

## Executive summary

**Our plan is structured across six key themes to deliver the outcomes that matter most to our customers.**

### Unrivalled customer experience

Our customers' expectations are rising, and what customers want from us is changing too. We will deliver a package of measures to support our aim to deliver an unrivalled customer experience.



Our ambitious goals in this area are to:

- Deliver world class customer service; and
- Give every single customer the opportunity to have a strong voice and engage with us, with at least 2m customers participating by 2025.

**53** Find out more in Section 3.1

The innovations in this area that will deliver the difference for our customers are:

- We will horizon scan for examples of excellence in world-wide customer service and continuously benchmark and evolve our Unrivalled Customer Experience Strategy accordingly;
- Our £36m customer experience platform and digital transformation programme 'ONCE', which will mean our customers only have to contact us once and will help us achieve a world class net promoter score (NPS);
- Using our bespoke Participation Ladder as a framework to widen engagement and strengthen the voice of our customers; and
- Co-created campaigns where our customers work with us to promote behaviour-change, including Every Drop Counts, Dwaine Pipe and Rainwise.

### Affordable and inclusive services

Water and sewerage services should be affordable for all of our customers, whatever their circumstances, and they should all have equal access to an unrivalled customer experience.



Our ambitious goal in this area is to:

- Eradicate water poverty in our operating areas by 2030.

**78** Find out more in Section 3.2

The innovations in this area that will deliver the difference for our customers are:

- Lower bills for customers, with a reduction of 14% for our water customers and 17% for our wastewater customers by 2024/25.
- Our Inclusivity Strategy, which was created with our customers and partners so that our services are truly inclusive and deliver 'Water without the Worry' for all customer groups;
- The UK's first and only Water Poverty Unit, established through our strategic partnerships with StepChange and National Energy Action (NEA); and
- 'Pay your own way', an app-based tariff that allows customers to change when and how much they pay, putting them in control of their bills.

### Reliable and resilient services

We will continue to deliver reliable and resilient services by anticipating change, planning ahead, and by making the right long-term decisions about how to run our business.



Our ambitious goals in this area are to:

- Have the lowest levels of leakage in the country in our water-stressed ESW operating area;
- Have a per capita consumption (PCC) for water use of 118 litres per person per day by 2040;
- Promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water; and
- Eradicate sewer flooding in the home as a result of our assets and operations.

**92** Find out more in Section 3.3

The innovations in this area that will deliver the difference for our customers are:

- A new Chief Resilience and Sustainability Officer to manage 'resilience in the round' through our Resilience Framework and provide regional resilience leadership;
- Using big data to develop a 'heat map' approach to tackling leakage, saving 4.75bn litres of water a year;
- Expanding our 'whole town approach' to offer every household a water and energy saving visit, using smart meters and digital platforms to personalise advice;
- Expanding the 'Refill' campaign and our 'Powered by Water' sporting partnerships to change perceptions of drinking tap water and the importance of staying hydrated on the move; and
- Deploying the game-changing sensor technology developed by nuron in our live sewerage system to predict flooding incidents before they occur.

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### Leading in innovation

Super-charging our innovation culture is essential if we are to continue to deliver unrivalled experiences within the context of rising customer expectations, technological advances and changing political and physical climates.



Our ambitious goal in this area is to:

- Be leading in innovation within the water sector and beyond.

**134** Find out more in Section 3.4

The innovations in this area that will deliver the difference for our customers are:

- Our Innovation Panel, which brings together experts from global customer service leaders including Apple, Amazon and IBM to challenge us to get the most from innovation;
- Annual Innovation Festivals engaging over 2,500 people and 500 businesses to push through innovative ideas at scale and speed and promote innovation within our regions, the sector and beyond;
- A Marketplace for Innovation to lead the sector in developing innovative solutions and provide opportunities for promotion, sharing and testing of new ideas;
- Use of digital twins, which are replicas of our physical assets, systems and processes that provide the best environment for us and our partners to experiment and run large-scale simulations using cloud-computing power; and
- Gaining unique insights as the only water company sitting on the CBI's Innovation Council.

### Improving the environment

We will create a step change in our environmental activities, building on our role as stewards of the environment to demonstrate leadership, and to protect and improve the environment within our regions.



Our ambitious goals in this area are to:

- Be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027;
- Demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity;
- Have the best rivers and beaches in the country; and
- Have zero pollutions as a result of our assets and operations.

**148** Find out more in Section 3.5

The innovations in this area that will deliver the difference for our customers are:

- Further increasing efficiency and capacity in our bioresources activity, which already enables us to turn 100% of our sewage sludge into renewable energy.
- Expansion of TriM and DRIVE, our novel trigger management system and dynamic risk index model, to allow us to prioritise operational activities to protect and improve the quality of rivers and coastal waters;
- A partnership approach to managing pollution and misconnections as part of our pollution management programme, led through our award-winning Water Rangers initiative; and
- Our 'Improving the Water Environment' scheme which will see us invest £2m to work in partnership to enhance the areas of streams, rivers, lakes, reservoirs, wetlands, beaches and coastline that our customers can access.

### Building successful economies in our regions

As a responsible business with a strong track record, it is important to us that we demonstrate leadership and make a wider contribution to life within our regions.



Our ambitious goals in this area are to:

- Spend at least 60p in every £1 with suppliers in our regions;
- Be the most socially responsible water company.

**171** Find out more in Section 3.6

The innovations in this area that will deliver the difference for our customers are:

- Tailored support for our local suppliers on how to contract with us, delivered on their doorsteps via Flo, our community engagement vehicle;
- Intergenerational participation supported by our new Customer and Communities Collaboration Lead to support our #wearefamily community engagement approach;
- At least 50% of our employees volunteering through our Just an hour scheme, donating time and expertise to support our communities; and
- A shared ambition for brilliant partnership working within our regions, through the award-winning Northumbria Integrated Drainage Partnership (NIDP) and the Catchment Based Approach (CaBA) to support delivery of our customer outcomes.

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#### A co-created plan

The ambitious proposals in our plan have been shaped by conversations with 416,512 of our customers and over 500 other stakeholder organisations who are impacted by our activities. Through our extensive programme of authentic engagement, active participation, research and analysis we are confident that we have a genuine understanding of our customers' and stakeholders' priorities and that together we have co-created the right approaches and solutions. The evidence for this is that 91% of our customers accept our plan.

We have listened to and incorporated the diverse views of all of our customers in our operating areas (including future customers, those who may need additional support, developers and non-household customers). In doing this we drew on expert advice on behavioural economics from Frontier Economics and Emotional Logic. All of the insights were then put through a rigorous triangulation process several times.

The concerns, needs and aspirations of our customers drive our plan; starting with our ambitious goals, inspiring the innovative solutions to achieve them and ending with the exceptional outcomes we will deliver for all of our customers.

# 12.6%

Reduction in water bills in first year

# 12.6%

Reduction in wastewater bills in first year

# 14%

Reduction in water bills by 2024/25

# 17%

Reduction in wastewater bills by 2024/25

#### An efficient and innovative business

Delivering our ambitious goals will not result in increased costs for our customers. As well as delivering above and beyond for our customers and the environment, we are passing on the benefits of efficiency and lower returns to customers by a significant bill reduction of 14% for our water customers and 17% for our wastewater customers by 2024/25.

There will be a significant initial reduction of 12.6% and 12.6% respectively in the first year, with further reductions throughout the period. All figures exclude inflation. This is made possible by continuing to excel at efficiency and innovation.

We are already one of the most efficient companies and in this plan we have assumed further challenging efficiency savings on our costs. We have identified the lowest cost solutions over the long term, optimising our asset plan on the basis of risk and cost, and making sure that expenditure is planned at the right time. We take a total expenditure (totex) approach to our options appraisal, taking account of the whole life cost and efficiency of our schemes. We have worked closely with the quality regulators to make sure that expenditure to meet statutory obligations is justified.

Based on a detailed review of company costs, our assessment is that we are the frontier company for bioresources efficiency, above upper quartile for our wastewater network plus control, and at the upper quartile level for our retail control. This is in spite of the challenges we face given the significant levels of deprivation in many parts of our operating areas. Finally, for water resources and water network plus we have set ourselves challenging targets to reach the upper quartile efficiency level by 2020, and to maintain that position over 2020-25.

Our targets for 2020-25 build on our proven track record on efficiency. This includes outperforming both the baseline set at PR14 and the industry average outperformance to date, and delivering the highest level of wastewater totex efficiency in the sector.

The key to delivering unrivalled service more efficiently than anyone else is to have the right characteristics in place. We have championed an innovation culture for many years, encouraging our employees to be curious and collaborative, with purpose. We target areas where a step change in performance is required, use design thinking to understand the challenge, and apply agile innovation to break new ground. We invest in enablers (such as our Innovation Street) that speed up the process of turning ideas into value.

These approaches complement our commitment to continuous improvement (as evidenced by our recognition as company of the Year in the 2018 UK Excellence Awards) and to emerging science, technology and open innovation, where we work in partnership with thought-leaders, academic researchers and inventors. Our 'BE:WISE' facility, for example, is one of only two in the world where researchers can test innovations in wastewater treatment technologies.

Collaborating with other sectors gives us unique insights into solutions for our own business; our unique Innovation Panel of external experts challenge and inspire our thinking; we use technology from the health and life sciences sector to improve our water quality assessments; and we use data science to extract valuable insights (for example it helped us predict blockages at pumping stations and reduce failures by 80%).

#### A resilient business

Our customers tell us that a reliable water and wastewater service is important to them. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact.

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This allows us to identify common themes and solutions so that we can address risks in an effective and efficient way. By using customer participation, technology, innovation and partnerships to deliver greater resilience, our customers benefit from unrivalled service delivered by leading edge thinking at low cost.

We are taking a number of other important steps to build our resilience including:

- Maintaining the health of our asset base into the future through careful maintenance and wise investment and putting appropriate mitigation measures in place at sites we assess to be 'too critical to fail';
- Initiating a step change in our catchment management activities, as part of our ambitious goals that include reducing our use of natural resources;
- Setting ourselves stretching targets to deliver a reliable and sufficient supply of good quality water to customers and to deal effectively with wastewater, in the context of a changing climate;

- Continuing to carry out long-term planning to secure sustainable water resources into the future, ensuring that we maintain our current position, where water resources are very secure with Essex, Suffolk and the North East projected to have a surplus for at least the next 40 years, even during a 1 in 200 year drought;
- Using intelligent secure networks, sophisticated software and data to help us manage our resources in the most efficient way; and
- Increasing the financial resilience of our poorest households between now and 2030 as we eradicate water poverty in our operating areas.

Our comprehensive business continuity and recovery plans ensure that we maintain service and recover normal operations following any major incident.

### A financeable plan with an appropriate balance of risk and reward

We ensure sound long-term financial resilience by having a robust, simple capital structure in place and a financially sustainable plan.

Our Board assurance statement sets out the steps we have taken to ensure that our plan is financeable for both the notional capital structure and for our actual capital structure. We have assessed financeability in the context of our objective to maintain our existing investment grade credit ratings.

We have rigorously stress tested the plan under a number of plausible scenarios, taking account of the principal risks and uncertainties facing the business, and further severe scenarios specified by Ofwat. We are confident that we would be able to absorb the impact from any of these plausible scenarios, in isolation or in the combinations we have tested, and maintain our investment grade credit ratings by delivering exceptional levels of service and performance for customers, at an efficient level of cost, and by applying our flexible dividend policy.

Our flexible dividend policy is demonstrated by the decisive actions we took in 2017/18 to make sure that we would be in a strong and financeable position for the remaining years of the current price control and then for 2020-25 and beyond.

Separate third party assurance has been performed on the calculations and our stress tests, under each of the various scenarios. We have based the cost of capital that underpins each of our four wholesale price controls, and the net margin that underpins our household retail price control, on those that were set by Ofwat in its final methodology.

As a business we need to continue to borrow significant amounts of money to finance the investment required to maintain and improve services. It is essential that we retain access to low cost finance as this helps keep bills down for customers.



**Initiating a step change in catchment management.**



**We have rigorously stress tested the plan under plausible scenarios and we are confident we can absorb the impact from these scenarios.**

Our plan delivers the financial ratio levels consistent with maintaining our ability to continue to borrow at attractive rates.

We have proposed significant bill reductions for customers from 2020, which we are in a position to deliver as a result of continued efficiency improvements and while still retaining appropriate financial resilience going forwards.

As our assurance statement confirms we have used sustainable rates for setting pay as you go (PAYG) and RCV run-off rates which ensure that there are no intergenerational cross-subsidies for customers. We consider that our business plan sets out an appropriate balance of risk and return that is in the interests of customers and stakeholders.

Our financeability has been tested against strong investment grade credit rating targets of Baa1/BBB+ from Moody's and Standard & Poor's (S&P).

The primary metrics are gearing and adjusted interest cover.

### Actual capital structure

Ratio	Average over 2020-25	Moody's, S&P BBB+ / Baa1 threshold
Gearing (Net Debt/RCV)	69.2%	<75%
Adjusted interest coverage ratio	1.6	>1.4x
FFO/Net Debt	8.7%	c.>9%

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#### Notional capital structure

Ratio	Average over 2020-25	Moody's, S&P BBB+ / Baa1 threshold
Gearing (Net Debt/RCV)	61.0%	<75%
Adjusted interest coverage ratio	1.6	>1.4x
FFO/Net Debt	9.9%	c.>9%

#### An assured plan

We have robust governance, assurance and risk management arrangements in place on an ongoing basis. These cover operations, planning and regulatory reporting, much of which is relevant for the work associated with developing this plan. For example, we have used a range of expert, best-fit assurance providers to cover all areas of the plan, and an independent assurance advisor has reviewed our assurance coverage.

In line with our usual approach to planning and reporting, our Board has been extensively engaged in developing our plan, both at a strategic level and in detailed scrutiny through the governance and assurance framework and through direct contact with customers at workshops and other events. The Board's assurance statement is included in Section 10.

More detailed scrutiny was undertaken by a subgroup, chaired by the Senior Independent Non-Executive Director (SINED), which included all of the INEDs, reporting regularly to the Board. INEDs attended Water Forum meetings and events, and have personally championed the customer participation and environmental aspects of our plan, leading and attending workshops with customers and stakeholders. The Chair of the Water Forum had access to and meetings with the entire Board throughout the preparation of the plan.

Since the beginning of the price review, the Board has followed its strategy to submit an exceptional business plan. The Board fully supports the plan and is now ready to take forward its implementation.

# 91%

of customers accept our plan

#### A plan shaped by the Water Forums

The independent Water Forums have provided invaluable inputs into our plan. We have been impressed with their commitment to the process and have benefited from their broad experience. They subjected our customer participation and engagement, and its impact on the plan, to rigorous challenge, using their expertise to cross-check our thinking and ensure that we were being bold. The Water Forums' detailed report and challenge log demonstrate the key areas of challenge and ultimate outcomes of these discussions.

This challenge brought benefits for customers and the environment. For example, the Water Forums shaped our Inclusivity Strategy, which encompasses our unique zero water poverty ambition, and helped us develop our proposals for taking brilliant partnership working even further.

**“ The company has genuinely welcomed our input and challenge throughout the process. ”**

**The Water Forums**

#### A plan endorsed by our customers

Our acceptability research and engagement allowed us to share our final, draft plan with a representative sample of household and non-household customers as well as with retailers and 'new appointment and variation' companies. We listened to their views and measured their level of acceptance of the plan.

We are delighted to have received excellent levels of customer support, with 91% acceptability for our plan. We attribute this extremely high level of support to the fact that the plan has been shaped by the views of more than 400,000 customers. We are confident that we have co-created a plan that meets the concerns, needs and aspirations of our customers.

**To conclude, our plan has been shaped and co-created through thousands of hours of conversations, scrutiny and debate with our customers, the independent Water Forums, partners, employees, our supply chain and other stakeholders. Their voices, concerns and aspirations are reflected throughout our collective plan.**

**The result is an ambitious, innovative and resilient plan that, taken as a package, will deliver exceptional service and lower bills for all of our customers. We are excited about bringing our plan to life with our customers and partners and we are confident – given our strong track record – that together we will deliver our plan.**