

6 INDUSTRY COMMENT

STRATEGY OVER COMPLEXITY

Sam Williams urges that the opportunity for regulatory reset is not frittered away by an insufficiently strategic approach to water reform.

The prospect of having the opportunity to re-set the regulatory model for water, following the Independent Water Commission (IWC) Final Report and subsequent White Paper, should be one that excites all those involved in the industry. Irrespective of where responsibility for past missteps lies (undoubtedly multiple stakeholders played a role), there is a clear consensus and understanding that where we ended up was undesirable. And yet, with each passing month, I find myself increasingly concerned about the likelihood of that opportunity not being grasped.

My concern stems from what appears to be an absence of a

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sufficiently strategic approach, with multiple wheels being set in motion to develop and implement a raft of changes for PR29. There are two dimensions to this absence of strategy: a lack of a coherent vision to join everything up; and process. The two problems are almost certainly related.

Lack of coherent vision

As to vision, what both Sir Jon Cunliffe and the White Paper flagged are some clear problems, with associated diagnoses, and pointers for the way forward. This should have provided a strong jumping-off point for developing a strategic vision for future regulation, around which the details of a new model could have been built.

As yet, I haven't seen this vision. The most glaring themes that should be central to it are the need to fundamentally recalibrate to a low-risk/low-return contract for investors; and (critically) a substantial simplification, which places more weight on investment and delivery

over spurious complexity and bill minimisation. This means resolving a tension (present in both the IWC and White Paper) between a need for greater regulatory predictability and stability and (constrained) regulatory discretion.

One of the main reasons for the problems identified by Cunliffe has, in my view, been the historic ability of regulators to re-write the rules at each price control. In the past, material increases in regulatory detail, and changes to the risk balance, have been waved through on a repeating five-yearly cycle. Each new method has merely been subject to consultation, which in practice has proved to be a worryingly low bar – with little evidence of policy being abandoned or materially reconsidered in light of submitted evidence. Continual change (often for changes sake) is no way to attract and retain responsible, custodial, investors. Unless this is addressed, it will continue to hamstring the industry in future.

Muddled process

In relation to process, there is a flurry of activity underway across the various dimensions within scope of the White Paper. Speed is good: we've laboured too long under



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the previous model. However, attempting to implement innumerable individual changes for PR29 in a piecemeal way is not sensible.

What's called for is a 'stepping back', to imagine regulation did not exist at all, and then to write down what might actually deliver against a strategic vision and work from there. One could then readily develop an implementation plan and process.

The process (as it currently is), lacking a strategic element, will result in two things: (i) much of the existing regulatory model will remain, meaning the essential need to simplify and reduce complexity risks not being achieved; and (ii) new elements will be introduced, each linked to an IWC/White Paper direction in a way that 'ticks a box', but lacks coherence (e.g., there 'will' be a supervisory approach in name, but the purpose it serves will likely be muddled). Indeed, this lack of join-up risks tensions, or flat out contradictions, between key limbs of any new regulatory framework.

A call for leadership

If this all sounds rather glum, that's not my intention. The sector is full of high quality people who care. I've read and heard many good ideas about the future regulatory approach and I fundamentally believe the opportunity is still there to be taken.

But we need to avoid the conflation of 'doing things' with progress; of change with improvement. Above all, someone needs to stand behind a vision and build a strategy and process for delivering it.

