



Providing challenge to the development of Northumbrian Water's Business Plan for 2025-30

A report to the Board Sub-Group following a review of the Company's August Draft Business Plan by Northumbrian Water's Independent Challenge Group

FINAL REPORT SEPTEMBER 2023

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Annex B: Customer Engagement Panel’s Report

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1 Executive Summary

The Water Forum's involvement in the PR24 process over the last 15 months has focused on providing challenge to the Company so that it can work towards providing the best possible Plan for customers.

It is evident to Water Forum members that the Company has demonstrated significant progress between each iteration of the draft Business Plan that we reviewed – in June, July and at the end of August. Timescales were tight, but we welcomed the opportunity to provide comment and challenge on all three iterations for consideration by the Board Sub-Group (BSG).

This report summarises the Water Forum's activity to date. It reflects the conversations that have taken place between our Members and the Company, thereby providing the BSG with our latest view. We remain open to any discussions the BSG may wish to have about its contents, so that in October Northumbrian Water (NW) can submit to Ofwat the best possible Plan for customers.

In the end, it is for the Company to determine how its final Business Plan best meets the needs of customers. Our role has been to examine the emerging policy and project proposals, challenge thinking and give a view where we can, and within the constraints of time and materials available to us. This report summarises the work that we have done in this regard.

For the avoidance of doubt, the Water Forum does not intend to produce a further iteration of this report in response to the final Business Plan submission to Ofwat.

We commend the Company for the open and transparent way in which it has approached challenge and scrutiny thus far and express our thanks to all involved, including Peter Vicary-Smith, whose attendance at many of our meetings has been very helpful. It is neither a comfortable nor an easy process and the Company has taken time and invested resource in this area in an endeavour to create a better Business Plan.

We trust that our work has helped. We look forward to reading the final Plan once it has been submitted to Ofwat in October, to having the chance to get feedback from the Company on outstanding issues in this report, and to having the opportunity to reflect on the positive impact our work has had.

2 Introduction

This document is written for the PR24 Board Sub-Group (BSG) to consider as it works to finalise its Business Plan submission.

“A really important role of challenge” is how Heidi Mottram described the Water Forum's contribution to the development of the PR24 Business Plan. We must underscore that our input into the Northumbrian Water (NW) Business Plan, throughout the last 15 months, has

been one of challenge by a ‘critical friend’ and not one of assurance – the exception to this being the assurance activity undertaken by the Customer Engagement Panel, described later in this report.

There are two supplementary reports in Annexes A and B, both of which have been updated to reflect the latest (August) draft of the Business Plan. If, inadvertently, there are inconsistencies in the comments made by different experts, the Company should guard against choosing which view it listens to, as this may unintentionally affect the extent to which the Plan listens to and meets customers’ needs.

In essence our report is a summary of our work on the Business Plan over the last few months. It also captures a synopsis of the journey the Water Forum has been on since PR19, by way of both record and context for our work in PR24.

2.1 Water Forum changes since PR19

The Water Forum, Northumbrian Water’s Independent Challenge Group (ICG), has evolved since the PR19 process to meet the changed (and much less prescriptive) regulatory requirements for challenge during PR24.

Starting in 2021 we wanted to address issues that Ofwat had with the industry regarding ICG input to PR19. We reviewed how we worked and reflected on how we might operate in future. Alongside this, the Company conducted an independent review of its Customer and Stakeholder engagement. Using these two inputs and taking into account a new direction of travel signalled by Ofwat, the Company proposed revised Terms of Reference for the Water Forum. We reflected on these, made changes and further strengthened them in the light of the report published by the Consumer Council for Water (CCW) in February 2023, ‘Influencing Without Power: A review of independent challenge groups in the water sector’. Our Terms of Reference are included as Annex C.

In summary, the two key strands of our activity in respect of PR24 are:

- Commenting and challenging on Business Plan development (and ongoing delivery); and
- Providing challenge and an assurance report about Customer Engagement.

There has been strong continuity from PR19 through to PR24 both in terms of the blend of expertise within the core Water Forum’s membership and the actual members themselves.

Our Chair was Vice-Chair in PR19 and we continue to have representation from bodies such as CCW and the Environment Agency (EA) as well as independent members¹. In addition, to meet these changed needs, we worked collaboratively with NW to enhance the work, independence, and output of the Water Forum. We:

- Established a Customer Engagement Panel (CEP) as a sub-group of the Forum – the CEP is chaired by Nikki Stopford from Consumer Voice, who was appointed in September 2022. She is joined by Barbara Leech from CCW and Karen Cooper from

¹ CCW, EA, NFU, New Anglia LEP, Natural England, CBI, and 4 independent members

Living Brands. Their focus has been on the Company's customer research and engagement programme for the Business Plan, providing comment and challenge on the quality of the activity and how it is interpreted and applied

- Appointed an Independent Technical Advisor (ITA) to act on our behalf in scrutinising the emerging Business Plan and advising Water Forum members on the degree of stretch it contains in terms of outcomes, Performance Commitment Levels (PCLs), Outcome Delivery Incentives (ODIs), Enhancement Cases and efficiency and innovation – Martin Silcock's significant industry experience has provided valuable input, insight and challenge throughout the period from January 2023 to date
- Reinforced an independent Secretariat to support the Water Forum in administrative tasks such as writing meeting minutes, maintaining a Challenge Log and shaping agendas
- We are very aware, through our Chair's involvement in the industry Challenge Co-ordination Group (COG) that with much less clarity from the regulator about the role of ICGs in PR24, there is much greater variability across the industry in their composition, and in the timing, focus and depth/breadth of activity. For example, we are aware of only one other water company who has appointed a technical expert to examine the Business Plan's stretch and deliverability
- We believe that our approach is delivering significant value to the Company and, ultimately, to its customers. By being involved, through the combined efforts of the Water Forum, CEP and ITA, we have made more difference and added more value to NW's Business Plan thus far than would have been the case had we not been involved. Our comments should be reviewed through a 'value-adding/independent critic' lens. The Company has been very open to this scrutiny – this is not always a comfortable process, but by engaging positively and encouraging tough challenge, we believe that NW hopes to build as good a Business Plan as it can, in very challenging circumstances.

3 Our approach

3.1 The questions we asked

The challenge questions that we agreed to consider for the Company as it developed its Business Plan are detailed in the box below. In the end, it is for the Company to determine whether its Plan meets these challenges. Our role has been to examine the emerging policy and project proposals, challenge thinking and give a view where we can, and within the constraints of time available – all with the aim of helping the Company to create a good Plan.

- WF 1. Does the PR24 plan fit within the Company’s long-term plan?
- WF 2. Does the plan address affordability for all customers, particularly those struggling to pay?
- WF 3. Has the business plan been informed by a robust and systematic assessment of operational resilience?
- WF 4. Are the proposed outcomes, PCLs and ODIs stretching?
- WF 5. Is Northumbrian Water challenging itself that large investment proposals are robust, and deliverable and represent the best option for customers?
- WF 6. Is Northumbrian Water addressing its role in wider societal priorities as set out in its Our purpose report, including the environment and climate change?
- WF 7. Is Northumbrian Water doing enough on innovation and efficiency?
- WF 8. Does the plan listen to and meet the needs of customers by building on high quality and effective research and engagement throughout the PR24 process?

In addition to the work of the wider Water Forum, captured in this report:

- Our ITA undertook a detailed, technical assessment against three of these challenge questions and shared his views with the Water Forum and the Company – his report focuses specifically on questions WF4, WF5 and WF7
- The CEP was tasked with providing an assurance report on customer research and engagement. Question WF8 above describes the overall objective of this assurance activity and the CEP undertook its work by assuring the Company’s customer engagement activity against the following seven criteria (CEP1 to CEP7):

- CEP1. Research has a clearly defined underlying strategic purpose and objectives
- CEP2. Is proportionate, joined up and not treated in isolation
- CEP3. Well designed, timely and unbiased research design using suitable methods and suppliers
- CEP4. Inclusive and reflective of different customer groups’ needs and preferences
- CEP5. Deepens the relationship with customers by being ongoing, two way and transparent
- CEP6. Evidence of a good understanding of customers’ needs, priorities and preferences
- CEP7. Clear links between research and engagement outputs and how they inform the business plan

The thinking and outputs of both workstreams have been shared with the Company and the wider Water Forum and have informed this wider report; however, they should also be read separately to fully understand the richness and robustness of expertise they offer to Northumbrian Water – see Annexes A (ITA) and B (CEP) attached.

For each of the Water Forum’s eight questions we include our commentary in Section 5 of this report, and have drawn into the narrative some of the conclusions of the ITA and CEP reports to illustrate key points.

3.2 Overall approach

After appointing the specific expertise described above, the Water Forum's work on PR24 was delivered through:

- Our main Forum meetings, mainly but not exclusively over the last 12 months
- A series of deep dives covering a wide range of areas, namely:
 - Affordability – 3 sessions
 - Resilience
 - Environment
 - Water resources
 - Net zero
 - Costs and outcomes
- The CEP, whose work was carried out in strategic meetings, de-briefs, weekly sessions on Affordability and Acceptability (A&A) testing and, along with other Water Forum members, observing all A&A engagement events, 'Your Water Your Say' activity and other engagement activities
- Our ITA's review of extensive documentation relating to Performance Commitments, Enhancement Cases, efficiency, and his subsequent meetings with NW's Business Planning team and Executives.

In this report we draw out some illustrative (not exhaustive) examples of where the Business Plan has been influenced because of the Water Forum's challenge and input. It is worth always noting that we all encouraged the company to use all customer and stakeholder intelligence available to it and to supplement this by testing propositions and proposals with customers – in particular those that would have a material impact on customer bills, those that customers could genuinely influence, and those where there were choices to be made.

We have captured full details of Water Forum challenges and the Company's responses in our Challenge Log (Annex D to this report).

3.3 The limits of our activity

Financial matters

The Water Forum is not normally expected to comment on financial matters including risk and return and issues such as remuneration. However, our ITA's work includes several cost, outcome and financing issues; and it has been impossible to ignore (nor should we have done) what is arguably the largest defining feature of PR24 for the water industry – the dynamic between investment requirements, their cost and how they are to be financed versus affordability for customers.

Related to this, the Water Forum has been very conscious of the wider public debate about how the industry is funded, the role of shareholders, profits, dividends and executive pay – this is because it features so strongly in both the context of this Price Review and in the feedback from customers during A&A testing. We urge openness and transparency across the industry and have noted the Company's approach in this respect.

Time and capacity

The timetable for our involvement and reporting to the BSG was tighter than we were initially advised. However, we have had the opportunity to comment on three iterations of the emerging Plan (in June, July and at the end of August) and the company shared these drafts early enough for us to be able to influence each subsequent one.

There are of course some limitations to the work that a part-time body such as the Water Forum can undertake during a fast-moving process. The sheer challenge of delivering the relevant materials for the Water Forum and its advisors during a live and iterative exercise such as the Business Plan development presented a challenge in itself. The Executive worked very hard to achieve this, and on the whole did well. Our advisors and colleagues were involved in plan and topic development sessions, which was extremely helpful.

4 Overarching observations on context of the PR24 Business Plan

When we began to consider the challenges facing the Company, the industry and its customers in preparing a Business Plan for PR24, we had a significant discussion on its context. The Water Forum described it as the ‘How did it come to this?’ question. The Company was very open with us.

We noted that the sheer scale of investment required – driven by enormous pressure to improve environmental performance (and consequent recent changes in regulation and legislation), allied to the realities of climate change, tightening of water resources especially in the Essex and Suffolk (ESW) operating area, and fuelled by a very live and loud narrative on the financing and structure of the industry. This makes the creation of a Business Plan that delivers necessary investment, is sensitive to customer needs and expectations and is affordable in a cost-of-living crisis, perhaps the most challenging since privatisation.

Strategically, our work covered the detailed questions described earlier Section 3.1, but this broader context formed a significant part of the lens through which we reviewed the emerging Business Plan proposals, so the key high-level, overarching observations we made are set out below.

Water industry national challenges

We challenged the company to take forward a leading role in a debate with Water UK, Government and regulators on, among other things, how best to structure, fund and deliver the significant increase in investment required now and in the future. We hope this debate will be continued and that it will evolve in future, because while customers understand that investment needs to happen, they have views (some very vocal) about who should pay for improvements they expect to have already happened and about shareholders ‘doing their bit’. We say more about the importance of shareholder contributions later in this report, as does our ITA in his report (pages 27-28).

In response to this challenge, we saw evidence that NW has consistently provided formal responses to Government and regulators throughout the business planning process (including consultations on PR24 and storm overflows; and CCW's triangulation workshops). We also saw evidence that the Company actively challenged the EA, Defra, and others on some of the statutory requirements and led coordination across companies via Water UK. These have of course been in response to short-term and rapid changes to statutory requirements; but they lead us to be reassured that NW intends to continue the dialogue (once the final Business Plan has been submitted) on longer-term matters that could create issues in future, such as:

- Future abstraction reductions
- The right balance for asset health
- How best to tackle responsibilities for shared issues such as flooding, river water quality and the need for future water supplies
- The right balance between nature-based solutions and traditional engineering solutions to address some of the environmental challenges.

We understand that the external narrative is often very negative and we recognise that it does not always reflect past achievements in securing investment, environmental improvements and so on while restraining bill increases. But we think that an open and transparent national conversation about how the huge investment challenges can be reasonably and fairly met both from a customer and investor perspective is long overdue.

We note that on 5 July, the EA wrote to companies regarding the potential phasing of some activities (Water Industry National Environment Programme (WINEP) and Water Resources Management Plan (WRMP)) to consider the 'deliverability, finance-ability and customer affordability' of PR24. This came relatively late in the day for PR24; however, we were able to discuss the potential opportunities and risks that this presented to the Company producing a better Business Plan and concluded the following:

"The Water Forum recognises the challenge that the Company, industry, regulators, and customers face in respect of the structure, funding and delivery the significant investment required, going forward. We indicated, in the short time available, that in the context of the EA's ask, NW's proposals look reasonable, including the retention of non-statutory WINEP. However, we asked for further information on risk to customers and the environment on emergency overflows and water quality monitoring proposals; and would have liked the Company to have had the opportunity to do some specific testing of customer opinion, which the tight timetable has not allowed."

Affordability: What more can the Company do to help customers financially and non-financially?

Following our initial affordability-focused discussions, we challenged on whether costs always need to be passed on to customers. We asked the Company to think about how it could mitigate the impact of cost increases on bills, for example by:

- shareholder contributions and benefits sharing, especially for those most in need
- making greater efficiencies
- using innovation
- working in partnerships where costs might be shared.

In its response, we note NW's evidence of how it believes it has responded to this summarised challenge, including:

- trying to influence both the level and approach to statutory requirements (which was a separate Water Forum challenge)
- the level of efficiency it has included (a challenge by the Water Forum's ITA)
- the approach to and level of affordability support, which includes Shareholder funding for a Hardship Fund
- partnership working to save customers money
- benefits sharing which the Company has proposed in related to the impact of reductions in interest rates.

The role of culture, trust and reputation

Throughout our work and most recently when considering the Annual Performance Report, we have commented on **culture, trust and reputation** and how vital it will be for the sector to drive the right behaviours, decisions and outcomes for customers and ultimately re-build the trust that is needed for the achievement of good outcomes. We therefore made suggestions about some of the key levers the Company might focus on.

Customer engagement

Allied to the issue of trust building we also challenged the Company, to 'test, test and test again' its proposals with customers – even though PR24 has been subject to much regulatory and statutory prescription.

We have seen evidence of this testing, and of NW's Research and Engagement Team working hard to seek to provide relevant data and intelligence from customers and stakeholders. For example, they undertook further testing on some of the significant Business Plan proposals where there was scope for choice (e.g. phasing of project delivery), and garnered some rich information which has shaped the Plan – as described in the CEP's report (page 4 Annex B):

"We challenged the structure of the pre-acceptability workshops the team ran to test the prescribed affordability and acceptability testing methodology. We felt the structure limited the insight that could be drawn on customers' views of each investment option. The business responded positively by commissioning deliberative groups to gain a deeper understanding of customer views on each investment option. These were done quickly and efficiently and surfaced significant insight to help inform further options for business planning consideration."

One of the key challenges we made following our reviews of both the June and July drafts of the Business Plan was the need to strengthen the 'line of sight' between the Plan and customer research and engagement insights. As noted in the CEP's report, NW responded by developing customer insight summaries that are presented in the PR24 Line of Sight document, and more clearly presenting referenced key customer insights throughout the Business Plan narrative. We note that there is further work underway in this regard, as the Company finalises its Plan.

The CEP Report contains further, broader details about customer engagement and the challenges that they provided in their assurance activity.

Deliverability

With the unprecedented scale of work required to deliver the transformation programme in the PR24 Business Plan, as proposals are finalised we urge the BSG to interrogate the robustness of the Company's assurance mechanisms; and to then assure itself of the deliverability of the Business Plan for customers. In due course, we then look forward to discussing how best the Water Forum can contribute independently to an ongoing, post-PR24 assurance process (and extent of and limits to this).

Our ITA considers a number of issues relating to the deliverability of the Plan in his report, including the deliverability of the enhancement cases he reviewed (page 19), the efficiencies required by the Plan (page 15) alongside the package of PCs it articulates (page 10).

The whole Water Forum considered deliverability on several occasions, in particular the matter of the huge regulatory investment programme required. We note and welcome the early work the Company has been undertaking with Jacobs and were encouraged by description of the Company's approach to business transformation to meet the challenges ahead. We urged them to get the governance right and to have a shared commercial agreement that elevates the relationships beyond those in current and previous Asset Management Periods (AMPs). We were advised that this approach is starting to work well. The concerns we touched on were:

- Loss of internal expertise and recruitment challenges as people move on.
- The fact that the construction industry (expressed most recently in a consultation session about the Long-Term Delivery Strategy) raised potential significant recruitment challenges. We urge NW to maintain an ongoing dialogue with suppliers and contractors through as many channels as possible to keep ahead of any issues that could significantly impact on the delivery of a huge and challenging programme of activity. This concern was underscored by their pressing the Company to ensure precision of requirements (to prevent wasted effort) and the creative use of innovation.
- Improving how it deals with local issues – the Living Water values could be enhanced further by adding a more explicit customer-centric focus.

Summary

We are broadly encouraged by what we have seen so far of Company's approach and its willingness to take on board and explore our suggestions, questions and most importantly seek to understand, consider and reflect customer views. We have seen evidence in the draft Plan that the Company is responding to the strategic challenges we posed within this Section 4, and many others besides.

It was evident in the July draft that NW listened to the Water Forum's feedback about the importance of better setting out the broader context for the development of the Business Plan. Also that the August draft shows an improved line of sight between customer views and the Business Plan proposals.

5 Water Forum commentary on the questions asked of it

In the sections that follow, we give our updated commentary for each of the eight challenge questions that the Water Forum agreed to reflect upon – these are based on the contents of the August draft and the discussions at our Water Forum meeting on 13th September. Each section is designed to offer a summary of challenges made and points for consideration by the BSG, as it finalises its Business Plan in readiness for the 2nd October submission to Ofwat.

In some areas we have looked further ahead into the implementation of the Plan, as we sought to delve into its robustness – some of our comments therefore naturally relate to the details of delivery approach.

5.1 Does the PR24 plan fit within the Company's long-term plan?

We have a history of encouraging the company to think long term – the Water Forum challenged NW to update its long-term strategy for PR19 and we are pleased to see that emphasis continue; and indeed, to be at the heart of regulatory thinking too.

Most of our challenges on the Business Plan have relevance for the long-term strategy and we note that NW is taking the longer-term context and scenario planning ever more seriously, driven by environmental, affordability, climate change, sustainability and regional growth challenges and opportunities.

Ofwat has defined its requirement for each company to develop a Long-Term Delivery Strategy, referred to by NW as Long-Term Strategy (LTS) (and for ease of future reference we use the term LTS in this main report). NW published the strategy for consultation in June 2023. We understand that it was the first Water & Sewerage Company (WASC) to have published an LTS for consultation, which we see as a significantly positive activity.

We are aware of key plans/strategies that are shaping the Company's plans for the short, medium and longer terms and which are being embedded in the strategy – notably the WRMP, Drainage and Wastewater Management Plan (DWMP), the WINEP and its Vision for Coasts and Rivers. The Water Forum has yet to review the strategy in detail, so we confine our observations to two key aspects:

1. Our ITA examined the issue of consistency between the proposed AMP8 Performance Commitments and the targets set in the strategy. Having raised some important detailed comments following his review of the June draft, he notes in his report (page 13) that the August draft specifically addresses the consistency issue; and that subject to the comments he makes the PCs seem broadly in line with the Company's long-term strategy.

His report sets out his reflections and challenges in further detail. By way of example, he challenged whether Interruptions to Supply should have an associated long-term ambition given its importance to customers. We understand that NW subsequently set a long-term ambition for this measure; and that as a result of the long-term strategy consultation process, it is planning to test additional targets with customers

via People Panels (including targets for bathing waters, lead pipe replacement, biodiversity, external flooding and renewable generation).

He refers extensively to asset health and mains renewal issues (pages 23-25), which following his review of the June draft he recommended should be addressed head-on in the long-term strategy (our report considers mains replacement separately in Section 5.3.1). NW responded positively to this challenge and made changes to the Business Plan in the August draft – including proposals to increase the rate of mains renewal in AMP7 and a business case for enhancement expenditure in AMP8.

It is worth noting here that we have observed NW being forward in engaging Ofwat and the industry in efforts to improve the regulatory approach to asset health; and the industry-leading concept, which the Company has developed, should reflect new approaches once developed. We are positive about the Company's approach to the 'National Leader' concept.

2. Secondly, Water Forum members have been involved in discussions about the WRMP (which looks ahead 60 years from 2025 to 2085) and the DWMP, among other things. Several observations were made during that engagement including a challenge on the Company's confidence in being able to export water to Yorkshire by 2050. As a result, the Company has included this in its long-term strategy as a specific decision point for the future, to reflect this uncertainty.

Strategy implementation

At the start of July 2023, the EA wrote to WASCs about the phasing of WINEP and WRMP, regarding the meeting of both statutory obligations against the backdrop of the affordability challenge. We discussed with the Company the implications of this relatively late intervention for the Plan and LTS and offered some input.

We urge the Company to keep the LTS as live and flexible/adaptable a plan as possible, given the uncertainties ahead. This is equally important for the 2025-30 Business Plan, as elements of it will inevitably change and evolve post-submission due to the continuing discussions that the EA and Defra are having with the industry.

We note that there is an ongoing live discussion about bringing forward several projects and NW recently received approval for £99m to deliver 5 projects: ESW – 4 (Improving water resilience; accelerating pipeline designs; reservoir design work; and reuse design work); and NW – 1 (Storm overflow scheme at 31 locations in Berwick upon Tweed).

Looking beyond the submission and Ofwat's subsequent Determination of the Business Plan, we have proposed that NW maintains an active and ongoing dialogue with customers and stakeholders about, among other things, the LTS.

Customer research and engagement

The Company held several stakeholder engagement events on the LTS which the CEP and Water Forum members observed. There was also a focus on the issue at the Innovation

Festival in mid-July, innovation being critical to meeting the deliverability challenges presented by the long-term strategy.

Discussions about the long term took place with customers during A&A qualitative testing because, among other things, it has a profound impact on the services the Company provides and on customers' bill levels over time. We were encouraged that the Company responded to our challenge to assess customer views on, for example, the pace and phasing of investments even where those investments are statutory (but where there is scope for choice in how and when projects are delivered). It did this by integrating it into the A&A testing, exploring options for issues such as storm overflows (where there is some flexibility) and water demand (where there is less flexibility in government targets, but where NW sought to understand the issues so that it can advocate on behalf of customers).

Customers echoed the Company's concerns about the uncertainty of the future and understood how challenging planning for an uncertain future can be, having had particular experience of this in their own lives over the last few years.

5.2 Does the plan address affordability for all customers, particularly those struggling to pay?

Affordability is of course a critical issue and we held three sessions on the topic during our PR24 work, as well as discussions with the BSG in June.

Central to much national discourse has been an increasingly hard-edged debate on the relationship between Shareholder and customer contribution. The issue is discussed in our ITA's report (pages 27-28) and is referenced in this report in the section on PCs (Section 5.4). Water companies need customers to play their part in helping meet increasingly challenging targets, and customers are asking why they should 'play ball' if they perceive shareholders are not playing their part. As our ITA observes, it is no longer just about managing public discourse; customers expect companies to contribute.

This narrative is directly relevant not just to the deliverability of the plan and the affordability of what the draft Plans showed to be significant bill increases in PR24 and beyond, but a sense that shareholders understand the challenges that many of their customers are facing during a cost-of-living crisis and that they recognise the need to build and maintain the trust of customers.

The scale the future challenge expected of water companies and their customers is huge, and robust support for customers, in particular those who may be struggling to pay or who may find themselves in a position of being in and out financial and other vulnerabilities is vitally important. We therefore challenged the Company to be industry leading in its Shareholder support for customers.

Affordability for all customers

We are pleased to note that NW's Business Plan is to implement different approaches for different customer groups/characteristics.

As well as the draft Business Plan now more clearly setting out its resulting 2025-30 bill profile for customers, we note that NW intends to also include the effect on bills of forecast inflation assumptions (and their source); and is reviewing whether to include a longer-term view of bills to 2050.

Having challenged NW to articulate its interpretation of and interplay between acceptability and affordability, we:

- Cover aspects of this subject in the CEP Report
- Have contributed suggestions to the Company as it completes the CCW/Ofwat survey about the PR24 qualitative acceptability research
- Have challenged the Company to use its analysis and data from its water poverty work to gain further insight into this interplay.

Smart metering (often unpopular with customers) is identified as a way of helping reduce customer bills and consumption but there is a lot of educational and other work to be done to help customers to deliver the behavioural change required to achieve these reductions. The accessibility of Company support to customers will be crucial – including using linguists to help with any language barriers. We are pleased to understand that on-the-ground support will be provided in areas where compulsory smart metering is being proposed.

We welcome the development of tariff flexibilities and discounts and encourage work to continue, among other things, to influence customers to save water, to help with affordability and to help the company reduce cost (and therefore cost to the customer).

Customers struggling to pay

We noted the key elements of NW's affordability support in the draft Plan – doubling the number of households supported by social tariffs (from c.150,000 to c.300,000) between 2025 and 2030; the total support package for customers increasing from c.£40m in 2020-25 to £170m in 2025-30; and shareholders' £20m funding for a Hardship Fund.

Hardship and water poverty: We welcome the level of partnership work being undertaken to support customers, in particular data sharing, including with the Department for Work and Pensions (DWP), and the multi-sector Support for All initiative.

We also welcome the continued focus on water poverty. However, the shift in definition (from 3% to 5% of income) means fewer people will be supported with the funds available. Moreover, we understand that 8% of customers are currently at the 5% threshold; and that quantitative data reveals a much higher percentage of customers who state that they would struggle to pay higher bills in future. We are of the view that those in need will benefit from the Company using this quantitative data alongside water poverty insights to help to shape the approach to managing a hardship fund.

Hardship fund design: In terms of the design of the proposed £20m hardship fund, and the duration and type of support for customers – we encourage NW to involve its customers. Our Members' experience led to them challenging that hardship funds can be problematic, so the key will be to understand the challenges and design the best scheme possible in line with CCW's best practice principles of good hardship funds: [Affordability Review: Outcomes - CCW](#)

Future-proofing the plan: Customer research reveals that 25% of customers say they are currently struggling – we challenged NW to ensure that the detail of the Plan and its implementation therefore:

- Anticipates that the number tipping into water poverty across the 5 years of this Business Plan will grow, and the Plan formed accordingly
- Addresses the low take-up of support, and before customers reach crisis, especially in the ESW region – the dial has not moved in the last five years and will need effort and different tactics
- Considers how to manage people who move in and out of water poverty, potentially multiple times
- Identifies those who are experiencing non-financial vulnerability and further explore ways of helping them.

Social tariffs: We note that current cross-subsidy for social tariffs is one of the lowest in the industry. Given that recent customer research shows there is customer support for up to £14 in the Northeast and £10 in Essex & Suffolk, we seek clarification that customers with the same financial circumstances but living in different geographical areas will receive equitable treatment and support. We understand that that the company is considering this in taking its social tariff plans forward.

Debt charities: In terms of working with debt charities, whilst we recognise the importance of getting independent advice, we have concerns around the capacity these charities have in this time of financial pressures on customers.

Continuous understanding: Affordability is a strong theme in the draft Plan, and we recommend the theme is a candidate for ongoing customer research and engagement to identify changes and nuances that will allow the Company to best serve its customers throughout 2025-30 and beyond. This by understanding the challenges, financial and otherwise, that customers are experiencing and to maximise sharing best practice across the industry (not just to reduce bills, also to provide potentially better solutions for the environment).

Ambition and affordability

At the A&A Qualitative Research debrief session on 16 June, the tension between greater ambition and affordability led to an overall challenge that the Company should ask itself:

Can greater levels of ambition be achieved in these areas without further driving bills up:

- *Performance in leakage and pollution?*
- *Phasing options for storm overflows and asset health?*
- *Climate change resilience enhancements?*

We note that NW considered these and refined the draft Plan and Outcomes Appendix:

- Performance levels in leakage now reflect the overall 2050 ambition of a 50% reduction and only include enhancement funding targeted in the Suffolk area. The target in the NW area has been increased to 55% to balance the 40% target in ESW area where performance is already amongst the best in the sector

- Performance levels on pollutions target a 30% reduction (based on WISER guidance) which is a substantial challenge given NW is the most efficient company on wastewater service and has good performance in this area. It also anticipates that changes in the measurement of pollution performance will increase the challenge. We understand that a case for c£14m of enhancement funding is being developed for inclusion in the final Business Plan submission (we have not seen this): NW has concluded that it does not consider that more performance can be gained without further investment raising customer bills but will continue to strive for performance gains through new innovations and with the help of stronger incentives in relation to the ODIs.
- Having considered the phasing of storm overflow, asset health of climate resilience investments as part of its engagement with customers, NW believes that its current proposals strike the right balance – it has asked the Water Forum to reflect on whether there are specific areas that we consider would benefit from further phasing and why. We have provided appropriate input into relevant national conversations, including on river water quality and sewage treatment works, which continue to move and evolve. Our ITA has challenged the Company to provide more detail in the Business Plan on why the options presented to customers and its final proposals are appropriate.

On demand management and leakage, the PR24 Business Plan and its implementation is an opportunity to widen the debate, educate and help customers. Current narrative in the public domain appears to be that leakage is predominantly just a water company issue; but we are clear that it is much more complex than this. Having challenged that we believe there is an opportunity to be clearer in the Business Plan on the various sources of leakage, we note that this has been explored in some detail in the WRMP Demand Enhancement Case. Building trust with and helping customers to better understand the impact of domestic leakage and ways to identify problems and save water will deliver multiple benefits. Trust and clarity will also be paramount when implementing the draft proposals for compulsory metering.

5.3 Has the Business Plan been informed by a robust and systematic assessment of operational resilience?

We strongly agree with the importance the regulators and the Company place on resilience and welcomed the recent comprehensive review of NW's 2018 framework by Arup. This provided us with some comfort that the Company is working to ensure that it has a robust and ongoing understanding of resilience in the round, where it currently stands and what actions it needs to take. We are pleased to note that the LTS places a focus on the longer-term risks to resilience. We urge the Company to keep both strategies under regular review to ensure that the framework and LTS remain as up to date, relevant and robust as possible, as the draft Resilience Appendix indicates a commitment to ongoing tracking, scanning and assessing risks.

We note that the world today offers even more challenge and uncertainty, and that customers understand and experience this in their own lives. We consider that maintaining a conversation with customers on resilience in the short, medium, and long term will be increasingly important, not only to understand the pressures, challenges and uncertainties

that they are facing and how this might impact on the services the Company provides, but also to help take them along on the journey of change as it unfolds over the foreseeable future.

As a Forum, we have been keeping a watching brief on critical resilience challenges during the current AMP, from the broadest of perspectives – covering infrastructure challenges including power outages especially during Storm Arwen, where we are pleased to see that the Company has taken a number of actions, through to the need for greater monitoring and management of existing flood schemes, where the Company responded by building these into the options in its Enhancement Case, with opex assigned for the lifetime of the assets (and so assessed as part of the cost-benefit test).

We undertook a deep dive on resilience in January 2023. In addition, the ITA Report covers a number of critical issues for resilience some of which we reference below.

Note that the timings of the PR24 process mean that the Water Forum has not yet had chance to review the Company's Environment Strategy – our comments in Sections 5.3.3 to 5.3.5 below, should therefore be reviewed in this context.

5.3.1 Resilience generally

Our ITA's report gives a view on several issues related directly to resilience. There are a number where he raised challenges following the June draft and which the Company reflected on in the August draft.

An important example is around the Company investing in asset health and mains replacement/renewal which was set out in its resilience report, suggesting that whilst these are really important for the future, there is not enough evidence yet to show that a step change in capital maintenance to replace water mains, or tackle the impacts of extreme heat would necessarily be the most effective intervention, focusing instead on investments in asset intelligence and innovation, along with the sector working together.

Among other things, our ITA offered some challenge which we won't repeat here in full but – pointing to the role such assets can deliver in providing long-term sustainable benefits for several performance measures that are important to customers (water quality contacts, interruptions, leakage) – he has raised the question of whether more can be done, sooner. We urged the Company to do its best on mains replacement and asset health because it will in the long-term be essential to sustainably achieving outcomes that customers value, and longer-term resilience. NW has now put forward a business case to uplift base expenditure allowances to achieve more sustainable levels of maintenance expenditure to manage risks for two asset classes: water mains and civil structures at water and wastewater treatment works. These cases are supported by a substantial body of evidence in relation to the need for investment and a measured approach to rectification.

In relation to water mains, we note that NW is considering additional investment in the current AMP period to increase replacement rates in support of its case. Our ITA reflected that: *"In general, the August draft includes a much-improved discussion of the mains replacement issues, background and cause and proposals for addressing it. This responds to my challenge at the time of the June draft."* (ITA Report pages 23-25).

It is notable that for another asset class, service reservoirs, for which the asset condition and current rate of maintenance expenditure is also a concern, the company did not proceed with a planned case for uplifting base expenditure, because it was unable to gather a sufficiently robust evidence base. It is encouraging that NW applies an evidentiary standard in self-regulating its investment proposals but our ITA includes a cautionary note that: *“The proposal for enhancement spend on service reservoirs has been dropped from the August draft because NW was unable to gather sufficiently robust evidence in the time available. That is not to say that the issue has gone away and now the challenge will be to find the resources to monitor and deal with issues with this asset class from base allowances.”*

We note that NW tested views on asset health and phasing with customers during the pre-acceptability and acceptability research. Customers had mixed views about asset health, describing this as a “dilemma between a short-term fix and a long-term plan” and asking the Company to find a “hybrid, middle ground option”. This led the Company to focusing work on treatment works and service reservoirs, where they know exactly what work is necessary now, and where this has an immediate impact on service.

5.3.2 Partnerships

The Business Plan embraces the role of partnerships in delivering long-term resilience. We welcome the industry’s realisation that each company cannot address its issues alone and in isolation and that customers, stakeholders and partners (including within the industry) have key roles to play.

Indeed, the Water Forum has been encouraging companies across the water industry, utilities more generally and other partners to work in ever-closer partnership. Customers benefit from secure data sharing, among other things, and do not want several different interventions from multiple different companies.

They want swift and effective partner responses to crises and to the general delivery of water and other services. We have heard evidence that partners very much welcome a closer relationship with the Company, enabling them to better perform their roles in what are equally challenging circumstances. Local authorities, for example, have seen significant reduction in resources over the last decade or so and better, joined up working can help them deliver for their communities – the same communities that the Company serves.

In terms of crisis management, the Water Forum has highlighted the role of local resilience forums in this context. We challenged the Company to make sure that the utility sector and others such as local authorities work better together to help them manage crises when they occur. The Company responded very positively, and the Business Plan underscores a commitment to working in partnership.

‘We’ve considered this and as part of adding a resilience appendix to our Business Plan, we have expanded on this a little – highlighting the importance of building existing and new relationships, but also that there needs to be a wider plan for both catchments and e.g., sector wide/UK wide approaches to climate change adaptation and asset health. We have identified some wider partnership options for tackling e.g., flooding of our assets, which are not currently feasible – and so for the future, it would be a good plan to change the conversation to create the right conditions for these approaches (so helping to prevent or

mitigate the impact of crises through partnership working in the first place.’ NW response in our Challenge Log.

We urged the Company to go further and as part of this to estimate/articulate where possible the financial and operational savings to customers that might be achieved through the partnership approach. Customers clearly support partnership working (A&A qualitative engagement May/June 2023), especially where they think it will save them money. We note that NW is seeking to estimate or articulate these savings in the final Business Plan.

5.3.3 Climate change resilience

The Company clearly takes very seriously its approach to contributing to a reduction and mitigation of the effects of climate change and this is welcomed by the Water Forum. While not all customers rank the issue highly, we felt it important to draw the Company’s attention to several issues, including the following.

Biodiversity

The changes in drought, water scarcity, flooding and water quality will influence biodiversity, both within the water system as well as outside. We encouraged the Company to examine that issue because of the problems that it might have through changes of salinity or mineral deposits etc.

We note NW’s response that it is exploring some of this at a local level in its detailed investigations in AMP8 – including monitoring (e.g. existing bird counts, environmental and groundwater) and in specific areas such as the Trinity Broads. And that it is looking at the sources of contamination of water through nutrients and agricultural practices, and investigating issues where there are declines in biodiversity (for example, decline in wetland species at Hall Farm Meadow); and tackling these issues where they need improvements.

Gulf Stream

Impact of the Gulf Stream which in the long term could affect the climate dramatically – we recommend monitoring and modelling of such climate change factors that could influence the Company’s assets, to make sure there is some flexibility in the Company’s planning and proposals for an intensification of climate change impacts.

We note the Company’s response is one of continued uncertainty; it states that *‘although global temperature increases are increasingly well understood, local impacts might be different (for example due to a potential Gulf Stream tipping point, which current forecasts put at decades in the future). Although the impact of such a tipping point is uncertain, it could affect very long-term investments such as priorities for mains replacements, so monitoring this alongside other climate change risks is the adopted approach.’*

Having reflected on this response, we drew the Company’s attention to the latest reports out at the start of August which suggest the climatic shift the Gulf Stream could happen in less than a decade rather than decades, and there is evidence that Arctic warming is having a faster effect than first reported. This leads us to challenge that the Company needs to be more vigilant and nimbler to be able to respond to climatic changes; and needs to be at the

front of assessment of climatic data to be able to assess its impact on people's water supply quality and the biodiversity and broader environmental impact of delivering good clean water to customers.

5.3.4 Resilience and nature-based solutions

As a Forum we have had several discussions on the Company's approach to nature-based solutions and this issue is covered in our ITA's Report (pages 25-27). Instinctively, nature-based solutions feel preferable to end-of-pipe solutions, provided they are effective and resilient. Among other things, we asked about Ofwat and regulators' levels of trust for companies to try such solutions, and also asked about customers' views.

The Company responded by advising that following discussions, it included its Advanced WINEP and nutrient neutrality schemes in its pre-acceptability customer research (Part B), presenting customers with the options and risks of using nature-based solutions. Customers strongly agreed with using these if there were wider benefits and lower costs². Since then, it has challenged itself more strongly on the analysis and modelling behind these solutions – acknowledging that there are risks, and noting to the EA that without trying nature-based solutions, these will never improve or be de-risked.

Our ITA's perspective is that 'two customer perspectives seem quite clear from customer engagement and research to date. Firstly, customers are extremely anxious to avoid unnecessary bill increases; and secondly, they support where possible NW's adoption of sustainable and nature-based solutions.'

On that basis, he posits that NW is right to push hard for catchment and nature-based solutions, and welcomes the intention to prioritise such solutions in its Business Plan.

In relation to nature-based solutions a question asked by CCW is that if there is a good return on this approach (e.g. Severn Trent claim to get up to £20 in value for every £1 invested in catchment schemes/ working with farmers) then should this come from existing funds (base costs) rather than enhancement schemes? The Water Forum understands that the value from such schemes may not be realised financially and that a high value-to-cost ratio may strengthen the case for enhancement investment but agrees it is a reasonable challenge. NW responded that it believes such benefits in terms of income from regulated assets should go to customers. In its enhancement scheme proposals, it has selected nature-based solutions where they are better value for customers; and that it has the flexibility to introduce more such schemes for base expenditure should such options represent good value for customers.

5.3.5 Net Zero

We undertook a specific deep dive into carbon net zero, given its importance; during this activity we, among other things, challenged the Company on its proposed Enhancement Case for electric vehicles (EVs) as being something that should be delivered as part of business as usual. The Company also tested customer views and subsequently removed the proposal for an enhancement case as customers did not see this as a high priority.

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While customers rank net zero as less of a priority, we posed the question as to whether NW's approach will be tenable to meet future commitments; and challenged NW as to whether it can go further on net zero without adversely impacting on customer bills.

The scale of the AMP8 and future investment programme will necessitate an adjustment of its net zero ambitions as there will be an impact on emissions from the substantial capital investment activity. In its final Plan we have urged the Company to quantify how much carbon has been avoided through the proposed solutions versus alternatives (including for storm overflows and the Advanced WINEP).

We note NW's response that in the absence of customer funded enhancement progress towards net zero will be slower – focus will be on starting EV and infrastructure roll-out where the technology and business cases are strongest; continuing renewables investment; and further embedding its valuation framework for selecting nature-based and low carbon solutions.

The Company is nonetheless confident that it will remain on track for its 2050 net zero target (which customers have supported through the LTS engagement).

Among other things we challenged the Company to be innovative, for example by exploring best practice elsewhere, perhaps using electric trades bikes and larger 'van-bikes' in urban settings rather than vans.

5.4 Are the proposed outcomes, performance commitments and ODIs stretching?

This question was core to the work undertaken by the Water Forum's ITA – please see his separate, detailed report, which is submitted as Annex A to this report.

We note that, per our challenges following the June draft, the Company strengthened the following for the August draft:

- The line of sight between customer research and the Plan
- Exploration of the relationship between priorities and willingness to pay
- Articulating in greater depth the reason NW believes that its package of PCLs is ambitious (in the main part of the plan as well as the Outcomes Appendix) – this it did by describing its National Leader concept.

Our ITA's approach has been to identify, consider and expose the inter-relationships between the three questions he is addressing (on outcomes, PCs and ODIs; the robustness and deliverability of large investment proposals; and efficiency and innovation) as they are interlinked and impact on each other.

To disaggregate his approach is to risk mis-representing his narrative, so we urge the Board to read his report separately. For ease of reference, we have endeavoured in this report to highlight some of his key findings and challenges relating to the individual questions asked of us by the Company. The ITA has summarised some of the key challenges as follows (reproduced verbatim from pages 3-4):

- NW has articulated the challenge inherent in its proposed package of performance commitments with reference to its “national leader” assessment which it can demonstrate as a credible but ambitious yardstick. NW should consider updating its definition to include cost efficiency and revised asset health measures in future.
- Performance benchmarks have been set with reference to historic trend data, which can be difficult to interpret. NW should articulate for customers in its plan how it will monitor and react to emerging information about its absolute and relative performance.
- Proposals for performance commitments appear to have taken account of the customer research into priorities. The outcomes of quantitative acceptability research appear to be supportive but need to be reflected in the final business plan. It is positive that a clearer set of proposals and their rationale has been included in relation to affordability and willingness to pay.
- My involvement in the process of challenging the operational and tactical plans suggested that they constituted a deliverable set of interventions in pursuit of a challenging set of performance targets.
- NW presents credible arguments that the £400m of efficiency it estimates it will need to deliver represents an ambitious target. It justifies this target with reference to past industry performance and the potential for productivity improvement. I challenged whether the plan could help customers better understand why £400m is ambitious by reference to the real challenges it faces given the unprecedentedly large investment programme that it is asking customers to pay for.
- NW’s proposals for specific additional adjustments to reflect expected costs of labour and energy above inflation which is already factored into allowances seem to be a reasonably well-evidenced attempt to balance customer and company interests and to take account of the difficulty of understanding and forecasting efficient energy costs in particular. Cases for true-up mechanisms covering chemicals and materials are perhaps weaker because the costs are lower.
- The individual enhancement cases I have reviewed were well structured and covered needs assessment and optioneering well. They also addressed costing confidence, uncertainty, benchmarking and links to the costing methodology reasonably thoroughly. I challenged NW to characterise its enhancement programme at an aggregate level in terms of overall costing confidence, risk allowances and extent of external scrutiny and benchmarking.
- I challenged NW to reconsider its level of investment in long-life assets, in particular water mains, which arguably have been subject to historic underinvestment. The plan now includes a much improved discussion of these issues and includes proposals for additional investment in both water mains and civil structures at treatment works. NW gauged that it had insufficient evidence to support a similar case to cover service reservoirs and so will need to ensure it continues to monitor these assets and address emerging issues.
- NW’s plan is realistic about the serious challenges it faces in addressing poor performance on compliance with drinking water standards. It will need to cover the significant investment needed to improve its performance over AMP8 and beyond from its base allowances and this will require a continuation of the current level of management focus.

- It is welcome that NW is pushing hard, in line with customer views, to pursue catchment and nature-based approaches in relation to meet existing statutory guidance in relation to environmental improvement and expected requirements on nutrient neutrality.
- NW has proposed a series of welcome and significant initiatives at shareholders cost (or foregone reward) which speak to NW's shareholders recognising the challenges it faces in relation to customer trust. Objectively they should deliver substantial actual benefits to customers but it remains to be seen how the package might be perceived and the extent to which they will assuage concerns about shareholder role in the industry, something that NW and the WF will wish to continue to monitor.

The ITA also provides specific analysis (where he can) on individual PCs (pages 29-49); this has not been reproduced here.

Intrinsic to our ITA's analysis of PCs is the role shareholders should be expected to play in delivering them. He describes the challenge thus:

'It is clearly something that customers have views on: the simple idea that companies as well as customers should contribute and the connection of this idea with the expectations that customer behaviour change and their participation in securing outcomes is increasingly important... customers ask why should they do what companies want if those companies don't also play their part?'

This is increasingly hard-edged in terms of its implications for Company performance. We agree with our ITA that demonstrating a credible shareholder commitment is important. Customers clearly expect this. He and the Water Forum have noted that, in its draft Business Plan, NW is responding to this challenge several ways. These include a welcome commitment to meet some of the costs of those who are subject to repeat sewer flooding; overspending on allowances in AMP7 to increase the rate of mains replacement during AMP7, a commitment to spend all capital maintenance allowances and a proposal for indexation of the cost of capital to avoid windfall gains to shareholders should interest rates fall. There is also provision to help those in water poverty, as discussed under 'affordability' (above, Section 5.2).

5.5 Is NW challenging itself that large investment proposals are robust and deliverable, and represent the best option for customers?

Again, this question is core to the work of our ITA. Please see his separate technical report (pages 19-21) on enhancement cases. However, as noted in Section 5.4 above, the observations in his report need to be taken 'in the round' as his 3 key questions are interlinked. In early September he critically reviewed the following key individual enhancement cases, to be able to provide appropriate challenge to NW and support its delivery of a better Business Plan for customers:

- Storm overflows – the largest single area of enhancement investment,
- WRMP Demand – covering major investments in metering, leakage and water efficiency resulting from the statutory Water Resources Management Plan

- Lead – discretionary investment proposal developed following challenge from the Water Forum in the light of research into customer priorities
- Asset Health – a proposal to uplift base allowances to maintain civil structures at treatment works and to renew water mains.

The wider Water Forum has, due to process timeline and availability constraints, had limited opportunity to review individual enhancement cases. However, in discussion with our ITA we made the following comments and observations:

- The four individual enhancement cases reviewed covered needs assessment, optioneering, costing confidence, uncertainty, benchmarking and links to the costing methodology reasonably thoroughly. If this general approach to costing is replicated across other enhancement cases, it is encouraging.
- In the July draft we commented that there remained a gap in describing how NW will track the delivery of investment schemes over 2025-30 so that progress of the capital programme is transparent to stakeholders and customers. This should also include delivery of asset maintenance so that one can clearly see what is allowed for and what is actually delivered
- We noted and challenged the Company that there was not enough on arguably the biggest issue in the plan – the phasing of environmental investment, especially storm overflows. We understand that NW will address this issue in its line-of-sight work for the final Plan so that readers can understand why the specific phasing option was chosen.

In terms of the second part of the question, and whether NW is challenging itself that the proposals represent the best option for customers, we suggest that ‘the best option’ is, as well as something that the BSG assures itself of, something that NW tests on an ongoing basis with its customers, including with business and non-household customers, throughout the next AMP.

Anecdotal evidence from discussions during the LTS LTS stakeholder consultation (July 2023) emphasised that engaging customers early and ‘bringing them along on the journey’ is very important when planning projects and developments, especially those of some size, and we very much support this. We would like to understand more about how the Company intends to do this as it moves to implement the LTS. Through mechanisms such as its People Panels, the Company is developing an informed and interested audience and this should be continued, alongside working and engaging with its broader customer base.

Elsewhere in this report (Section 4) we reference concerns about other delivery issues including the level of recruitment required for a significant investment programme and we urge the Company to maintain a strong focus on this to identify well in advance any issues. We note and are encouraged by the transformation programme but as delivery planning and implementation progresses, we urge the Company to continue to be alert to potential delivery challenges in, for example, the construction industry.

5.6 Is NW addressing its role in wider societal priorities, as set out in its Our Purpose report, including the environment and climate change?

We welcomed the production of NW's 'Our Purpose' report – a positive and 'easy read' for customers to see how the Company is performing in its wider role. Reports such as this are an aid to openness and transparency and by considering it alongside the Company's Annual Performance Report (APR), customers should be able to form a comprehensive view on the Company's performance. The Water Forum reviewed the 2022/23 Our Purpose Report and our independent comments were published within it.

We have seen good evidence in its Business Plan that the Company has reflected its understanding of and is addressing wider societal priorities as defined in its 'Our Purpose' report.

We expect the NW to have tested those priorities with customers as part of its business planning. Affordability and Acceptability testing and other national and local research give insight, and we have challenged the Company to understand whether customer priorities have changed in recent years because of the turbulence created by the cost-of-living crisis, the Covid-19 pandemic and other significant recent events – at the time of writing this report we await feedback on this matter.

An acid test is, of course, whether the plan robustly supports the Company's purpose, which is describes as: *"Caring for the essential needs of our communities and environment, now and for generations to come – we do this by providing reliable and affordable water and wastewater services for our customers. We make a positive difference by operating efficiently and investing prudently, to maintain a sustainable and resilient business."*

Part of the Water Forum's role is to reflect on how the Company is delivering against its promises in-between Price Reviews and we make an annual assessment in our statement on APR. During our 2023 deep dives we have noted a range of commitments across all 'Our Purpose' themes, which give us comfort that the Company taking its contribution to wider society seriously. In addition, we have made the following observations and challenges:

- Our ITA advises in his report that the Company's PCLs reflect a good level of ambition, and that customer preferences and priorities as understood at present appear to have been considered
- The Plan has a good range of local community investments – from financial contributions, charitable work through to volunteering, and we encourage the Company to go further where it can
- The Company retains its important commitment to local spend (at least 60p in every £1) and we challenged it to see if it can raise the level of local spend even further, given the significant increase in investment that it is about to make and its transformation programme. We note that NW intends to consider this challenge further when developing its detailed delivery plan, ensuring any increase in commitment is realistic in the context of supply chain pressures
- We welcome NW's Vision for Coasts and Rivers and its 9 pledges
- We continue to encourage the Company to make the most of its educational role to help address biodiversity loss, reduce Per Capita Consumption (PCC) and so on

- We have commented elsewhere that partnership working is important in so many ways, and A&A testing indicated strong support from customers – not least because they see it as an opportunity for shared cost, as well as other benefits – and we see evidence in the Plan that this is a keystone. We encourage the Company to work in partnership where it can, especially where customer benefits are absolutely clear – such as cost or data sharing
- We have commented elsewhere in this Report about the positive strides already made with data sharing, including across utilities, and the commitments made in the Business Plan to further this work
- We like and welcome the Business Plan’s focus on caring for communities and supporting the local economies in the NW and ESW regions
- We welcome the ambition to be in the top two companies for developer and business customer experience (D-Mex and B-Mex) as well as C-Mex
- We welcome the points in the Plan on culture and trust – this is something that customers value. We would like to see NW develop this further following the publication of the CCW-commissioned Customer Centric Culture Report and its recommendations on 18th July – as noted in Section 4 of this document, culture will have an important role to play in the success or otherwise of meeting the anticipated recruitment levels needed by the industry to deliver the huge statutory capital programme
- We are encouraged by the uplift in Priority Service Register (PSR) numbers – we now urge NW to ‘press the accelerator’ on PSR and other initiatives; and to make sure that the PSR offer is a quality offer that delivers for customers
- Educational activities that the Water Forum has observed could be increased further, such as doing more to reduce the uptake of bottled water
- We urge the Company to maximise the use of Integrated Drainage Partnerships
- We suggest including examples in the Plan about how the Company’s inclusivity training is benefitting customers
- The Plan would benefit from more detail on inclusive services and support for people who are experiencing non-financial vulnerability. We note potential learnings from Anglian Water as an industry leader that, after a comprehensive engagement and partnership programme, significantly increased the number of people registered for support
- We posed the question ‘Is the Company’s position on not investing more for carbon reduction tenable, despite customer views?’ At the time of writing this report, this discussion point remains open.

5.7 Is NW doing enough on efficiency and innovation?

This question was core to the work undertaken by our ITA – see page 15 of his separate technical report (Annex A).

The wider Water Forum has touched on innovation (intrinsicly linked to efficiency) but have not undertaken a significant amount of work – this is in no small measure due to the Company’s good track record and our decision therefore to focus on other areas due to our members’ time and capacity constraints. Our ITA has made a number of observations in his work, however, and we have noted that:

- Efficiency and innovation remain critical areas, not least because customers are sending a clear message that they expect the Company to consider efficiency and innovation first before increasing customer bills (see A&A quantitative feedback, Explain, June 2023)
- As a result of challenge, the Company shifted its frontier efficiency challenge from 0.6%, initially to 1%, subsequently amended to 0.8%. The final figure, although lower than some past regulatory precedents appears ambitious based on the independently derived supporting evidence
- The assumed level of catch-up efficiency appears to be based on a challenging benchmark (ITA report page 17)
- NW generally has a good track record on innovation. In response to our ITA's challenge to explain how it had factored the potential for innovation to drive efficiency and/or performance improvement, the Company responded with an encouragingly long list of potential innovation activities for most of the PCs. We understand that opportunities identified at the recent Innovation Festival will, in the round and in time, support the delivery of the efficiency challenge; and that some of the current and identified projects are longer term and some will take time to either demonstrate their worth, or to bed-in and have impact
- On benchmarking, there is evidence that it has been pursued, particularly with other water companies and in some cases seems to have led to changes in approach
- The Company is clearly working well in partnership with others
- In the consultation on LTS, stakeholder responses have emphasised the importance of innovation as a critical component of deliverability. Some will be facing recruitment challenges to help meet the water industry's demands and consider that a new approach to how people are recruited will be important – perhaps rethinking how roles such as civil engineering are framed to attract a new audience
- Further benefit could be obtained by sharing internal good practice – examples of how the Company is using the expertise of its employees and their operational work to garner innovative ideas and where these are shared across the business, both within and between NW and ESW. This equally applies to sharing internal good practice and learning between teams and geographies.

In addition, members have fed in a number of suggestions regarding innovation including observing that many vulnerable customers are not digitally-enabled and a greater focus on innovative ways of helping them would be welcome.

Having challenged NW as to whether its estimate of the “gap” (representing the difference between what NW currently estimates the efficiencies that NW will have to find over the period to deliver its commitments based on its operational planning and the expected level of regulatory allowances) represented a sufficiently ambitious challenge, we discussed this at the Water Forum meeting with the Company on 28 July. At the time the estimated gap was £500m although it was noted that this figure remained to be validated. Through that discussion and consideration of the points raised we have concluded that a gap of that order of magnitude was a reasonable and ambitious challenge. NW provided welcome detailed evidence of the efficiencies that it expects to realise in AMP7 of £260m, based on a smaller programme of investment compared to that proposed in AMP8.

Since that time NW has adjusted its estimate of the gap to £400m, partly as a result of lowering the ongoing efficiency allowance proposed (see above), partly because operating costs have now been fully factored in and partly because validation uncovered errors in the provisional calculation. NW continue to see £400m as a significant challenge and reference in particular the evidence put forward in relation to ongoing efficiency and the fact that regulatory allowances are based on assuming upper quartile efficiency to deliver upper quartile performance on all PCs, something which no water company has yet achieved. That said, as our ITA concludes in his report, we continue to believe more could be done within the plan to help customers understand why the £400m does represent an ambitious challenge with reference to the real challenges that their bills will be used to address and the efficient costs of doing so.

5.8 Does the plan listen to and meet customers' needs by building on high-quality and effective research and engagement throughout the PR24 process?

In its report following the June Business Plan draft, the CEP identified the outstanding action points as required for it to assure the quality and effectiveness of the Company's customer research and engagement activity – these have since been actioned and the full assurance activity concluded and reported on (Annex B).

We note that the way this eighth Water Forum challenge question is posed suggests a binary 'yes/no' answer is possible. We acknowledge that there comes a point at which the Company has to take a view/judgement for business and other reasons (e.g. customer health) on what it proposes in the Business Plan. The proposed inclusion of an Enhancement Case for a lead pipe replacement programme is a case in point.

In this Price Review there are clearly a huge number of factors to be considered and the statutory requirements are having the biggest impact on proposals, whatever customers say. Given this, we re-emphasised the importance of clarity whenever the Company takes a different view to its customers – backing up any proposals with evidence and explanation as to why; and where there is divergence between the messages coming from its customers and those identified through national research, that NW provides strong evidence backing up its proposed different approach.

Listening to and meeting customer needs

In addition to the assurance work detailed in the CEP Report (Annex B) about the quality and effectiveness of the Company's customer engagement throughout the PR24 process, we identified areas that NW could address to improve its Business Plan such that it better listens to and meets the needs of its customers. We summarise these below.

Regional differences: More about the regional differences in customer views in certain areas, e.g. ESW concerns about bill size (although recent rises have been small). We note that this has been addressed to some extent in the August draft; more could be done on both case studies and data presented.

Acceptability: the use of 'x% support the Plan' appeared to be out of context with the wider messaging of what customers are also saying about affordability, so we suggested also

including the percentage stating the Plan is unaffordable. We recommended making data sources clearer; and to take care on language used when using qualitative data sources (such as saying 'most' and 'some') to avoid mistakenly extrapolating data. The August draft shows improvement in these areas and the Company has confirmed that it is further addressing this for the Final Business Plan.

Reflecting the A&A quantitative survey: we sought to understand how the Company planned to factor in the results of this research into the Plan, given the timing of the results becoming available. We note that the results of the A&A quantitative survey will be in the Plan but that the timing necessitated the use of A&A qualitative research for making decisions. Although it considers the latter to be richer information for this purpose, NW recognises that in some respects the qualitative insight could be considered not as strong as quantitative surveying for the purpose of comparing between companies – and will provide the survey results to the Board as part of its assurance of the Plan.

Increase in those struggling to pay: The recent Ofwat research from Savanta indicates significant levels of customers will be saying they're going to struggle paying their bill – the Plan could be clearer about how this will be managed. We have suggested that to inform its approach, the Company could use some of the data analysis it undertook for its Water Poverty work.

Sewer flooding: We noted a reference in the draft Plan that customers are not willing to pay for sewer flooding improvement (based on the qualitative A&A research); however, the triangulation of customer priorities puts this issue in the top quartile. This led us to challenge how insight sources have been prioritised in Business Plan decision-making. This seeming contradiction could potentially reflect an underlying view of high importance but immediate concerns about affordability given the broader cost-of-living context, but we would welcome clarity on this in the final Plan.

Lead pipes: We challenged that a 'go slow' approach (in an early draft of the Plan) to a lead pipe replacement programme was not what the CEP heard from customers, and it was referenced as a high priority in the draft Appendix A1 – potentially as lead pipes were part of the broader 'asset health' data. We are pleased to note that in the August draft this aspect has changed such that the Company is now proposing a 'medium-plus' approach.

Line-of-sight between customer engagement results and the contents of the Business Plan was unclear in the narrative. Comments about what customers want tended to be very broad and without any diversity of opinion or nuance – we challenge the Company to be clear on the different view groupings (e.g. those who say '*I can afford this and want it done*' versus '*I can't afford it and don't*' versus '*I can't afford but see value and would like it done in future*'). This improved for the August draft, and we understand that the Company is also intending to include a section in the Line-of-Sight Appendix which covers 'customers said, we did' narrative.

Ongoing engagement and triangulation: We suggest an ongoing plan of continuous engagement throughout AMP8 to keep on the pulse of the customer, both to inform and aid ongoing delivery and to be well prepared for PR28 and PR32. This could include a pulse-

check on ‘no regrets’ and ‘go slow’ elements of the Plan. We note that such activity is, through bills, paid for by customers, and therefore requires careful consideration and proportionality when being planned. The recent adoption of the SIA framework for triangulation and the Company’s plans to adapt it to test future hypotheses and decisions could support an ongoing, focused engagement approach.

BSI Standard: The BSI Inclusive Services and Consumer Vulnerability standard has been updated and BSI has created a Kitemark scheme based on best practices from BS ISO 22458 (formerly BS 18477). This new standard was published in 2022 so it would be worth checking what the assessment was made against.

6 In conclusion

This report concludes the Water Forum’s involvement in the PR24 pre-submission process.

By way of illustration, we have woven into this report some of the areas where our work has already shaped the Business Plan. Once the final Plan has been submitted to Ofwat, we ask that the Company feeds back to us on any outstanding issues and questions in this report and the Challenge Log. We would also welcome the opportunity to meet to reflect on the ways that the Water Forum influenced the final Plan and made it a better Plan for customers.

The Company has submitted and will deliver its Plan against a significant degree of uncertainty – both in the water industry and the wider economy – and flexibility and adaptability will be key. So, looking ahead to our ongoing work, the critical areas that we want to continue providing challenge include:

- Affordability
- Resilience to the effects of climate change
- Environmental sustainability and net zero
- Asset health and maintenance
- Culture and ‘employer of choice’ credentials, key to addressing the anticipated recruitment challenges associated with the huge statutory capital programme
- The recommendations contained in the CCW-commissioned Customer Centric Culture Report, published 18th July.