

Speech: What future for water? Three challenges for the industry



Speech by Sir James Bevan, Chief Executive of the Environment Agency, Water Industry Forum, Birmingham, 8 May 2019

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Introduction

It's always risky when people invite you to give your views. I used to be a diplomat, and in the British Foreign Office there is a cautionary tale about this which is told to all new recruits.

Some years ago the British Ambassador to Mexico was contacted by the Mexican national radio station who asked what he would like for Christmas. He said this was very kind, that he'd consider this and get back to them.

He debated with his staff the ethics of taking a gift from his host nation. He felt he couldn't ask for anything expensive: that would look greedy. On the other hand he didn't want to offend the Mexicans by refusing anything. So he told his staff to tell the radio station that he would like a small box of fruit.

A few weeks later on Christmas day the Ambassador was listening to the radio when the newsreader announced: "and finally, we asked three ambassadors to our country what they would like for Christmas. The French ambassador said that he wished for world peace. The US Ambassador said that he wished for a cure for cancer. And the British Ambassador said that he wanted a small box of fruit".

I'm not here tonight to ask for a small box of fruit: I learned that lesson early. I am here to suggest that there are three big challenges facing the water sector and to ask for your support in tackling them. Because by water sector I don't just mean the water companies. I mean all of us – regulators, contractors, NGOs, researchers and the companies themselves – who work together to provide our country with the most basic of all needs: water. If we want to succeed, this needs to be a team effort.

The future for water: three challenges

So let me look into my crystal ball and tell you how I see the future for water. I think we have three big challenges: an operational challenge, a climate challenge, and a political challenge. They are interrelated; and we have to crack all three if the sector, and the country, is to thrive.

The operational challenge

Let's start with the operational challenge. Put simply, this is about doing stuff; doing it well; doing it better every day and with ever-improving value for money; and responding well to the unexpected. Those are not challenges unique to the water industry: almost all organisations in the public and private sector face them too. The added challenge for the water companies, because they are businesses, is to do all this and keep customers happy and make a decent commercial return.

Doing all that is harder than it looks. Much of this country has either too little water or too much. Moving that water about and treating it is complex. Population growth is putting ever greater pressure on supply. The water companies have three regulators breathing down their necks: Ofwat, the economic regulator; the Environment Agency, the environmental regulator; and the Drinking Water Inspectorate, who ensure public health.

No-one notices when everything goes right with our water supply, which is about 99.9% of the time. But the public are naturally quick to complain when something goes wrong and our friends in the media are always happy to pile in. And unless the water companies operate well, day in day out, they risk losing their political and social licence to operate.

I think that by and large – with one big exception which I'll get to in a

minute – the water companies do a good job operationally. And I know that they know how important it is to keep on doing that.

The Environment Agency is playing its part in all this. As a regulator we see our role as to help the water companies deliver great operational performance while ensuring they don't damage the environment while they are doing it. We believe in regulation that is risk based and proportionate. We believe in giving earned recognition to the good performers while bearing down hard on the bad. We believe in identifying what needs to be achieved in terms of protecting or enhancing the environment and in leaving the how as far as possible to the companies. And we think that the carrots of advice, support and guidance are better ways to deliver good performance than the stick of prosecution – though we will reach for the stick if we need to.

We also see ourselves as a joint operator with the water companies in helping deliver the water that people need to where they need it. The EA itself operates water transfer infrastructure which we boot up when necessary. When drought threatens, as it may again this summer, we work with the industry, government, farmers and NGOs to manage down the risks of water shortages.

And we work with water companies and other local stakeholders to develop catchment-wide strategies for water that seek to balance everyone's needs and those of the environment.

There is one glaring exception to my praise for water companies' operational record, and it's this: pollution. The water sector has got a lot better over the last few decades in reducing the number and severity of pollution incidents. But one big pollution incident is one too many. And the industry is not yet showing the reduction in numbers of serious pollution incidents that we want to see.

A few years ago the Environment Agency set a target that the numbers of serious pollution incidents caused by the water companies should trend down to zero by 2020. But over the last five years performance has plateaued in the 50 to 60 range. In 2017 the water companies caused 52 serious pollution incidents. Last year it was even worse: 56.

When a water company causes a serious pollution incident – typically by allowing raw sewage to escape into a watercourse – the result is always bad for the environment: it can and does kill thousands of fish, animals and plants, damage ecosystems and ruin water quality for a long time. A serious pollution incident is also bad for the company concerned, because we will normally prosecute. We usually win those prosecutions, and the courts are now issuing record fines which will hit the companies' bottom line.

There's more. Serious pollution incidents are bad for the industry as a whole because they tarnish the reputation of the industry as a whole. And when that happens people ask legitimate questions about whether the current economic model for water drives the right behaviour by the companies, or whether there should be another model. The bottom line is this. There is only one acceptable level for pollution incidents: zero. The water companies, I suggest, have just as much interest as the Environment Agency and the public

in getting to that target sooner rather than later.

The climate challenge

Let me turn to the second challenge I see for the future, climate resilience. Put crudely, this is about avoiding what I called in a recent speech The Jaws of Death.

For those who didn't read the speech, The Jaws of Death is what you find in all the water companies' business plans. It's a chart in the form of a graph, which draws two lines across the X/Y axis. The first line shows predicted water demand over the next several decades in the region the company serves: and in all the company plans this line goes up, as more people, homes, and businesses appear over time. The second line shows the water that will be available to supply those needs: and in all the water company plans this line goes down, as the effects of climate change kick in.

Somewhere out along the timeline, usually around 20 years from now, those lines cross. And that, ladies and gentlemen, is the jaws of death – the point at which, unless we take action to change things, we will not have enough water to supply our needs.

This risk is being driven by climate change. In the UK we will have hotter and drier summers. That will mean more water shortages and a higher risk of more frequent and more extreme droughts.

We know how to avoid the Jaws of Death. We need to tackle both sides of the equation: reduce demand and increase supply. We can reduce demand by reducing leakage, more water metering, sustainable drainage systems, new building regulations that drive greater water efficiency, encouraging innovative products that use water less, and by cutting down the amount of water we each use as individuals.

And we increase supply by a mix of methods: more water transfers between regions from areas of water surplus to areas of deficit, more desalination plants, and most controversially of all, more new reservoirs. Some of that infrastructure will be contested. What can't seriously be contested is the economics: the investment needed to increase our resilience is modest compared with the cost of not doing it.

Using less water and using it more efficiently is only partly about investment in infrastructure or technological innovation. Most of it is about changing human behaviour. At present the average person in the UK uses 140 litres of water a day: if we want long term water security, we need get that down to 100 litres or less. Part of that is about making it easy, by offering people products that help use less water, as most of the water companies now do.

But a big part of success is going to be waking people up about what will happen if we don't change our behaviour: which is why I used the Jaws of Death phrase. I do think that public advocacy for change is an important part of what the Environment Agency should be doing to help all of us deliver

greater climate resilience. The EA is also doing some extremely practical things. We are leading a major programme of abstraction reform to ensure that the EA's system of licenses for abstracting water is fit for the modern world, and balances properly the needs of the public, water companies, industry, farmers and the environment itself.

We are enhancing the nation's resilience to another of the effects of climate change, more and more severe flooding, through our leadership of the government's £2.6bn programme to build flood defences that will better protect 300,000 homes and businesses by 2021. And here too we want to lead the debate about the future – and will seek to do so tomorrow when our Chair, Emma Howard Boyd, launches a major new consultation on how to manage the risk of flooding and coastal erosion between now and 2100.

We are heavily engaged in mitigating the extent and effect of climate change through our regulatory work: our regulation of industry helps take millions of tonnes of CO₂ out of the atmosphere every year that would otherwise drive climate change.

And we are trying to walk the walk ourselves as an organisation. We are cutting our own carbon emissions year on year, and using our pension fund to invest in companies which are supporting the transition to a low carbon economy and to challenge those who are not.

The political challenge

We've been living with climate change for many years now. But in the last few years a new challenge has crept up on the industry, a political one.

This political challenge is not just that one of the two major parties wants to renationalise the water industry, though Labour does, and has set out clear plans to do so. The challenge is deeper than that: it is that the water companies appear at risk of losing support more broadly in the country as a whole.

You can see that risk in the fact that some Conservative ministers have been as critical of the water companies as Labour have. You can see it in the fact that the Financial Times, not normally a friend of nationalisation, has been critical of the industry in terms similar to those spelt out by Labour. And when politicians and the media are all saying the same thing, this is usually what the public are saying too.

So let's be clear: the water industry is under a level of scrutiny it has not experienced before, much of that scrutiny is hostile, and it's coming from a wide range of sources.

In many ways this is deeply unfair. The story of water in this country over the last several decades is not one of failure. On the contrary, it is mostly a story of stunning success.

The quality of the water in our rivers, streams and lakes is better now than at any time since the start of the Industrial Revolution. Salmon, otters and other wildlife have returned to rivers that only a couple of decades ago were

biologically dead. That is in large part due to the hard work and investment of the water companies – as well as the activities of the regulators like the EA and the NGOs.

Today the water companies deliver safe, clean water, day in day out to millions of homes. They do it reliably and at a price almost everyone can afford. Service interruptions are rare. The last hosepipe ban in England was seven years ago.

The water companies put more money into improving the environment than anyone else, including the Environment Agency itself. In the last five years they have spent some £3.5b directly on environmental protection and improvement as part of their commitments to Ofwat and the EA, and much of the rest of their spending indirectly benefits the environment too.

The water companies take their regulatory responsibilities seriously. They work professionally and well with the Environment Agency, Ofwat and the DWI.

Nor have I seen much evidence that the water companies are evil. In my experience the people who work for them love their children too, and have just as much of a commitment to public service as those who work in the public sector.

So let's be clear: there are many things about our present water industry that we should be proud of. But if the industry wants to meet the political challenge I have outlined, or indeed survive in its present form, then it needs to up its game.

What does it need to do?

In my view, it needs to tackle the issues that concern the public the most, and which are feeding the criticisms of the politicians and the media:

- Pollution. If companies cannot operate without damaging the environment they will rightly lose their social licence to operate. Getting their company to zero pollution incidents should be as important to CEOs as any other performance measure.
- Leaks. Nothing annoys water customers more than leaks, especially when we all know water is scarce. Companies all have leakage reduction targets, some more ambitious than others. All the leakage targets should be ambitious.
- Drought. Failure to provide the water the public want would be the ultimate indictment of the sector. So the water companies need to work actively with the EA over the next few months to manage down the risks of hosepipe bans or other water restrictions this summer. I'm inviting all the main water companies' CEOs to join me next month at the National Drought Group which I chair to ensure we are all in the best possible place as we go into the summer.
- Long term climate resilience: as I've said, long term water security requires reducing demand, enhancing supply, and significant investment in infrastructure. Some of the companies are doing this. But not all are, or not to sufficient degree or with sufficient pace. The companies

all need to own and lead this process. Last but not least, if the water industry wants to retain the current economic model, then it needs to show that private companies can act in the public interest. The commitment to do just that which the water sector announced last month deserves recognition. Among other things, it commits the water industry to make bills affordable for all poor households, to triple the rate of leakage reduction by 2030, and to achieve net zero carbon emissions by 2030. More of that please.

It's good to have a debate about water and how we provide it. But I don't think the fundamental issue is whether water companies remain privatised or are taken back into public ownership: the fundamental issue is what will deliver best for the public and the environment. That is where the debate should start and finish. The Environment Agency will contribute to that debate; praise the water industry when we think praise is due; and challenge it to up your game when we think it should.

Conclusion

Let me draw these remarks to a close with three of my favourite American quotations. The first comes from Tom Friedman's great book on globalisation *The World Is Flat*, in which he says this: "In the future, whatever can be done, will be done. The only question is whether it will be done by you or to you." I commend this thought to the water industry.

The second is my favourite saying from Silicon Valley, which is that the best way to predict the future is to invent it. All of us in this room have an interest in inventing the future of water together: let us agree to do so.

And the third remark is from Sylvia Earle, the distinguished US marine biologist, which sums up in twelve words everything that's really at stake here, not just for those of us in this room. It goes like this: "No water, no life. No blue, no green. No ocean, no us." Let us ensure that we never end up there.

I started with a diplomatic anecdote so let me finish with one too. One of the things the Water Industry Forum rightly aspires to do is help all of us in the sector come to a common understanding of the challenges we face. This story, which is also taught to young British diplomats as an Awful Warning, and which is said by those who were there to be true, shows the dangers of misreading a situation.

Some of you may remember George Brown, who was the UK Foreign Secretary in the 1960s. He was in many ways an accomplished figure. But he had one big problem, which was that he was permanently drunk. As you can imagine, this led to diplomatic difficulties.

The most famous of these difficulties happened during an official visit which George Brown made to Peru. On the last night the Peruvians hosted a glittering reception in honour of their guest. Present were all the top military officers in full uniform, all the ambassadors in diplomatic court dress, and a group of very glamorous women in beautiful outfits.

George Brown arrived, knocked back several whiskies, and as the music struck up he staggered towards a gorgeous figure draped all in red and said: "Excuse me, but may I have the pleasure of this dance?" There was a terrible silence. Then the guest replied: "There are three reasons, Mr Brown, why I will not dance with you.

'"The first is that you are drunk. The second is that this is the Peruvian national anthem. And the third reason that I will not dance with you, Mr Brown, is that I am the Archbishop of Lima."

Thank you for listening, and be careful who you ask to dance.