

Report by Sustainability and Resilience Panel – PR19

Introduction

The Sustainability and Resilience Panel is one of four expert advisory panels reporting to Anglian Water’s Customer Engagement Forum (CEF).

The four Independent Advisory Panels act as subpanels for the CEF. The Chair of each panel is a member of the CEF to represent the panel members in discussions and to keep their panel updated and fully involved in wider discussions. Each panel is independent of Anglian Water.

The Sustainability and Resilience Panel (S&R Panel) is a successor to the Environment & Climate Change Panel that was convened during the PR14 planning period. The Panel’s name was changed to reflect the stronger focus on resilience for the PR19 price review, which highlights “Resilience in the Round” as one of the issues that matter most to customers.¹

The S&R Panel is chaired, in his personal capacity, by **Craig Bennett** (CEO, Friends of the Earth and Honorary Professor in Sustainability and Innovation at Alliance Manchester Business School).

The Panel includes representatives from key stakeholders in the environmental sector across the region including:

- Environment Agency
- Natural England
- RSPB
- The Rivers Trust
- River Nene Regional Park
- National Farmers’ Union (NFU)
- Cambridgeshire County Council
- The Regional Flood and Coastal Committee
- Wild Anglia
- Adnams plc

The S&R Panel has played a significant role in providing independent challenge to Anglian Water as the company has developed its **Strategic Direction Statement** for the next 25 years (2020-2045) and its **Business Plan** for the 2020-2025 period.

Between 2016-2018, the S&R Panel met on ten occasions. The Panel was supported by colleagues from Anglian Water and had the opportunity to take part in several site visits to consider key themes and challenges relevant for PR19, and to see some of the company’s work in action. On occasions, the panel met without Anglian Water staff present to ensure full independence.

¹ See [Delivering Water 2020: Our final methodology for the 2019 Price Review](#), Ofwat, December 2017. And [Resilience in the Round](#), Ofwat, September 2017.

The Panel held the following meetings and site visits:

- 4 November 2016: Main theme “Context for PR19” with focus for site visit on Catchment Management (Hall Water Treatment Works, near Lincoln)
- 27 March 2017: Main theme “View from regulators” with focus for site visit on Innovation (Milton Water Recycling Centre and Newmarket Innovation Shop Window)
- 12 July 2017: Main theme “Water Resources” with site visit to Sustainable Abstraction Project at River Gwash near Rutland Water
- 22 September 2017: Main theme “Natural capital” with site visit to Northrepps wetland treatment process in Norfolk
- 17 October 2017: Natural Capital workshop in Cambridge, and meeting to finalise Panel’s input to Anglian Water’s Strategic Direction Statement)
- 27 March 2018: Main theme “Flooding” with site visit to Sustainable Urban Drainage (SUDS) project in Eddington, Cambridge
- 1 May 2018: Review of draft ODIs (conference call)
- 5 July 2018: Final review of and input to PR19 Business Plan (Huntingdon)
- 23 July 2018: Conference call to discuss Anglian Water’s proposed performance commitments, in particular those relating to Natural Capital and Water Industry National Environment Programme (WINEP)
- 28 August 2018: Conference call for final adoption of S&R Panel report.

This current report represents a summary of the views of S&R Panel members on customer engagement and issues relating to long-term sustainability and resilience of water during Anglian Water’s PR19 planning period. The report is designed to be included as an Annex to the main CEF report, which will be submitted when Anglian Water submits its 2020-2025 Business Plan to Ofwat. The report will also inform the main CEF report’s views on customer engagement relating to sustainability and resilience during this price review.

2. Overview

When the Panel’s predecessor during the PR14 period (‘the Environment & Climate Change Panel’) gave their opinion on Anglian Water’s Price Review for 2015-2020 and Business Plan, they recognised the need to start delivering the much-needed step-change from “end-of-pipe” hard technology solutions to more proactive, holistic and ultimately effective whole catchment solutions.

The Panel concluded that, if the water industry had been able to invest in catchment management solutions two or three decades ago, both the environment and water provision would be in a much better state now; and customer bills would probably be lower too. This is because the vast-majority of the so-called “environmental spend” in the past has been on capital intensive ‘hard’ infrastructure to deliver essential end-of-pipe solutions to guarantee legally required minimum standards on water quality.

In PR14, the Panel acknowledged that catchment management does not always guarantee outcomes in the short term and that the water industry as a whole, including Anglian Water, is going to need several AMP periods to combine both end-of-pipe solutions and catchment-based management approaches.

However, if PR14 was the period during which Anglian Water was able to develop its approach to catchment management, then the current Sustainability and Resilience Panel acknowledged that PR19 must be the period during which this approach becomes mainstream. It is this conclusion, more than any other, that has shaped the S&R Panel's approach to PR19.

This is the reason why the S&R Panel undertook several site visits over the last two years to review some of Anglian Water's catchment management projects. The Panel was very pleased to see the new approaches being developed, particularly where this has led to Natural Capital gain. We were inspired by what this could mean for sustainability and resilience across the region in the longer term.

However, we were always aware that the site visits took us to "exemplar sites" or pilot projects, and our consistent challenge to the company has been to put the long-term strategy in place to make catchment management "the new normal". In so doing, we were not just reflecting the 'expert' view of stakeholders on the Panel but were also reflecting the views of Anglian Water's customers who, through a very thorough and comprehensive customer engagement process, have demonstrated very high levels of support for spending to protect and enhance sustainability and resilience.

We were therefore very pleased at the level of engagement we had with the company in 2017 during the development of their **Strategic Direction Statement** (SDS) 2020-2045. It was as a direct result of S&R Panel input that the company adopted a fourth strategic goal on improving ecological quality across all catchments, and the panel strongly supports the long-term strategic direction of the company (as articulated in the SDS).²

The key question for the panel, in assessing Anglian Water's Business Plan for PR19, has therefore been to ask; Is the company moving far and fast enough when taking its first steps in support of this new strategy over the next five years?

At times it has proved more difficult to answer this question than we would have liked, simply because some of the detail in the company's plans came rather late in the process. There was initially some disappointment that catchment management approaches did not seem to be featured as much as we would have anticipated in the first iterations of the company's draft **Water Resource Management Plan** (WRMP)³ and in the development of the PR19 Business Plan.

The Panel welcomed the fact that the company was responsive to the Panel's input, listened carefully to our views, and we are now much more satisfied with the details the company has presented. In particular, following several revisions of the most relevant performance commitments, the Panel was pleased to see a stronger commitment to

² See Anglian Water PR19 Business Plan Annex 1a: *Strategic Direction Statement* and Anglian Water website: <https://www.anglianwater.co.uk/about-us/thinking-about-our-future/strategic-direction.aspx>

³ See Anglian Water website: <https://www.anglianwater.co.uk/about-us/draft-water-resources-management-plan-2019.aspx>

Natural Capital and catchment-management based approaches (see sections on Natural Capital and WINEP below).

Working in partnership

Long-serving members of the Panel have seen a marked improvement in the willingness of the company to work in partnership with others, in an “around the kitchen table” approach, over the last few years. However, there was some concern expressed that this may be too closely associated with specific individuals in key positions. While the Panel welcomed the intentions – and the company’s apparent commitment to embed these approaches through their 25-year SDS and five-year Business Plan – members were keen to see these softer approaches become embedded as a long-term cultural norm across the whole business, so these commitments were not overly-dependent on key individuals in leadership positions.

The Panel also wanted to see Anglian Water find a more confident and bolder voice in setting the sustainability agenda, particularly when engaging in planning and public policy debates. Members wanted to see the company move from being a passive voice to becoming a much more active, leadership voice across the region and beyond.

Innovation

The Panel wrote in their PR14 report⁴ that they would like to see Anglian Water become a recognised sector leader in innovative approaches that are urgently needed to avoid additional environmental pressures developing as the East of England experiences considerable population and economic growth over the next decade. They concluded that failure to do this will most likely result in yet more expensive engineering solutions in the 2020s and 2030s, the cost of which will inevitably be passed onto consumers. This still holds true for PR19.

We were pleased to see that some significant strides had been made in this direction. For example, the company is working with the **Anglian Centre for Water Studies at the University of East Anglia** and other key stakeholders to improve their understanding of the state of Natural Capital in the region.

We recognise that Anglian Water has also led on a range of nationally important issues, pioneering a multi-sector approach to resilience against flood and drought through the national **Water Resources Long-Term Planning Framework** and the regional **Water Resources East (WRE)** project, which has brought together regional stakeholders in the water sector: “...to work in partnership to safeguard a sustainable supply of water for the East of England, resilient to future challenges and enabling the area’s communities, environment and economy to reach their full potential” (see Section 7.3.4 of Anglian Water PR9 Business Plan for more details).

⁴ Environment & Climate Change Advisory Panel: Report to Customer Engagement Forum on the actions which need to be addressed in Anglian Water’s Price Review for 2015 – 2020, and its opinion of the Business Plan.

We were also impressed by a site visit to Anglian Water's **Innovation Shop Window** in Newmarket, which is spearheading the company's Smarter Drop campaign to make the town the water-saving capital of the UK. The company's goal is to get every household in Newmarket to reduce their water usage to 80 litres per person per day (see Anglian Water PR19 Business Plan, Section 10.11 for more details).

However, alongside these innovations, the Panel felt the company could be a lot more bullish in pushing local planning authorities to grant planning permission only where developments are shown to be as highly water efficient as possible and to lobby government for changes to building regulations. We believe this would make a lot more difference over the long term on issues around abstraction and leakage. For example, employing ten lobbyists to work with local authorities could potentially deliver effective and efficient reductions in water use over the long term by prompting changes in existing regulations. This is the kind of step change the Panel would like to see over this next AMP.

Ultimately the long-term outcomes we would like to see are a flourishing environment where aquifers are recharged, where there is plentiful and abundant water in our environment and therefore concerns about over-abstraction are reduced. We believe that will only be achieved through long-term catchment management approaches and through dramatically reducing water consumption through innovative approaches.

3. Anglian Water's Strategic Direction Statement: context for PR19

To set the context for this price review, in October 2017, members of the S&R Panel attended a stakeholder event organised by Anglian Water on Natural Capital at The University of Cambridge. Panel members took this opportunity to meet in a panel-only session to discuss Anglian Water's Strategic Direction Statement (SDS), which set the company's long-term vision for the next 25 years.⁵

In close consultation with customers, Anglian Water had set out the longer term challenges facing the region – including rapid housing growth and a changing climate. The company's draft SDS proposed four long-term ambitions to help guide their business planning over the coming years:

- resilience to the risks of drought and flooding;
- enabling sustainable economic and housing growth;
- becoming a carbon neutral business by 2050;
- and digital transformation.

⁵ See Anglian Water PR19 Business Plan Annex 1a: *Strategic Direction Statement* and Anglian Water website: <https://www.anglianwater.co.uk/about-us/thinking-about-our-future/strategic-direction.aspx>

Customers and stakeholders responded by telling the company that the fourth ambition, digital transformation, was something that the company should be doing as part of normal business. Customers wanted to see more long-term ambition related to improving the region's environment.

Concurring with this view, the S&R Panel challenged the company to introduce a new fourth ambition that would take into account the long-term goal of working with others to achieve good ecological status and, where appropriate, good ecological potential, across all catchments (see Annex I to this report for full report).

The S&R Panel was pleased to note that Anglian Water listened carefully to our feedback and revised the company's fourth long-term ambition accordingly to read:

- **Work with others to achieve significant improvement in ecological quality across our catchments.**

The Panel felt this new ambition would sit well with UK Government's stated aim of "leaving the environment in a better state for the next generation" as set out in their 25 Year Environment Plan.⁶ They felt it would also capture the essence of the best thinking on sustainability and resilience that is taking place in the UK water industry and confirm the wider contribution that the sector can make to our society and the environment.

3. PR19 Business Plan: Panel views

At the heart of the debate for Anglian Water customers in this price review was the trade-off between maintaining the resilience of water supplies and services to customers over the long term, meeting current environmental obligations and keeping bills as low as possible.

The company engaged effectively and comprehensively with customers around longer-term issues including resilience to climate change whilst also clearly explaining the impacts of potential investments on future bills and longer-term affordability (see Anglian Water PR19 Business Plan Annex 12d: *Customer Engagement Channels and Questions* to see the full programme of customer engagement on these issues). Through their customer engagement, Anglian Water clearly explained to customers the long-term resilience of its systems and services – and the potential impact of any investments (or lack of them) on future customers.

What emerged from this extensive programme of customer engagement was very clear: customers did not want to delay investment in making the Anglian Water region more resilient. They wanted to see investments happening as soon as possible. For example, 74% of customers voted for high investment in protecting the environment (through the company's Be the Boss digital outreach – for more details see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*).

⁶ See [A Green Future: Our 25-Year Plan to Improve the Environment](#), Defra, 2018.

In the customer engagement around the outline Business Plan, customers were presented with three potential bill profiles over the five-year period (flat, +2.5% and +5%). They were asked about investing to mitigate the risk of climate change now or later (WRMP driven investment), and whether we should make high or low investment in protecting the environment (as a proxy for asking about the WINEP).

We were pleased to note that more than 80% of customers were happy with accepting at least some level of bill increase in order to invest in future resilience. The Panel was delighted – and somewhat surprised – by this enthusiastic customer response (see section below on Bill profiles for more detail on this).

The Panel was also pleased to note that the company reflected their customers' views and priorities, as required by Ofwat,⁷ by developing a Business Plan that has resilience and sustainability at its very heart. Panel members welcomed the company's proposed twin-track investment in demand management and supply side enhancement on a significant scale that will help increase the region's resilience to drought and flood in future.

As laid out in the Business Plan's Executive Summary, the company's **Water Resources Management Plan** (WRMP) for PR19 is nearly eight times larger than at PR14 in terms of spend, with a range of proposals including smart metering and demand management programmes, as well as enhancements to supply.

In parallel, company spending on the **Water Industry National Environment Programme** (WINEP) is more than double the PR14 level to make sure the company meets all of its environmental obligations.

Of the company's proposed £6.5bn expenditure for AMP7, there is a significant level of spending on resilience and the flourishing environment, as outlined in the Business Plan (see Anglian Water PR19 Business Plan, Executive Summary Section 1.5):

- £240m on driving down consumption through measures including reducing leakage and rolling out smart meters
- £630m to make the region resilient to the risks of drought and flood
- £783m to support the region's flourishing environment through WINEP
- £650m to enable sustainable growth by investing in water and water recycling networks
- £40m to protect drinking water quality through catchment management

⁷ [Delivering Water 2020: Our final methodology for the 2019 price review](#), Ofwat, December 2017.

In particular, the Panel was pleased to see the following initiatives outlined in the Business Plan (see Anglian Water PR19 Business Plan, Section 7: *Resilient Water Supplies*) that would help reduce water demand over the longer term:

- Ambitious leakage reduction, stretching the company's frontier performance further: 30 MI/d (15%) by the end of AMP7, and 70MI/d (41%) by 2045.
- Smart metering: reaching the limit of feasible meter penetration (95%) by the end of AMP8 (2025-30). This will result in demand savings of up to 7MI/d by the end of AMP7, and 23MI/d by 2045.
- Promote household water efficiency: estimated demand savings of up to 6 MI/d by the end of AMP7, and up to 30 MI/d by 2045.
- Working collaboratively with developers to ensure that new housing is as water-efficient as possible, including trialling the use of greywater and rainwater harvesting technology to achieve 80 l/head/ potable consumption.

Bill profiles

These investments in resilience do not come without a cost to customers, however. As mentioned above, more than 80% of customers who were engaged through four separate channels said they were happy with accepting at least some bill increase in order to address the serious water supply resilience challenges in the region and the large programme of work needed to meet the company's environmental obligations, as set out in WINEP. Customer engagement with 5,000 customers through the Be the Boss digital platform during the Business Plan consultation showed that 34% of customers considered a 2.5% increase in bills was acceptable and affordable while 48% were happy with a 5% bill increase over AMP7 to protect against the risk of climate change and protect the environment now rather than in future (for more detail, see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*).

The Panel noted this strong customer support for a bill increase of at least 2.5% and questioned why the company was proposing a bill increase in the order of 1% over the next five years. They sought assurance from the company that this lower level of increase was not at the expense of progressing important investment in resilience or the delivery of environmental obligations. The company provided this assurance verbally at the CEF meeting on 13 August 2018, explaining the reduction is due to holding back on RCV run off areas and delivering all the investments under WINEP and WRMP for a lower cost than originally proposed. We were reassured by the company's explanation, but this was highlighted as an area for future scrutiny.

We also noted that the company had originally intended to propose a bill decrease to customers but had to revise bills upward to respond to increased levels of environmental investment required under WINEP3 that the company had underestimated the scale of its environmental obligations – something that surprised some members of the Panel.

Natural Capital

Embedded in Anglian Water's SDS and Business Plan is an approach to finding Natural Capital solutions to the challenges facing the region – something that the Panel warmly welcomed and that now brings the company in line with other industry-leading approaches. We believe, as the company does, that developing Natural Capital solutions will offer better value for money for customers over the long term and improved environmental outcomes, compared with more traditional approaches.

At their meeting in September 2017, the company provided Panel members with a detailed briefing on a partnership project between Norfolk Rivers Trust, Anglian Water and the Environment Agency (EA) at its Water Recycling Centre (WRC) at **Ingoldisthorpe** in Norfolk (see Anglian Water PR19 Business Plan, Section 8.2.2 for more details). The £500,000 project is funded by Anglian Water to intercept waste water effluent and remove ammonia. We were able to visit a smaller-scale project on private land in Northrepps that has been designed to reduce phosphates. This has been established for three years, with strong community and volunteer involvement. The wetland has now become a biodiversity asset and water samples are also showing promising results in terms of phosphate removal.

Although Panel members were impressed by these exemplar projects, we wanted to see these kinds of catchment-management approaches scaled up and mainstreamed over the next AMP.

With this in mind, Panel members particularly welcomed the inclusion of an ambitious bespoke performance commitment on Natural Capital in the company's suite of ODIs (see Anglian Water PR19 Business Plan, Section 13.27). Members were impressed to see, embedded in this ODI, the company's ambition to become the first in the UK to develop a Natural Capital balance sheet for the region, working with the University of East Anglia. As outlined in the performance commitment, through this measure the company will show how future investments will be tested as to whether they deliver net gain or net loss from that balance sheet. This was an approach that was very well received by customers (see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*, Key Messages, Flourishing Environment) and was also reinforced by a piece of customer engagement carried out in June 2018 with the online community that showed customers were impressed and intrigued by Natural Capital projects and wanted to know more.⁸

Panel members were also pleased to see, following robust challenge, that the company had removed from its **Water Industry Environment Programme** (WINEP) early delivery performance commitment those schemes that may be suitable for catchment and Natural Capital solutions so as to avoid any bias towards more traditional but quicker hard engineering solutions (see Section on WINEP below).

⁸ WINEP/Natural Capital – report compiled by Incling dated 25 June 2018. Referenced on p18 of Synthesis Report (see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*).

Panel members acknowledged that this Natural Capital approach was a truly pioneering development and we were pleased to see that the wording of the ODI was revised and clarified following members' input to include a stronger role for the Panel in developing, testing and refining this Natural Capital approach over the next AMP. We agreed with the company that this ODI was more suitable for a reputational rather than financial incentive and we were pleased to note that 90% of customers in the acceptability testing considered this performance commitment to be of medium or high importance.

As the company has acknowledged in the Business Plan and in the wording around this ODI, resolving the issues and pressures facing water is beyond the reach of any single sector and, as emphasised in the government's 25-year Environment Plan, a broader catchment-based approach is needed.

While the Panel was very supportive of this ODI, we felt that not enough had been made of the expertise of the CEF or the S&R Panel members in earlier development of the detail behind this performance commitment. We recognised this is a new concept for the company and we strongly recommended that every opportunity should be taken to work with stakeholders on finding the right approaches moving forward.

With this in mind, we were pleased to see that the company had committed to taking forward plans to establish a new body, **Natural Capital East**, building on the success of Water Resources East, and recognising the criticality of effective collaboration across organisations to help deliver good Natural Capital outcomes. We also welcomed the fact that the role of the Panel was solidified in the wording of the ODI.⁹

Through the online customer engagement referenced above, it emerged that customers were keen to learn what lessons emerged from existing Natural Capital solutions, and what's going to happen next in terms of a fuller roll-out. This was a view that the Panel shared. We look forward to working with the company and other stakeholders in this industry-leading area over the next five years and beyond.

In particular, we challenged the company to explore how it might best engage customers at a local level to build their understanding of natural capital solutions such as those pioneered at sites like Northrepps and Ingoldisthorpe. Furthermore, if catchment management is to become the default approach for addressing sustainability and resilience issues, we would encourage Anglian Water to try and raise public awareness about river catchments. This will be essential for ensuring customers better understand the true social, economic and environmental value of future catchment management approaches.

⁹ Wording as follows: "We will continue to work with our CEF and the S&R panel to seek to maximise the impact we and the other organisations on the panels can make to natural capital in our region."

Social Capital

With community involvement in mind, we were also pleased to see the introduction of a bespoke performance commitment on Social Capital to complement the Natural Capital ODI, following the input of the CEF and S&R Panel members (see Anglian Water PR19 Business Plan Section 13.35 for more details).

Panel members were generally keen to see the company working together in partnership with other organisations – including statutory organisations such as the Environment Agency and Natural England, represented on the Panel, and environmental NGOs – and recognised that this performance commitment was a positive step in this direction.

The reputational ODI on Social Capital aims to recognise the company's role within a wider network of actors and "supports the development of approaches and decision making processes which measure, and in due course, maximise the positive contribution we give to our customers, the environment, and society at large".

The concept of Social Capital has developed rapidly over recent years and we recognise that Anglian Water has contributed to this development, for example, by creating a natural and social capital account for their RiverCare and BeachCare Programme, contributing to UK Water Industry Research work on a natural and social capital accounting tool for the water industry, and contributing to the 'Accounting for Sustainability' Natural and Social Capital Accounting Guide. The company has also sponsored a Senior Research Fellow for the next three years, through the Cambridge Institute for Sustainability Leadership, to support the development of practical implementation of metrics in these evolving fields.

Panel members noted that most Anglian Water customers believe the company cares about the environment. However, awareness of the company's environmental and community activities was low (see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*, Key Messages, Flourishing Environment). We also noted that raising awareness of these activities boosted positive perceptions of the company.

With this in mind, Panel members looked forward to working in partnership with Anglian Water colleagues and other stakeholders to help develop a strategy for AMP7 that would, for example, look at the number of decisions that have been informed by Social Capital. We welcomed the fact that the company was planning to use Natural Capital and Social Capital approaches to help make the best investment decisions across projects, programmes and strategies.

Water Industry Environment Programme (WINEP)

There was significant challenge from both the CEF and the S&R Panel around the details of the company's proposed outperformance ODI on the Water Industry Environment Programme (WINEP) (see Anglian Water PR19 Business Plan, Section 13.27). The

performance commitment was designed to incentivise faster delivery of the WINEP, to unlock benefits for customers and the environment at an earlier stage.

The challenges from Panel members particularly related to the timelines associated with the delivery of environmental obligations under WINEP. These concerns were mirrored in Ofwat's 13 July response to the company's 3 May ODI submission.¹⁰

Ofwat wrote:

In terms of clarity and completeness, you may wish to consider:

- clarifying the process by which the delivery of a WINEP requirement is determined and communicated;

- clarifying the granularity of the time factor by which early delivery is assessed ie does completion need to be one day, one month, one year ahead of schedule to qualify as "early"?

- how "early delivery" should be defined. Merely delivering a project in advance of the statutory deadline may not constitute delivery any earlier than might reasonably be expected of an efficient and well-managed company due to the normal practice of programming work in such a way that resources are utilised in an optimal way; and

- whether different types of WINEP requirement should be weighted differently to reflect the different degrees of environmental benefit that they deliver. We consider it would be helpful for your business plan to include examples of how this performance commitment is intended to work in practice.

The Panel felt that ambition for an early delivery of WINEP should not unintentionally drive traditional hard engineered solutions at the expenses of softer (Natural Capital) solutions that may deliver more for the wider environment and society. We therefore welcomed the fact that, in the final Business Plan submission, the company has committed to removing 74 WINEP obligations from the WINEP performance commitment metric so that the feasibility to deliver these through alternative approaches could be explored.¹¹ This would remove any incentive to deliver these obligations early although they would still need to be delivered by the WINEP obligation date.

To ensure joined up delivery, the company committed to reporting under the Natural Capital performance commitment to capture catchment management activities and delivery of the WINEP. We were encouraged to see this uncoupling of the catchment management based projects like Ingoldisthorpe from this ODI and encourages maximising of these softer solutions as the programme unfolds.

¹⁰ Letter to Anglian Water's Director of Regulation Alex Plant from Ofwat's Senior Director David Black dated 13 July 2018.

¹¹ These are 34 obligations agreed for phasing with the Environment Agency, an additional 25 water quality obligations identified by AW and 15 river restoration obligations identified by AW. However, Panel members had not seen a detailed list of proposed sites at the time of writing.

Abstraction Incentive Mechanism

This is an area that Ofwat would like the CEF to comment on, and challenge where appropriate. While Panel members have seen the wording of the bespoke performance commitment on AIM (see Anglian Water PR19 Business Plan, Section 13.25) and have seen that there has been customer engagement around this issue, we were frustrated that neither our members nor the CEF had been consulted and informed about the more granular details of the company's plans in this area. We would welcome more input on the company's plans on their Abstraction Incentive Mechanism moving forward.

We were pleased to note, however, that this performance commitment incentivises the company to reduce abstraction from ground and surface water at environmentally-sensitive sites, at times of low flows.

Pollution incidents

Another area of robust challenge from members of the S&R Panel – in particular from those members representing the Environment Agency and Natural England – was around pollution incidents (see Anglian Water PR19 Business Plan, Section 13.23).

The company are proposing a financial incentive for this common performance commitment (in line with Ofwat guidance for common measures). This is a development from AMP6 where under and outperformance incentives apply. The company argued that this performance commitment was extremely important to customers. In customer research on incentives, when asked about which measures are the most important for financial incentives (rewards and penalties), customers on average gave a 7.6 out of 10 importance to this measure. This was considered the highest importance alongside leakage.

However, the Panel and CEF members argued robustly throughout the process that the company **should not be rewarded in circumstances where pollution incidents are still happening.**

This was an outstanding challenge at the time of writing. While the company noted the Panel's concerns regarding the perception of outperformance incentives for beating the PCL while still incurring some serious pollution incidents, they argued that their performance commitment level was based on only category three incidents, in line with their ambition for no category one or two incidents.

In addition, while Panel members agreed with the company that the ODI should be set in deference to any adjusted "green" target of the AMP7 Environment Performance Assessment (EPA) metric, they would also expect to see excellent performance linked to high levels of self-reporting of at least 80% by 2025, as set out in the Natural England/Environment Agency Water Industry Strategic Environmental Requirements (WISER) document.¹²

¹² See [Water industry strategic environmental requirements \(WISER\): Strategic steer to water companies on the environment, resilience and flood risk for business planning purposes](#), Natural England and Environment Agency, p55.

Leakage

On leakage, the Panel was very pleased that Anglian Water was proposing to continue its ambitions to be best-in-sector on leakage performance by continuing to drive down leakage by 50% over the next 25 years. This is an area that has been covered in some detail in the main Customer Engagement Forum report (see for example Box 2 of the Customer Engagement Forum report). The Panel did not have any specific further comments on this performance commitment.

However, we are hopeful that the innovative approaches that we have seen showcased through the innovation shop window in Newmarket would lead to a step-change in leakage performance and water efficiency, rather than incremental changes.

While the Panel welcomed initiatives like the Newmarket innovation shop window, we would like to see these initiatives scaled up and deployed in a wider range of contexts across the region. We hope there might be several “Newmarkets” by the end of next AMP, not just one, so that innovation can be tested in a range of different environmental and social contexts.

We recognise that Anglian Water has “best of sector” performance on reducing leakage but, ultimately, we would encourage them to benchmark their performance not just against other water companies, but against the step-changes in resource-use efficiency that have been realised by some companies in other sectors.

Other challenges identified

- **Treatment Works Compliance** – The company is funded for 100% compliance. It appears the applied target here (with deadband included) mirrors their worst performing year of the last 5 years at 98.6%. The Panel would prefer to see future alignment of this ODI with emerging Environmental Performance Assessment (EPA) metrics for AMP7, where only very high levels of compliance would reflect achievement of the target (i.e. no penalty). There are mechanisms already in place to take account extreme weather events for permit compliance purposes, so the introduction of a deadband for this purpose seems unnecessary.
- **Bathing Waters** – We acknowledge the need for a deadband to reflect a drop in the number of excellent beaches due to factors beyond the company’s control, but would argue that this should also be applied above the target to reflect any improvements that were as a result of actions by third parties or benign weather. The company should be able to demonstrate where its actions have resulted in any improvements that could lead to reward under this metric. The Panel is also mindful that funded schemes within the WINEP may improve certain bathing waters to excellent so that there may be reward from an already established programme.

- **Water Transfers** – Several members flagged the fact that it was difficult to discern from Anglian Water’s draft WRMP the extent to which the company was planning to create inter-company water transfers; they questioned how the neighbouring water resources plan meshed together, in spite of the good work of Water Resources East. The Panel noted that this issue was not exclusive to Anglian Water; Defra, Ofwat, the Environment Agency and the Drinking Water Inspectorate had written to water companies on 9 August indicating that they are looking to develop a clearer national to regional company framework for PR24 that will help to address this issue in future. The Panel looked to Anglian Water to continue to positively engage in both national and regional water resource planning initiatives.

Conclusions

The Sustainability and Resilience Panel has benefited from good support and engagement by the company during the PR19 planning process. The facilitation of site visits has enabled Panel members to develop a much deeper understanding of the challenges and opportunities available in the context of sustainability and resilience of water resources in the Anglian Water region. It has also enabled us to understand the company's considerable achievements, and potential next steps. Perhaps most importantly, Panel members have valued working in partnership with each other and the company through this process – something that will deliver future benefits outside of the Ofwat price review process.

The Panel strongly supports the long-term strategic direction of Anglian Water on sustainability and resilience issues, as set out in its Strategic Direction Statement (SDS), published in 2017. We were pleased at how responsive the company was to stakeholder feedback, including the accommodation of several suggestions by the Panel, not least the adoption of a fourth strategic goal on delivering ecological improvements in all catchments. The SDS provides critical strategic context in which to consider the company's plans for PR19 and beyond.

We feel confident that the company has undertaken a very thorough customer engagement process around both the SDS and PR19, and the Panel is delighted at just how strongly customers seem to support investment by the company to improve sustainability and resilience – even when it results in higher bills. Although the company's final plan for PR19 includes significant investment in improving sustainability and resilience during the AMP period, paid for through a slight increase in company bills, there is clear evidence to suggest that customers would have supported an even higher level of investment (and higher bills) in support of sustainability objectives.

This raises the question as to whether the company is going far enough with its investments in PR19. Panel members would have appreciated more time to scrutinise some of the company's plans in more detail to answer this question. Some of the detail most relevant to this panel, such as the Water Resources Management Plan, investment and approaches to delivering what's required under the WINEP, and detail on precisely how and where Anglian Water will be scaling up its investments in catchment management, came rather late in the process (albeit, sometimes as a result of challenges outside of the company's control).

The Panel recognises the sector-leading work the company is undertaking to address the significant sustainability and resilience challenges facing the region, including through Water Resources East and the Newmarket innovation shop window. We welcome the company's plans for increased investment in improving resilience in catchment management and in more natural wastewater treatment solutions.

Investment in and the effectiveness of catchment management and more natural solutions is harder to measure than traditional approaches, however, and so the role of this Panel in monitoring the company's increased investment during PR19 will be critical. After some considerable debate over the most relevant performance commitments, we broadly support the suite of ODIs, with questions remaining on the detail of some. In

particular, we warmly welcome the inclusion of a performance commitment that recognises the importance of finding Natural Capital solutions to tackling the resilience and sustainability challenges facing the region. We look forward to working with the company to further develop and implement this approach over the next AMP and beyond and to help them become more vocal in advocating for change on some of the issues and challenges outlined in this report.

It is our hope that the company's five-year Business Plan and the 25-year Strategic Direction Statement should mean that, by the late 2030s, new "hard engineering" will only be necessary to protect environmental quality in exceptional circumstances. Anglian Water will have played a critical leadership role in ensuring that the region's environment is getting better, with good ecological and hydrological status restored in all catchments.

Annex 1:

Response from Sustainability and Resilience Panel to Anglian Water Strategic Direction Statement 2020-2045

October 2017

Introduction

The Sustainability and Resilience Panel is one of two expert advisory panels reporting to the Customer Engagement Forum. The panel is chaired, in his personal capacity, by Craig Bennett (CEO, Friends of the Earth and Honorary Professor in Sustainability and Innovation at Alliance Manchester Business School).

The panel includes representatives from the Environment Agency, Natural England, RSPB, The Rivers Trust, National Farmers' Union, Cambridgeshire County Council, The Regional Flood and Coastal Committee, Wild Anglia and Adnams.

In 2018, the Panel will be preparing a full report for the Customer Engagement Forum, which is due to be submitted to Ofwat at the same time as Anglian Water submits its five-year Business Plan.

Ahead of that process, the Panel wanted to take this opportunity to offer their formal feedback on Anglian Water's latest Strategic Direction Statement 2020-2045 through the lens of sustainability and resilience. These views will also feed into the Panel's discussions around the draft Business Plan.

The panel have shaped, commented and had input to the draft of this report. The Chair feels that it is an accurate view of the panel's views and discussions. However, the final report is the responsibility of the Chair of the panel.

Craig Bennett, Chair of the Sustainability and Resilience Panel

October, 2017

MAIN RECOMMENDATIONS:

The Panel broadly agree with the four long-term ambitions articulated in Anglian Water's SDSs:

- Enable sustainable and housing growth in the UK's fastest growing region
- Make the East of England resilient to the risks for drought and flooding
- Be a carbon neutral business by 2050
- Better serve our customers by driving digital transformation across our business.

However, we consider that this list currently fails to capture a critical element of what we believe to be Anglian Water's strategic approach, as so we propose a new long-term goal:

- "Work with others to achieve good ecological status and, where appropriate, good ecological potential, across all catchments".

We propose some small changes in language to the other goals.

We believe that "driving digital transformation" is worth stipulating but as one of four key "ways of doing business" alongside; looking at the whole business through the catchment lens, working in partnership with others, and finding a more confident, less passive voice.

Background

When the Panel's predecessor during the PR14 period ('the Environment & Climate Change Panel') gave their opinion on Anglian Water's Price Review for 2015-2020 and Business Plan, they recognised the need to start delivering the much-needed step-change from "end-of-pipe" hard technology solutions to more proactive, holistic and ultimately effective whole catchment solutions.

As an illustration, the Panel wrote then that, if the water industry had been able to invest in catchment management solutions two or three decades ago, both the environment and water provision would be in a much better state now; and customer bills would probably be lower too. This is because the vast majority of the so-called "environmental spend" in the past has been on capital intensive 'hard' infrastructure to deliver essential end-of-pipe solutions to guarantee legally required minimum standards on water quality.

The Panel acknowledged back then that catchment management does not always guarantee outcomes in the short term and that the water industry as a whole, including Anglian Water, is going to need several AMP periods to combine both end-of-pipe solutions and catchment based management approaches.

Current S&R Panel members were pleased to see the shift in thinking at Anglian Water over the past five-year period and to see the company doing more work in catchment management and acknowledging the value of Natural Capital, as reflected in the SDS statement: "We want to improve our understanding of the extent and state of natural capital in our region. Understanding the risks that natural capital stocks face and the opportunities for better management will help inform our decisions..."

Moving forward, the S&R Panel recognised that the next 25-year SDS period is the right time for the company to mainstream catchment management and catchment based solutions. At a time when Natural Capital is moving up Anglian Water's agenda, the Panel wanted to see the promised step change really become reality across the whole of the region. We would like to see working assumptions change so that catchment management becomes the company's default approach, rather than hard engineering and costly end-of-pipe solutions which we suspect may be the case in many situations.

Panel members suggested that catchment based solutions would also lead to additional natural capital, social, amenity and other benefits and lower bills for customers over the long term, while clearly strengthening Anglian Water's position as a company fit for the twenty first century.

If truly successful, this Strategic Direction Statement should mean that by the late 2030s, new "hard engineering" will only be necessary to protect environmental quality in exceptional circumstances. Anglian Water will have played a critical the leadership role in ensuring that the region's environment is getting better, with good ecological and hydrological status restored in all catchments.

A new long term goal:

The Panel broadly agreed with the four long-term ambitions articulated in Anglian Water's SDS:

- Enable sustainable economic and housing growth in the UK's fastest growing region
- Make the East of England resilient to the risks for drought and flooding
- Be a carbon neutral business by 2050
- Better serve our customers by driving digital transformation across our business.

However, we consider that this list currently fails to capture a critical element of what we believe to be Anglian Water’s strategic approach, as so we propose a new long-term goal:

“Work with others to achieve good ecological status and, where appropriate, good ecological potential, across all catchments”

We believe this captures the essences of the previously established Love Every Drop goal of “flourishing environment”, while linking it more directly to what matters most directly to Anglian Water’s business through a catchment management approach.

It sits well with UK Government’s stated aim of “leaving the environment in a better state for the next generation” and what is likely to be in the final “25 Plan for Nature”. It captures the essence of the best thinking on sustainability and resilience that is taking place in the UK water industry and confirms the wider contribution that the sector can make to our society and environment.

Ways of doing business

We believe that “driving digital transformation” is worth stipulating but we believe it should be considered as one of four key “ways of doing business” rather than a long term goal. The Panel suggested that there are at least three other ways of doing business that are just as important as digital transformation and that they would like to see reflected in the SDS, to imply a list as follows:

1) Digital transformation (as stated in SDS)

2) Look at the whole business through the catchment management lens: Digital transformation provides an opportunity to look at the whole business through the catchment management lens so that this approach underpins everything the company does – including planning, investment, communications, internal culture, customer and stakeholder engagement etc. We believe this will transform the financial, social and environmental impact of the business longer term.

3) Working in partnership and open engagement with other stakeholders: Long serving members of the panel have seen a marked improvement in the willingness of the company to work in partnership with others, in an “around the kitchen table” approach, these last few years. But we are concerned that this may be too closely associated with specific individuals in key positions (ranging from the CEO to others). We very much welcome the approach, but stress the need for it to become embedded as a long-term cultural norm across the whole business, and not overly-dependent on key individuals in leadership positions).

4) Moving from being a passive voice to becoming a much more active, leadership voice: We believe there is some evidence that Anglian Water is currently too “passive” and needs to find a more confident voice, particularly when engaging in planning and public policy debates. Rather than just “enabling housing growth”, for example, it should be making a strong case for more sustainable and water efficient housing, and highlighting the locations where this is and isn’t appropriate.

More detailed feedback on specific language in the draft Strategic Direction Statement

Recommendation for Ambition 1

As an illustration of this final point, Panel members said that Anglian Water’s long-term ambitions articulated in the SDS should not just be “enabling sustainable economic and housing growth” (see Ambition 1). The company needed to play a bolder and more proactive role, moving away from ‘enabling’ economic and housing growth towards making sure that growth is carried out in a sustainable way – for example, by engaging with how many houses fit within environmental limits

for the region and indeed where they should be built and what type of houses they should be (in terms of water efficiency etc). In a similar vein, the Panel also felt that Anglian Water should be engaging more proactively with farmers in terms of abstraction and use of water and are encouraged by the steps being taken through the Water Resources East initiative. This should be captured under the Key Activity “Working with Farmers”.

On this point generally, the Panel felt that Anglian Water needed to be bolder in its ambitions. As seen in the previous Panel’s feedback regarding the PR14 Business Plan, there was a strong sense that Anglian Water, as one of the largest companies in the East of England, could and should play an influential leadership role, particularly in helping the region to move towards more sustainable development. There needed to be more recognition that the region’s resources were not finite and that the company needed to change its own behaviour and the behaviour of others in order to abstract and discharge water not only legally but also in an ethical and environmentally responsible manner.

Panel members felt that Anglian Water should be drawing on some of the really excellent innovations showcased at the shop window in Newmarket to become a more innovative business – and in fact, to become a shop window for the region and beyond, setting an example of best practice for sustainability and resilience by expanding and scaling up successful initiatives. What would it look like for the whole region to become a test-bed for innovation? Instead of looking to fill the gap in water provision for our region’s growing population, the company should be proactively looking at ways of improving water efficiency in new properties and using opportunities to retrofit aging infrastructure with more sustainable replacements.

Recommendation: change wording of Ambition 1 from “enable sustainable economic and housing growth” to something that more closely reflects the company’s leadership role in the region in terms of making sure development is sustainable and happening in the right places (e.g. “Champion and advocate ways in which economic and housing could enhance the sustainability and resilience in the region”).

Recommendation on working with farmers

Under the heading, ‘Working with farmers’ – the panel felt that this point should be broadened out to look more broadly at the food chain and land management. It should be a priority to work with farmers in partnership with other agencies to help reduce demand for water across the region – and this should be reflected in the wording here.

For example:

Instead of: “We will continue to develop relationships with land owners and managers to understand the challenges and opportunities and reduce the load of pollutants entering water courses.”

Annex 2: Challenge log

Main challenges from Sustainability and Resilience Panel meetings (2017-2018)

Full minutes for the Sustainability and Resilience Panel meetings are available on the Anglian Water website [here](#).

S&R Panel Meeting (12 July 2017)

Comments on Anglian Water's draft [Strategic Direction Statement](#):

Barry Bendall commented that he would expect to see environmental protection listed as a relevant challenge for all the outcomes and would like to see more on partnership working under the 'Flourishing Environment' challenge.

Dan Bean recommended focussing the language on '*people* and the environment'. Craig Bennett agreed, and suggested the SDS talk about '*our* environment' rather than '*the* environment'.

Craig Bennett asked what Blueprint thought were particular issues for Anglian Water. Nathan Richardson replied that Anglian Water is seen as being ahead of the game on leakage and resilience and getting on pace with catchment management and sustainable drainage

S&R Panel Meeting (17 September 2017)

Craig Bennett fed back that there's been a strong focus in the S&R Panel on catchment management and he felt that this didn't yet show through as strongly in the SDS as he would have hoped. For the PR19 Business Plan, he suggested it would be useful for it to be something that can be interrogated by catchment as this would be an easier way for customers to engage

CB suggested that the panel needs more detail in order to scrutinise AW performance results around environmental responsibilities.

S&R Panel Meeting (27 March 2018)

CB was pleased to report that the panel's input into Anglian Water's [Strategic Direction Statement](#) had been very important. It had directly influenced the introduction of a fourth goal on improving ecological quality.

BB asked if the panel would have an opportunity to respond to the WRMP, as this is crucial to the direction of the outline plan.

On ODIs

BB said that for the one-pager on Natural Capital, it would be useful to narrow down what the company wants to deliver – as well as showing line of sight to customer engagement.

DB said EA would like to see the words "catchment delivery" in ODIs

There was discussion among panel members about timelines. Members felt frustrated at the lack of information about the outline business plan and had hoped there would be a fuller and more detailed presentation about the ODIs at today's meeting. They felt that timelines were very rushed, giving the panel inadequate

time to give useful input.

It was agreed that a panel meeting was needed as soon as possible to talk through in more detail about the business plan and ODIs.

One member said he would have liked the panel to have a role in forming the environmental ODIs, rather than coming in at this late stage. Although it was encouraging that the company had listened to the panel's views about the SDS, he said, that was high level thinking and the performance measures are very specific. This is now the opportunity for panel members and stakeholders to hold the company to account on the finer details.

The panel agreed that they wanted to support the company in their decision making processes around the environmental performance measures and in particular on natural capital. One member suggested the company could be trickling information as it's being developed to give useful feedback in a more timely fashion. Areas of specific interest included catchment management (one member said some companies are proposing ODIs on this) and population increase in the region.

S&R Panel Meeting (25 April 2018)

Craig Bennett reported that members of the Sustainability and Resilience Panel had been surprised by some of the content discussed at the last meeting regarding the [outline plan](#), which was scheduled to be published the next day. The panel felt that the plan included several elements that hadn't been mentioned previously (e.g. the strategic grid).

CB said it was hard for the panel to make an assessment at the moment as to whether there's the right balance in the outline business plan between catchment management approaches and structural investment.

Rob Wise was surprised by the lack of empirical background data available. He referred to a map of the Anglian area on the website, which gives some idea of investment made per area. This kind of information would be useful to help the panel make more informed decisions.

CB: In terms of the panel's response to AW's outline business plan, we don't want to see lots of expensive hard engineering investment that's going to increase customer bills if we can find alternative ways that deliver better environmental outcomes and save bills too. The panel would be quite firm in supporting that.

- 1) The panel needs more detail to be really confident that AW is maximising alternative approaches to hard engineering solutions in current AMP period (e.g. Newmarket shopfront innovative approaches)
- 2) We want to see empirical evidence that these alternative and innovative approaches will deliver
- 3) We would like to see the plan for re-engaging communities on catchment management approaches to make sure they are on board and involved (including questions around metaldehyde)
- 4) We would like to see what consumers/bill payers think – do we

have rich analysis on this?

- 5) We would like more information on company thinking behind performance commitments/ODIs.

S&R Panel Meeting (1 May 2018)

Focus on ODIs

Phil Rothwell said he was impressed by the inclusion of the natural capital performance commitment and he hoped other companies would do the same.

Dan Bean (EA) also welcomed the natural capital ODI. He stressed the importance of the company setting out how they'll engage with stakeholders to develop these ODIs. From his perspective, a milestone would be effective engagement with partners.

Nathan Richardson (RSPB/Blueprint for Water) sent in a comment by email that also praised the inclusion natural capital as a performance commitment. He said this is an area where AW, together with a small number of other water companies, will be leading the way in AMP7. He was keen to understand more about how the ODI will be framed and said it would be good to see wider catchment work reflected in the ODI suite and perhaps it could be integrated into this performance commitment.

Common Performance Commitments

CB asked for comments from panel members on AW's Common Performance Commitments:

- The view of panel is it's important to continue driving down leakage, he said. Panel members would hope to see opportunities for step changes in new technology (e.g. through shop window approaches seen at Newmarket).

On pollution incidents: CB referenced Nathan's email comment on the lack of an ODI on river water quality. Overall Nathan wrote that the ODIs represented a good spread of AW's activities. However, he expected to see a performance commitment on river water quality (such as km improved?) rather than just one ODI on bathing water quality, given how strongly water quality and pollution featured in the general customer feedback.

CB added that he was surprised that river water quality was not a common performance commitment set by Ofwat.

- **Joff Edevane (Anglian Water)** responded this would be included in the WINEP ODI measure, which focuses on delivery of obligations.
- **John Giles (EA)** said it wouldn't be enough to achieve WINEP requirements, as this is a statutory requirement so this aspect of business as usual performance shouldn't be rewarded. John said he believed there shouldn't be a reward for pollution incidents – this should be penalty only.

John's views were backed up by Nathan's email, which reiterated that many of the environmental NGOs are uncomfortable with companies claiming financial

rewards for numbers of pollution incidents. They would like to see AW either set up their ODI so as not to receive rewards for pollution or commit to returning any rewards received into environmental enhancement.

- **Alex Plant (Anglian Water)** agreed that this is something that needs to be part of continued conversation with Ofwat.

Bespoke Performance Commitments

Members looked at ODIs that are most pertinent to the panel.

External sewer flooding: no specific comments

Bathing water quality:

- **John Giles (EA)** suggested that bathing water quality isn't necessarily a reflection of a company's work, as it could be due to favourable weather patterns etc. He would welcome further discussions on measures that improve water quality.
- **Lou Gilfoyle (Anglian Water)** suggested adding "catchment management" into this ODI and to reflect level of ambition in improvement rather than simply maintaining the status quo.
- **Dan Bean (EA)** suggested this was an opportunity to empower AW staff to go the extra mile and wanted to look at wording in the narrative that reflected working in partnership/collaboration and a level of ambition.

WINEP Measure:

- **CB** suggested that this measure should include something about water quality. He suggested it would be good to cluster similar measures together so that they made more sense to customers.
- **Alex Plant (Anglian Water)** confirmed that measures would be clustered under the term "flourishing environment" to help customers understand the interlinkages. More thought would be given to the narrative to help show the links.
- **Dan Bean (EA)** added that it would be good to include a little box after each ODI to show if they're relevant to other measures.

Abstraction Incentive Mechanisms:

- **John Giles** said that companies have to talk to the Environment Agency about this measure and conversations have started. His comment was that this AW definition is very focused on surface water and lakes rather than ground water. He suggested it would be worth having a conversation with Nick Walters (AWS)

to make sure that everything is included from an EA perspective as he has been fully engaged in the process.

Natural Capital:

- **CB** welcomed this performance measure although he acknowledged there was a lot of work to be done to flesh out the details. He suggested there were three aspects of natural capital to be addressed:
 - o Rarity of species: need to say something about protecting rare habitats
 - o Abundance: want to see abundant natural capital rather than just protecting it
 - o Function: what we mean by flourishing environment is that everything needs to be flourishing and doing the job it needs to be doing naturally
- **Alex Plant (AW)** said it would be good to work together to get the metrics right for this ODI
- **Anne Ramsay (Natural England)** wondered how you can define the increase in natural capital over the AMP?
- **Joff Edevane (AW)** said this was a challenge and there would a number of different measures to capture this.
- **Chris Gerrard (AW)** said that current AW view is based on natural capital work already done and a range of measures available. For example, if you're improving effluent quality, this could be a metric for a more fully functioning river quality with a flourishing environment.
- **Dan Bean (EA)** pointed out that AW are experts in ecosystems and this ODI should be framed in that way. He recommended using WISER as the bible for developing this measure. He wanted to see more ambition in terms of enhancing and improving natural capital
- **Alex Plant (AW)** acknowledged that the definition could be tweaked to demonstrate a more pro-active approach to show the negative/positive impact on the environment over time
- **Phil Rothwell** said that partnership work is vital to improving natural capital so recommended linking with other sections of environmental management sector.

Social Capital

CB asked how this would fit alongside the ODI on natural capital?

Chris Gerrard (AW) responded that he would be refining wording over the next few days to incorporate working with environmental NGOs to maximise social benefit.

WINEP

Dan Bean (EA) said it could be helpful to AW if stakeholders around this table (including EA, Natural England) get opportunity to help look for softer catchment management solutions.

CB said there's a clear view from panel members that AW shouldn't get a reward for what's a statutory requirement. Some performance indicators should be penalty only. The panel thinks there should be rewards when you go over and above what's legally required. Where you take measures that facilitate long-term measures to tackle root causes of problems, that's an approach the panel would support.

Anne Ramsay (NE) would like reassurance from the company on wider biodiversity work, building on the biodiversity action plan.

Alex Plant (AW) replied that this should be an enhancement over baseline performance. At the moment, these enhancements aren't captured within existing ODIs. Within the new performance commitments, there will be more measures in place to monitor this improvement in performance.

Chris Gerrard (AW): The natural capital metric will include biodiversity value of every one of sites (SSSI rating). There are plans to revise biodiversity strategy in next AMP.

Alex Plant said some of the changes in wording are quite important. He will share final submission with panel so can see what's been put into this.

S&R Panel meeting (5 July 2018)

Discussion on Business Plan

Anne Ramsay asked whether upward trajectory in bill profile would continue? Alex said this small incremental increase would likely continue.

Nathan Richardson questioned AW about choice of 2.5% bill profile – drawing evidence from synthesis report.

Alex Plant cited findings from Be the Boss: 41% said 2.5% increase in bills was acceptable and 42% said 5% increase was acceptable - therefore 83% were happy with bill increase.

Craig Bennett said that a headline overall was that this panel could be confident that customers do support investment in the environment, even if it means a slight increase in bills.

CB said WINEP was a real challenge for this panel. AW wouldn't expect panel members to be happy about the company asking for a delay on delivery of WINEP. He asked for reassurance from the panel that this approach would be better for the environment and that AW was maxing out on catchment management solutions.

AP said AW was not going to ease back on WINEP obligations. However, fulfilling some commitments would force AW to reach for engineering solutions to deliver on time within AMP7. The company has picked out 38 [now 34] potential catchment management schemes – they are currently doing feasibility studies with partner agencies and sounding out land owners.

John Giles urged caution in making WINEP a reward-based ODI because delivering against these commitments is mandatory.

Panel members acknowledged that what AW is proposing in terms of catchment management is pioneering work and is a brilliant commitment for the future. However, they felt they needed more reassurance in the quantifying how AW was going to roll out catchment management solutions.

AP reiterated that AW was committed to natural capital approaches and had set aside funds accordingly. Regulators will be monitoring AW's performance on WINEP but pointed out that the company may need to reach for engineering solutions with bigger capital commitments if they were obliged to deliver all WINEP obligations within AMP7. (The decision on timings from EA was still pending).

AW's aim would be to deliver as many solutions as possible via catchment management projects, but this hasn't been done before so is uncharted territory. He pointed to pioneering work being carried out with the University of East Anglia on natural capital and partnership work with NGOs and other key stakeholders through Water Resources East.

Joff Edevane (AW) acknowledged that natural capital solutions may not be able to achieve everything that harder engineering approaches could do, for example, in terms of phosphate removal. But projects like Northrepps are also proving successful in unexpected areas (e.g. nitrate removal). AW is potentially looking at hybrid solutions; some of this is two or three AMP process.

Nathan Richardson welcomed the direction of travel but questioned whether end-of-pipe wetland projects could truly be counted as catchment solutions. He questioned whether the programme should also be looking more broadly at behaviour change to reduce levels for phosphates, for example.

CB wanted to encourage AW to be more confident in setting the agenda on sustainability. For example, making sure new housing developments are as water efficient as possible and hiring lobbyists to make arguments over issues such as potential ban on metaldehyde.

AP said AW had lobbied hard on metaldehyde and used all available routes to try and win arguments. He also discussed AW's plans to move the Milton sewage works and said that new housing there would need to be an exemplar in water efficiency. He also acknowledged that rolling out smart meters would only be effective if it was accompanied by customer behaviour change to help reduce water usage.

Barry Bendall expressed concern that the thinking on the natural capital ODI was still too vague. He would like to see something more specific about catchment management solutions included in this ODI.

Dan Bean suggested that some of profits from any reward/penalty system could be reinvested into catchment management.

Nathan Richardson said that most water companies are doing something on natural capital in AMP7. Some are looking at dipping toes into catchment management solutions but AW is further ahead.

Members felt that there was a contradiction between the ODI on natural capital and WINEP, with its focus on delivering ahead of schedule.

AP said there was still some room to make these ODIs more ambitious, subject to board approval of the direction of travel. AW could look at a counter weight in the

NC ODI to encourage the use of NC approaches.

Panel only 5 July: Summary of Discussion

Customer engagement

First section of report should note issues around customer engagement.

AW has carried out a strong and extensive customer engagement process and one of the main conclusions is there is strong support from customers to pay for improvements that will guarantee long-term resilience.

John Giles mentioned that more recent language from Ofwat recognised that some water company bills may have to increase to deal with challenges faced.

Craig said the point this panel can make is we're confident AW has done thorough customer engagement process and conclusion is very strongly that measures should be taken to improve sustainability and resilience of water supply (with strong figures to back this up).

Moving towards a softer catchment management approach is good for bills and for the environment, as well as for social capital (community engagement). Too often it's been framed as a trade off.

Natural capital and catchment management solutions

The panel welcomed the SDS and sees it as important context for the business plan, specially in terms of recognizing natural capital approaches.

But this is the AMP where we need to see the catchment management solutions scaled up. This is fundamental. We welcome the scaling up to 38 catchment management schemes. But could it be more ambitious? Is it genuinely mainstream? Some members felt that catchment management approach was still a bit patchy. WRMP didn't talk about catchment management, for example, which is clearly a big gap.

There was also concern that the catchment management approach was buried in the natural capital ODI and that the business plan wasn't being driven by the exemplars panel members had seen at Northrepps, for example.

Flood risk

Julia Beeden mentioned that AW were going above and beyond what other companies are doing on flood risk. On that side, they are an exemplar. AW has taken on new member of staff to work on partnership. Partnership is integral to their flood work. They should draw on good work that's been done through Love Every Drop so this AMP raises it to a new level.

Level of ambition

The panel recognised a step change in the company's ambitions on S&R issues but felt it was still a long way before catchment management approaches were mainstreamed into business as usual.

Members felt that AW could be more ambitious in standing up and talking about natural capital and catchment management approaches. Also explaining to customers about their own catchments and focusing on behaviour change (for

example: around smart meters; how will that actually work? Are they smart enough?

Other issues to flag included:

- Plastics and drinking water
- Suggestion of rising block tariffs (where customers would be charged more if they use over a certain amount of water)

ODIs

There was strong disagreement from the panel on the company being rewarded for pollution incidents. They felt this was morally wrong.

Panel members also felt that the WINEP ODI undermined the company's natural capital ambitions and would like to see more detail on this.

Conference call on 23 July 2018

Q&A: Clarifications regarding Natural Capital

Jeff Halliwell (CEF Chair) asked Chris Gerrard (AW) to clarify how thinking around Natural Capital East and a granular level of natural capital in ODI spend would fit into the business plan.

Arun Pontin (AW) noted Natural Capital performance commitment is a developing area and is more an Innovative framework and will be put in line and will develop over time rather than being a specific performance commitment as is the case for other ODIs.

In terms of the business plan, Ofwat has accepted AW's definition for the natural capital ODI. The measure itself will form reporting progress on our strategy plus reporting against specific metrics. AP confirmed there are no proposals to have financial implications for sub measures of natural capital ODI with the exception of WINEP.

Within the ODI, there will be incentives on delivery of WINEP but AW confirmed that the incentives will be ring-fenced to obligations that are not considered likely for natural capital solutions to ensure that there are no perverse incentives.

Ann Ramsay (NE) raised a question on the biodiversity definition of SSSIs. CG confirmed the current AMP6 ODI has at least 50% of sites in a favourable condition. Natural England resource constraints have impacted on NE's ability to undertake condition assessments. A 50% target was originally set up in 2020 and there will be a similar target now but will need to be refreshed. The 2030 target will continue to be reported, impact tracked and reported at the end of the AMP.

Paul Metcalfe (CEF member) asked for clarification of this as a performance commitment and this being a reporting framework rather than delivering against objective. AP agreed in principle but within this AW have measures in AMP6 and AMP7 which have their

own performance commitments, for example – carbon measures.

Nathan Richardson questioned whether this measure is simply a retrospective reporting commitment. LG (AW) provided reassurance that the emphasis was to promote natural capital into decision making in the AW investment decision making process.

Wider commentary:

John Giles expressed concern that previously the two proposed ODIs for Natural Capital and WINEP seemed to contradict each other so was delighted to see movement on these and pleased AW have looked at natural capital solutions, acknowledging that it is critical that natural capital forms parts of future decision making processes and noted the positive steps have been taken in the last few weeks.

In terms of Bathing Water ODI – John noted the role of third parties and how this linked to the deadband for the measure noting how this could be a benefit to the company.

With respect to the company proposal on pollution incident, John understood the company position and that the performance commitment looked stretching but this needed to be backed up by self reporting.

Ann Ramsay (NE) noted that AW have made considerable progress over last month and noted the need to work together with Natural England and continue the current dialogue.

Dan Bean (EA) noted it was encouraging to see AW recognising their wider role and setting themselves up as a major player.

Daniel Storey (CEF member) requested clarification regarding the WINEP ODI stated that there are a number of obligations delivered – 2,200. How many remaining obligations are there around this quantified reward ODI?

Bernard Crump asked if the group would be receiving a note to understand the implications for the Business Plan as a whole from agreement to phase back some of the WINEP schemes? DR confirmed that it was part of proposal to run through the plan with the CEF at the session on 31 July.

It was also suggested proposed that AW capture this point in terms of the overall shape of plan for bills and investments. BC asked whether there are counter proposals that will have an impact on resilience part of the plan? DR confirmed this still be captured in narrative.

CB stated that on behalf of S&R panel, it would be more positive to phrase as taking longer to implement WINEP rather than delaying implementation.

Summary

Craig summarised by noting a lot of welcome progress has been made noting that in specific areas still some important question marks remain which will keep evolving.

CB and JH discussed the best way to pull this all together in timelines as it has to dovetail with CEF. Further definition work is sensible but not to be over defined. As long as this work programme does continue in a purposeful way then it was agreed this is a sensible approach.

Main challenges and comments relating to Sustainability and Resilience issues from CEF minutes (2016-2018 – see full challenge log in Annex **XX of CEF report)**

Full minutes are available on the Anglian Water website [here](#).

CEF Meeting: 28 September 2016

ODIs

Gareth Dalglish (Natural England) questioned whether further performance information can be found online. AW commented that currently environmental performance is not public until the end of the year, unless an incident results in prosecution. The company would give thought to providing more detailed performance information online.

Bernard Crump noted that it was important that customers could find more detailed information on performance as there were impacts on bills linked to ODIs.

Action: Alex Plant noted on 31 March 2017 that the company was developing a more user-friendly site with information on company performance. There was some discussion around the Water UK site. Bernard noted that even if hits on the site were not high, it was useful that the site existed, but CCW are still concerned about how to get meaningful comparisons.

CEF Meeting: 17 May 2017

WRMP

Bernard Crump asked if this was a single or multi-AMP scheme, and had Special Purpose Vehicles been considered, in the light of recent experience with Thames and the lack of capacity in the supply chain.

Anglian Water response: Peter confirmed AW Tier 1 partners are signed up and we are investing in a home-grown supply chain, for example with the work in Wisbech.

There was a discussion over the timetable for both WRMP and PR19, and a request to see both timelines.

CEF meeting: 8 December 2017

Bernard Crump expressed concern about the timetable and when the investment decisions and necessary trade-offs would be available for scrutiny. He felt that customers and the CEF would not have enough time to drill down into the level of detail needed and to see how this process had influenced the company's thinking (e.g. for leakage).

John Giles asked how the WRMP that went to Defra on 1 December fits into the overall plan.

Daniel Storey asked if the company would be in the position to show impact of trade-offs on customer bills by January.

Anglian Water response: Alex Plant reaffirmed that this was an iterative process (engagement with customers and CEF would be ongoing during the consultation period) and not all data would be available for all ODIs by January. But the company would bring a proposal to the January CEF meeting to give a sense of key trade-offs and enhancement elements of the plan. He reiterated there would need to be some tough choices made to make sure the overall business plan was affordable.

CEF Meeting: 6 March 2018

John Giles would have expected more detailed discussion on environmental ODIs with Natural England and the Environment Agency.

Nathan Richardson asked about environmental measure in river water, which came out quite high on WTP data. He also asked for dots to be joined up between panels (including S&R Panel).

ODI call: 16 April 2018

Bernard Crump acknowledged that WINEP's impact on AW was stark. In a price review process that's supposed to be about resilience, affordability and vulnerability, by far the biggest investment is the environmental aspect of the plan. He asked whether this is a closed issue.

He was also disappointed to see that all bill profile scenarios had moved to flat or upward. He'd be surprised if Ofwat was expecting this outcome. He also pointed out that this is based on 2017/8 price base – so bills would be significantly higher.

Anglian Water response: Darren Rice explained that the Secretary of State would like to see investments in AMP7 and the investment would be unlikely to be deferred in AMP8. He recognised the disappointment in the bill profiles and assured attendees that the company would be looking at challenging assumptions and making sure bill was as low as possible.

Jeff Halliwell asked whether any consumer engagement had been carried out around frontloading of investment under WINEP?

Anglian Water response: Darren Rice said that the outline business plan does ask questions around phasing of WRMP but not around phasing of WINEP. AW did point out that final scale of WINEP programme could have an impact on bill profile.

Jeff said that, from CEF's point of view, we could make the point that, in terms of customer engagement, this seems to be an arbitrary decision.

Dan Bean said the Environment Agency couldn't support any ODI on pollution incidents that gives both reward and penalty. Looking at the ODI on delivering WINEP, this wouldn't be something EA could support.

Anglian Water response: Darren Rice said that the ODI on pollution incidents is a common measure prescribed by Ofwat. The company would be asking customers for their views on reward and penalty for these measures.

Bernard Crump asked whether AW was proposing any major enhancement schemes other than those proposed around WINEP?

Anglian Water response: Arun Pontin responded that any major schemes may be carried out through direct procurement

CEF Meeting: 5 June 2018

Craig Bennett had a question about the swing from hard engineering to softer catchment management solutions. To what extent is AW maxing out on catchment management approaches in AMP7? And what's the impact on bills?

Anglian Water response: Alex Plant said AW would be exploring catchment management solutions. He said it's the right thing to do to maximise those opportunities but AW may also have to revert to some more traditional approaches. They are still working on numbers.

Peter Simpson agreed it's the right thing to do, but tends to have a longer lead time (but it's better from environmental point of view and cheaper for customers).

Alex Plant said AW wants to move from softer to harder engineering solutions but still keep bills as low as possible.

John Giles asked about the different investment scenarios and how those were set?

Anglian Water response: Alex Plant said AW consulted on both a principle and adaptive plan on WRMP. They wanted to demonstrate they had thought hard about cost consequences of some of those environmental obligations.

On WINEP, AW thought it was important to set out for customers a range of options (even though they were statutory obligations). Customers came back with strong views on prioritising environmental investment.

Nathan Richardson asked about collaboration with neighbouring water companies. He said it's difficult to get a feel for whether the companies have found the right solutions.

Anglian Water response: Peter Simpson said AW had some innovative trades set up with Affinity and a significant import from Severn Water that was part of the company's WRMP. Some of those things that were offered by other companies didn't come to pass. AW is now going through another iteration of WRMP to address these challenges. Alex Plant said the company hoped WRE would deliver this kind of collaboration but he suggested in future this may need to be devolved to a regional plan, rather than being voluntary.

John Giles said this situation isn't unique to AW. There's been a big discrepancy in water trades – we didn't see collaboration in a lot of WRMPs and we're pushing this in our representations very strongly (EA).

Craig Bennett asked what would happen if Ofwat insists on AW delivering falling bills?

Gill Holmes said that Ofwat were expecting bills to go down and she was concerned on this issue.

Anglian Water response: Peter Simpson said AW had had fantastic customer support for what they want to do. It's the right thing to do and we should stick with this plan. There may be an aspiration for falling bills across the country, but with our context it's different (level of housing development, dry climate etc). The plan is driven by real need and demand for housing and to adapt to climate change.

CEF Meeting: 31 July 2018

WATER TRANSFERS

Jeff Halliwell asked about water trading/transfers. How might plan develop over next five years? It's presented as a snapshot rather than evolving

Anglian Water response: Alex Plant said that WRMP had changed the thinking on water transfers. This will be an evolving picture

Daniel Storey asked if AW could look at being more dynamic over AMP rather than saving up discussions on this for last six months of Price Review?

Anglian Water response: Peter Simpson said AW still had a reverse trade with Affinity

- WRE – trades with other sectors within 25 years

- There are opportunities to make this a better process
- Direction of travel is to have common model across regions and neighbouring regions
- Peter agreed that they would emphasise the level of ambition in the Business Plan

CEF Meeting: 13 August 2018

Nathan Richardson: some of the earlier feedback suggested there was a chunk of customers who accepted 5% bill increase scenario. There's quite a gap there – some customers accepting more investment. Why have you ended up at a 1% increase?

Anglian Water response: we have been able to cover all areas of investment under WINEP and WRMP at a lower bill increase than 2.5% (have held back on RCV run off rates). Evidence from customers was that they wanted to see natural rate. Have chosen a balance of investment that minimises bill increases, gives 30% increase on Totex of last year on resilience and is still affordable. Strong support for doing customer engagement now rather than later.

The challenge is deliverability of a programme of this scale. In the context of a region that's facing considerable pressures, putting more in would have stretched deliverability of programme. This feels like the right trade off.

Bernard Crump: this will be one of the highest bill profiles, which will make it an outlier; he accepted exceptional circumstances and customer support.

Natural Capital ODI

Dan Bean said AW has gone well beyond industry standard on the Natural Capital ODI. It's encouraging to see the level of ambition – it's right that it's reputational. It's more about involvement. That was v welcome. I'd like to have seen an intention to involve the CEF and S&R Panel in developing this – it's a very ambitious and difficult ODI but very exciting. You're industry leaders and there are a lot of people willing to support this.

Anglian Water response: Alex Plant had taken feedback from John Torlesse, Natural England – AW have reworded ODI around utilising knowledge and expertise of CEF and S&R Panel. This will only work if we work together. Tied into regional natural capital ODI of UEA. Also through Natural Capital East – thinking about natural capital in region. Peter Simpson said the CEF were right that ODI didn't previously capture level of ambition – and now it does