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Single Environment Body for Wales

I am pleased to let you have a short summary of our views on the Welsh Government's proposals for a Single Environment Body ("SEB") for Wales ahead of the panel discussion at the National Assembly for Wales Environment and Sustainability Committee meeting on 26 January.

Can I begin by confirming our support for the establishment of a new SEB. The proposal does however raise a couple of concerns for us which I outline in this letter and I will be happy to expand on these at the panel discussion later this month.

Dŵr Cymru is the regulated water and sewerage company serving most of Wales (and some adjoining parts of England). We provide an essential public service to some 1.2 million households and we also have over 100,000 business customers. On behalf of today's customers and future generations, we look after a very large network of long-lived assets that would cost £25 billion (or around £20,000 per customer) to replace.

Our environmental responsibilities are significant and the Environment Agency Wales ("EAW") regulates our 190 water abstractions and our 3,700 treated wastewater discharges and more generally sets the standards we must meet for protecting our environment. EAW measures and reports on our performance each year and ranks our performance against the other nine regulated water and sewerage companies; this benchmarking is of particular importance for Dŵr Cymru as our ambition is to be the best water company in the sector.

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Glas Cymru Cyfyngedig

We welcome correspondence in Welsh and English
Rydym yn croesawu gohebiaeth yn y Gymraeg neu yn Saesneg

Since 2001 Dŵr Cymru has been owned by Glas Cymru, a “not for profit” company, and is the only regulated water and sewerage company to have reduced its operating costs in real terms in those 10 years; we also have the best credit ratings in the sector which means we can finance our annual £250m investment programme efficiently.

As a result of these cost efficiencies, our average household bill for both water and sewerage will be 6% lower in real terms in 2015 compared with what it was in 2000 (this year our water bill is 4% below average whereas before the Glas Cymru transaction it was 21% above average; large investment programmes to deliver environmental improvements, including a third of the UK’s Blue Flag beaches, means that our sewerage bill is still above average). Currently we are supporting through social tariffs and other ways some 40,000 low income households.

This year we will pay EAW some £15 million (£9 million net) for our abstraction licences and discharge consents making us EAW’s single biggest “customer” (for reference the Drinking Water Inspectorate and Ofwat, our economic regulator, each cost us around £1 million annually).

Although it is less of a “hands on” regulator, we also have frequent contact with the Countryside Council for Wales (“CCW”). A large proportion of Wales is designated in recognition of its conservation importance, including the major rivers on which we have regulating reservoirs in order to support abstractions downstream for public water supply.

As I say at the start of this letter, we support the Welsh Government’s proposal to merge EAW and CCW because if delivered successfully it will give Wales a streamlined, cost efficient and “single voice” regulatory body that will help us and others to deliver more for Wales. Significant cost efficiencies can be achieved through synergies and by removing duplication that in turn will reduce the cost of regulation that is borne by industry in Wales. We would expect these savings reflected in reductions to charges.

We would like to see the new SEB established quickly. Our own experience of major organisational change (and in 2010 for instance we merged three distinct organisations involving the TUPE transfer of 1,800 staff) is that the best results are achieved when change is implemented without delay so that uncertainty is minimised and people can “get on with making it work and making things better”. In our experience, a long transition period will be costly for all concerned, including Dŵr Cymru and others regulated by EAW.

Leadership is clearly key and we would like to see the Chair of the new SEB being someone with the right experience and the stature to both see through the merger and deliver the savings and also set out a vision for the new SEB that staff (and stakeholders) can buy into and support (and indeed be inspired by). The Board that supports the Chair and the executive team is equally important and we would like to see a good mix of experience and expertise represented on the Board, including the water industry and other sectors of the Welsh economy.

It will of course be for the Chair and the Board to set out its vision for the new SEB. From our point of view we would like to see equal weight given to protecting the environment and to promoting the economic and social prosperity of Wales – in other words “sustainable development”. With the economy in such a bad place and with the Westminster Government’s “austerity programme” still to bite, we must ensure that Wales is “open for business” and deal with the real worry that exists that environmental regulation (and planning policy) in Wales is “bad for business and bad for jobs”. The SEB must be an enabling body – supporting economic development while protecting our environment.

Related to this we would also like to see the new SEB setting out to be confident, nimble and easy to deal with, concerned with “good outcomes” based on strong evidence rather than just “abiding by the rules”, and better than its peers in other parts of the UK as measured by both environmental outcomes and economic and social prosperity. Ensuring that the SEB is independent of the Welsh Government is key and should allow the SEB to set out a long term vision for environmental regulation of industry in Wales which in turn will allow industry to plan long term with confidence.

These are what we see as the potential (and significant) upsides from the establishment of the SEB. We have two main worries.

First, I have not mentioned Forestry Commission Wales (“FCW”). Although we have not considered the case in detail, on the face of it we cannot be as persuaded on the merits of combining FCW into the SEB as we are of the merger of EAW and CCW. This is because the synergies are more limited and also, and perhaps more importantly, because including FCW increases the complexity of establishing the new SEB and as such will limit and slow the easier-to-secure benefits that would come from merging just EAW and CCW where the overlap is most significant.

Second, we are wary of "one-on-one" regulation and it will be important that there continues to be a "level playing field" so that comparisons between our performance and that of our peers elsewhere is fair and based on consistent standards. We would also be concerned if the establishment of the SEB was taken as an opportunity to carry out environmental regulation in a more cumbersome and costly way compared to what will be the case in England or for Wales-only duties to be added to the current range of duties that currently apply across both England and Wales. Indeed, we would like to see the SEB review the way things are done currently with a view to streamlining the practice of environmental regulation where that is possible.

I will of course be happy to expand on any of these points when I join the panel discussion on 26 January.

Yours ever

Nigel

Nigel Annett

Managing Director