasing capacity.

- It is expected that Ofwat will take into account the increase in the size of the below ground waste water network following the transfer of private sewers and lateral drains and set price limits accordingly. Water and sewerage undertakers should provide evidence to support any costs associated with the transfer of private sewers and lateral drains.
- Ofwat are expected to facilitate a long term approach to the maintenance and repair of assets, ensuring that associated costs are borne and phased over an appropriate length of time to ensure that our waste water networks will be fit for purpose and able to deal with future challenges.
- Ofwat should encourage the use of long term sustainable solutions for the treatment and disposal of waste water where it is cost effective to do so and will provide wider social, environmental and economic benefits.
- We expect water and sewerage undertakers to demonstrate how they will take account of Ofwat's Drainage Strategy⁹¹ Framework for water and sewerage undertakers to prepare Drainage Strategies – May 2013, in line with Welsh Government policy priorities.

⁹¹ Drainage Strategy Framework for water and sewerage companies to prepare Drainage Strategies - Good practice guidance commissioned by the Environment Agency and Ofwat - http://www.ofwat.gov.uk/future/sustainable/drainage/prs_web201305drainage.

Annex A – Legal Authority

Section 2A of the Water Industry Act 1991(as inserted by section 40 of the Water Act 2003)

Guidance on social and environmental matters

- (1) Guidance may be issued from time to time—
 - (a) by the Assembly⁹², with respect to appointment areas which are wholly or mainly in Wales; and
 - (b) by the Secretary of State, with respect to other appointment areas, about the making by the Authority of a contribution towards the attainment of any social or environmental policies set out or referred to in the guidance.
- (2) In formulating guidance, the Secretary of State and the Assembly shall, where practicable, have regard to the costs and benefits which may be expected to result from the guidance.
- (3) The Authority shall, in exercising and performing the powers and duties mentioned in section 2(1) above (subject to section 2(6) above), have regard to any guidance issued under this section.
- (4) Before issuing guidance under this section the Secretary of State and the Assembly shall consult—
 - (a) the Authority;
 - (b) the Council;
 - (c) in the case of the Secretary of State, the Assembly and *vice versa*;
 - (d) relevant undertakers;
 - (e) licensed water suppliers; and
 - (f) such other persons as the Secretary of State or the Assembly considers it appropriate to consult in relation to the guidance.
- (5) A draft of any guidance proposed to be issued by the Secretary of State under this section shall be laid before each House of Parliament.
- (6) Guidance shall not be issued by the Secretary of State under this section until after the period of forty days beginning with—
 - (a) the day on which the draft is laid before each House of Parliament; or
 - (b) if the draft is laid before the House of Lords on one day and the House of Commons on another, the later of those two days.

⁹² The functions of the National Assembly for Wales were transferred to the Welsh Ministers by virtue of paragraph 30 of Schedule 11 to the Government of Wales Act 2006.

- (7) If, before the end of that period, either House resolves that the guidance should not be issued, the Secretary of State must not issue it.
- (8) In reckoning any period of forty days for the purposes of subsection (6) or (7) above, no account shall be taken of any time during which—
- (a) Parliament is dissolved or prorogued; or
 - (b) both Houses are adjourned for more than four days.
- (9) The Secretary of State and the Assembly shall arrange for any guidance issued by him or it under this section to be published in such manner as he or it considers appropriate.
- (10) In this section, an “appointment area” is an area for which an appointment is held under Chapter 1 of Part 2 of this Act.