

Anglian Water Customer Engagement Forum Report by the Chair and members on the PR19 business planning processes and final business plan submission of Anglian Water Services Ltd.

Jeff Halliwell, Chair

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Introduction

Overview from Chair

Welcome to the report by the Customer Engagement Forum (CEF) on Anglian Water's plans for 2020-2025. This report comes at the end of a long and intense process of engagement with Anglian Water, dating back to 2016 and building on work carried out by the CEF during the 2015-2020 price review. It sets out our assurance for Ofwat on the company's plans and proposed price review for PR19.

The CEF – Anglian Water's Customer Challenge Group (CCG) – is a totally independent group. We have challenged the company to produce a plan that meets the expressed service priorities of household and non-household customers (and key stakeholders) and their willingness to pay for services in these challenging economic times.

The brief was very clear: to provide **independent challenge** to companies and **independent assurance** on:

- the quality of the company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

Independent challenge

In order to be successful in this first part of our remit, we have made sure that we have operated at arm's length from Anglian Water at all times, while maintaining a constructive working relationship with the company. The 14 members of the Forum and 35 members of the four stakeholder subpanels supporting it come from a wide range of backgrounds (subpanels include: a Sustainability and Resilience Panel; an Affordability and Vulnerability Panel; an Economics and Valuation Subgroup; and a Hartlepool Independent Advisory Panel (see Annexes 8, 9, 10 and 11 for all panel reports). Each of the panel chairs sits on the CEF, which includes members from CCWater, the Environment Agency and Natural England as well as the Citizens Advice Bureau, Friends of the Earth, Blueprint for Water, CBI East of England and Huntingdonshire District Council, as well as three members who have extensive experience of economic regulation (see Annex 2: *CEF Members and Panel Members*).

Between its members, the CEF has an impressive wealth of knowledge and expertise that has helped the Forum to scrutinise the company proposals very closely and perform deep dives into data, where necessary. In all we estimate that CEF members and members of our sub-panels have spent more than 2,100 person hours since 2016 in CEF meetings, panel meetings, working groups, consultation exercises and consultation groups. CEF members have attended external events, including focus groups and external customer engagement and stakeholder groups, as well as taking part in site visits.

In addition to recruiting members with technical expertise to scrutinise specific elements of Anglian Water's plans, we also engaged additional independent technical assurance from Jacobs (formerly Halcrow) to help us challenge the technical and financial proposals behind the company plans, and ensured appropriate time for private consideration of these and other issues without Anglian Water employees present. The Forum has held regular CEF-member only sessions at the beginning and end

of each CEF meeting. CEF meetings have been minuted by an independent freelance writer who has also helped to draft this report.

Our ethos

In order to influence Anglian Water to ensure that their business plans were genuinely driven by their customers, we have sought to be:

- consumer-centred
- objective and evidence based
- and constructive in our challenge.

We believe we have struck the right balance between being constructive and challenging in our engagement with Anglian Water over the last two years. If the CEF's role is seen as "marking Anglian Water's homework", it was not considered adequate to just sit on our hands. The intention has been to constructively engage with guiding the preparation of the company's homework too, while stopping well short of writing the essays! In this spirit of open collaboration, three members of the CEF sat on Anglian Water's Customer Engagement Steering Committee (CESG) to help guide and co-create the company's customer engagement strategy from the outset. We believe this constructive engagement will help lead to a better outcome for consumers over the long term.

In our role, we also reviewed and challenged Anglian Water's current performance and checked that the company is delivering on the commitments made to customers in the 2015-2020 Business Plan.

Independent assurance

The CEF challenged the company to come forward with plans for PR19 that genuinely had customer engagement at its heart. We were robust in our challenges to the company and they have been constructive in their response. They have, on the whole, reacted in a timely way to our requests for information and at times adapted their proposals in direct response to our challenges (see Annex 5: *Challenge log for Customer Engagement Forum*).

Engagement with the CEF on the part of the company has been exemplary. Senior executives from the company, including the Chief Executive, have attended every CEF meeting and worked collaboratively with the Forum. We have met with the company's Independent Non-Executive Directors and they have also attended our meetings. The Chairman also came to the Forum's meeting on 5 June 2018. As Chair of the CEF, I have regularly attended company Board meetings to update them on our thinking and conclusions. The company has been open in its engagement with us and has listened carefully to our views, as well as those of its customers, gleaned through a very comprehensive customer engagement process.

As you will read in this report, we have been impressed by the length, breadth, depth and innovative nature of Anglian Water's customer engagement for PR19 – which started with gathering detailed insights into customers' lives and altogether generated more than 500,000 interactions from across the Anglian Water region through a range of 38 different platforms. This was something I was able to comment on when I met with Ofwat, alongside the company, in January 2018. The CEF – supported by the Hartlepool Independent Advisory Panel – was also broadly reassured that the customer engagement had adequately reflected the views of Hartlepool customers, who make up 1.46% of Anglian Water's customer base, and where the service provision (water only), geography, and

customer demographics, are different from the main Anglian region (see Annex 11: *Report by Hartlepool Independent Advisory Panel* for more details).

The CEF has also been impressed by the fact that this five-year Business Plan is positioned as part of the company's overall 25-year plan (the "Strategic Direction Statement", or SDS), which was refreshed in 2017. The SDS was itself clearly driven by extensive customer engagement, and the final version was modified in light of customer feedback on key priorities (see Annex 10: *Report by Resilience and Sustainability Panel* for more details).

In late 2017, in light of the increasing emphasis from Ofwat on the need for CCGs to address a growing number of questions on how companies had conducted and applied customer valuation work, the CEF recruited three additional members with broad range of economic regulatory experience. These members also formed an Economics and Valuation Sub-Group to give extra scrutiny to the company's customer valuation work (see the Sub-Group's full report in Annex 8: *Report by Economic and Valuation Sub-Group*).

What has emerged is that 80% of customers are supportive of bill increases to cope with future resilience issues. This may prove controversial. However, we do believe that the company's customer engagement shows good customer support for a certain level of bill increase. Further, the company has put forward purposeful plans to ameliorate the effects for those customers for whom increases, or payment itself, is problematic. These plans have the broad support of our Affordability and Vulnerability Panel (see Annex 9: *Report by Affordability and Vulnerability Panel*).

As a customer challenge group, the CEF's priority has been to scrutinise the extent to which the company's plans are genuinely and profoundly shaped by customers' views, with specific (but by no means exclusive) reference to PR19. We believe that the company has embraced this approach and that the resulting plan is indeed constructed from the bottom up by using customers' views about the long-term direction for water supply in the Anglian Water region.

What follows is a detailed exposition of the evidence from the CEF to support this assurance and to outline the process of challenge and any differences of views.

A handwritten signature in black ink that reads "Jeff Halliwell". The signature is written in a cursive, slightly slanted style.

Jeff Halliwell

Chair of Anglian Water's Customer Engagement Forum

Purpose of this Report

This report lays out an assessment of CEF members' views of the company's Business Plan submitted to Ofwat under Price Review 2019 (PR19).

It addresses areas of assurance that Ofwat have asked for in their guidance to customer challenge groups, summarised in the Aide Memoire for Customer Challenge Groups¹ as follows:

- Has the company developed a genuine understanding of its customers' priorities, needs and requirements – and where appropriate customer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with customers on the issues that really matter to them?
- Where appropriate, has the company engaged with its customers on a genuine and realistic range of options? For example, in relation to a need to rebalance supply and demand, this might include increasing its own capacity, purchasing water from another company or demand management options. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?
- Has customer engagement been an on-going, two-way and transparent process, where companies are informing their customers as well as soliciting feedback from them?
- Has the company effectively engaged with and understood the needs and requirements of different customers, including those in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?
- Has the company effectively engaged with its customers on longer term issues, including resilience, impacts on future bills and longer-term affordability? Does the business plan adequately consider and appropriately reflect the potential needs and requirements of future customers? Wherever appropriate, has the company engaged with its customers on the long-term resilience of its systems and services to customers?
- Has the company effectively informed and engaged with customers on its current levels of performance and how does this compare to other companies in a way customers could be expected to understand?
- Has the evidence and information obtained from customers (including through the company's day-to-day contacts with customers) genuinely driven and informed the development of the business plan to benefit current and future customers? What trade-offs (for example between different customers) have been identified and how has the company proposed to deal with these?

The CEF and our sub-panels also used Annex 1 from the Aide Memoire as a useful guide in preparing this report and the subpanels' reports. The company also provided a useful analysis of the Aide Memoire, which helped the CEF to focus attention on areas that required particular scrutiny (see Annex 13j of Anglian Water's PR19 Business Plan: *Meeting the aide memoire requirements*).

¹ See Ofwat's Aide Memoire for Challenge Groups, published 21 March 2018, available at <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

Structure of the Report

This report is organised into three main chapters:

- **Chapter 1** provides an interpretation of the Ofwat guidance for CCGs and how governance arrangements have been set up for Anglian Water's Customer Engagement Forum, ensuring the Forum's independence while balancing the need for a constructive working relationship with Anglian Water.
- **Chapter 2** summarises the main findings of the CEF and its independent panels in terms of quality of customer engagement and how this is driving Anglian Water's decision making.
- **Chapter 3** is a summary of the CEF's final conclusions.

The Annexes include a full list of CEF and sub-panel members, a chronology of meetings and agendas and a full challenge log, as well as reports by each of the CEF's independent sub-panels, which have helped to inform this report. (Some of these Annexes have been appended as separate documents).

Executive Summary

The Customer Engagement Forum (CEF) report on Anglian Water's plans for 2020-2025 comes at the end of a long and intense process of engagement with Anglian Water, building on work carried out by the CEF during the 2015-2020 price review. It sets out the Forum's assurance for Ofwat on the company's plans, specifically to provide **independent challenge** and **independent assurance** on:

- the quality of the company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

Independent Challenge and Assurance

Under the guidance of independent Chair Jeff Halliwell, the CEF has operated at arm's length from Anglian Water at all times, while maintaining a constructive working relationship with the company. The 14 members of the Forum and 35 members of the four stakeholder subpanels supporting it come from a wide range of backgrounds (subpanels include: a Sustainability and Resilience Panel; an Affordability and Vulnerability Panel; an Economics and Valuation Sub-Group; and a Hartlepool Independent Advisory Panel). Each of the panel chairs sits on the CEF, which includes members from CCWater, the Environment Agency and Natural England as well as the Citizens Advice Bureau, Friends of the Earth, Blueprint for Water, CBI East of England and Huntingdonshire District Council.

In all, it is estimated that CEF members and subpanel members have spent more than 2,100 person hours since 2016 in CEF meetings, panel meetings, working groups, consultation exercises and consultation groups. CEF members have attended external events, including focus groups and external customer engagement and stakeholder groups, as well as taking part in site visits.

Three members of the CEF also sat on Anglian Water's Customer Engagement Steering Committee (CESG) so that the details of the company's customer engagement strategy could be examined and questioned in more detail than possible in the full CEF meetings.

As well as taking on three members with expertise in regulatory economics, the CEF also engaged additional independent technical assurance from Jacobs (formerly Halcrow) to help scrutinise the technical and financial proposals behind the company plans. Jacobs also performed an audit of the company's customer engagement.

The CEF challenged the company to come forward with plans for PR19 that genuinely had customer engagement at its heart. Members of the CEF and its subpanels were robust in their challenges and the company was constructive in its response.

Engagement with the CEF on the part of Anglian Water was exemplary. Senior executives from the company, including the Chief Executive, have attended every CEF meeting and worked collaboratively with the Forum. The CEF Chair has met on several occasions with the company's Board. The Chairman and Non-Executive Directors attended the CEF meeting on 5 June 2018.

The Environment Agency and Natural England have made their views known as members of both the CEF and the Sustainability and Resilience Panel. The Drinking Water Inspectorate has also given assurance that, in relation to statutory obligations, there are no outstanding issues that should be regarded as a material concern.

Quality of Customer Engagement

The CEF has been impressed by the length, breadth, depth and innovative nature of Anglian Water's customer engagement for PR19 – which started with gathering detailed insights into customers' lives and generated more than 500,000 customer interactions from across the Anglian Water region through a range of 38 different platforms.

The CEF was also reassured that the customer engagement had adequately reflected the views of **Hartlepool** customers, who make up 1.46% of Anglian Water's customer base, and where the service provision (water only), geography, and customer demographics, are different from the main Anglian region.

The company has engaged with **non-household** customers as well as **household** customers. And the company has also engaged with **retailers**, which represent a new class of customers for PR19 following market opening in March 2017.

The CEF believes Anglian Water's customer engagement programme represents a positive step change in the impressive activities carried out for PR14 and that this has placed customers at the heart of the way the company does business and develops its plans.

In terms of gathering evidence for these views, the CEF used the issues outlined in Ofwat's Aide Memoire for CCGs as a framework for its report. The key findings are summarised below.

Understanding customers' needs

The CEF noted that Anglian Water took the time to really understand customers' priorities, needs and requirements and the issues that matter to them. The CEF was impressed to see that the company listened to customers carefully as it developed its priorities and plans for PR19 and beyond – looking at both current and future challenges facing the region, particularly in terms of population growth and climate change.

In developing its customer engagement strategy, Anglian Water adopted a co-creation approach. The company carried out detailed customer segmentation based on attitudes, held focus groups to help understand customers' worlds, and through this was able to develop ideas for engaging with customers on difficult topics such as resilience.

This programme included engagement on the revised 25-year **Strategic Direction Statement (SDS)**, to ensure that the PR19 Business Plan was put into a longer term context shaped by customers and stakeholders. Anglian Water responded to feedback by introducing a new fourth long-term ambition to improve the ecological quality of the region's catchments, suggested by members of the Sustainability and Resilience Panel. The company's openness and willingness to adopt this new fourth ambition was a good example of the positive way it has responded to customer and stakeholder engagement in the development of the company's strategy and plans.

Customer engagement – on-going, two-way and transparent

Anglian Water created several new and innovative channels to engage with customers, which are now regarded as business as usual for the company. This has provided good evidence to the CEF of the company's commitment to engaging customers in an on-going, two-way and transparent process, where customers are being informed at the same time as their views are being solicited on issues that matter to them.

CEF members have also seen clear evidence that the company takes account of day-to-day contact with customers through billing enquiries and complaints, which it regards as a valuable source of data for gathering customers' views and concerns.

Understanding the needs and requirements of different customers, including those in circumstances that make them vulnerable

Building on the SDS consultation, the company engaged effectively with – and understood the needs and requirements of – a whole range of customers during its comprehensive customer engagement programme for PR19. Through careful segmentation of customers, based on attitudes, this enabled the company to tap into the views of the whole spectrum of customers, with a particular focus on those living in circumstances that make them vulnerable and those who are hard to reach.

In all, the company created 38 different channels of engagement and communication with customers – from face-to-face focus groups to online engagement and water festivals in town centres. The company gave due consideration to the most effective ways to reach out to and engage with customers from all different walks of life and the CEF felt those efforts were to be fully commended.

Engaging with customers on options

The consultation engaged with customers on a genuine and realistic range of options, particularly in terms of balancing the need for resilience with impacts on future bills. CEF members were particularly impressed by the Be the Boss digital engagement around the outline Business Plan, which allowed customers to pretend to be the boss of Anglian Water for the day to decide what trade offs and investments they would like to make.

Through this customer engagement programme, it emerged that over 80% of customers were happy with accepting at least some bill increase in order to address the serious water supply resilience challenges in the region and the large programme of work needed to meet the company's environmental obligations. Customer engagement through Be the Boss showed that 34% of customers considered a 2.5% increase in bills was acceptable while 48% were happy with a 5% bill increase over AMP7.

CEF members and members of the Sustainability and Resilience Panel noted this strong customer support for a bill increase of at least 2.5% and questioned why the company was proposing a bill increase in the order of only 1% over the next five years. They sought assurance from the company that this lower level of increase was not at the expense of progressing important investment in resilience or the delivery of environmental obligations. The company provided this assurance at the CEF meeting on 13 August 2018.

It was also noted that the company had originally intended to propose a bill decrease to customers but had to revise bills upward to respond to increased levels of environmental investment required under the Water Industry National Environment Plan (WINEP), having initially assumed a lower level of obligations.

Informing and engaging with customers on current performance

Through the **Discover Water** website and the company's own performance portal (available at <http://ourperformance.anglianwater.co.uk/>), Anglian Water has effectively informed customers on its current levels of performance and how this compares to other companies in a way they can understand.

As a part of its customer engagement, the company explained its current performance levels on various criteria. A particular example is leakage, where it was important for Anglian Water to explain its sector-leading position, as an introduction to asking whether customers would support further frontier improvements, even at the potential cost of higher bills via enhanced ODI rewards.

Engaging with customers on longer term issues, and reflecting potential needs of future customers

The CEF believes there is robust evidence in Anglian Water's Business Plan showing how the company's approaches have, and will, deliver affordability for current customers, future customers and for those who are struggling, or who are at risk of struggling, to pay their water bills.

As mentioned above, the CEF was satisfied that Anglian Water can demonstrate strong customer support for its proposed bill increase of 1% over AMP7, although members acknowledged that this comes against an expectation from Ofwat that bills across England should fall.

CEF members were pleased to see that Anglian Water had responded to the remaining 20% or so of customers who felt unwilling to accept a bill increase. They were impressed by company plans to deliver a positive step change in support for those who may struggle to pay their bills in AMP7.

The CEF also welcomed the decrease in bill profile of 4.7% for Anglian Water customers in Hartlepool, reflecting the fact that, since Hartlepool is a water-only company, most of the environmental investments required in the main Anglian area are not relevant in Hartlepool. The reduction is also welcome in the context that Hartlepool Water serves an area of severe deprivation compared to the national and regional averages.

Although some CEF members expressed initial concern about the overall proposed bill increase, the strong weight of customer evidence convinced the CEF that customers are clearly in favour of making the necessary investments now to guarantee the resilience of services over the longer term.

How Customer Engagement is reflected in the Business Plan

Evidence of customers driving development of the business plan

A key part of the CEF's role has been to evidence the Golden Thread linking the company's customer engagement with business investment decisions. **Customer valuation is core to this linkage.** The CEF commended Anglian Water for a very thorough, strategically designed and well implemented customer engagement programme that has generated a suite of robust data on consumer valuations.

CEF members observed that Anglian Water had developed a valuation strategy, based on independent expert advice, some time before the start of the PR19 process. Members concluded that this had resulted in a well-designed, deliberative approach, building on lessons from PR14 at Anglian Water and more widely in the sector. Anglian Water's resulting valuation work programme was multi-stage, and involved a number of innovative steps. The programme allowed time and space for evaluation of emerging results, course correction, and reworking as need be.

In the view of the CEF, Anglian Water and its technical consultants had executed thoughtfully designed and implemented experiments, focused on eliciting informed and unbiased views of customers on the key parameters for Anglian Water's service, investment and incentives. The valuation research was supported by a very strong peer-review report.

The CEF believes that Anglian Water appears to be operating close to the current leading edge of willingness to pay methodologies. Nevertheless, the intrinsically challenging nature of this customer engagement (e.g. putting a value on very low likelihood downsides which are outside most people's lived experience, or thinking about the value of a clean beach) means that care needs to be taken to consider the weight each value will bear, in practice. Anglian Water's overall conservative stance (i.e. adopting lower rather than higher values) is one step in this direction.

Anglian Water has, in virtually all cases, adopted a very structured and transparent approach to triangulation, based on a series of logic steps comparing latest valuations with Anglian Water PR14 results, updated for inflation and customer base dimensions, with a conservative bias to produce a recommended value range.

The CEF challenged Anglian Water to demonstrate the application of evidence from customer engagement to cost benefit analysis of its investment programme and to quantification of its performance commitments.

The CEF was assured that the main messages and detailed findings from the emerging suite of valuation studies were thoroughly embedded alongside the other engagement carried out throughout the business, by means of the Anglian Water **Customer Research & Engagement Synthesis Report**. This detailed and regularly updated document, which synthesised each channel of customer engagement, was cascaded through the organisation to business planners, and provided a clearly signposted summary of customer evidence for each of Anglian Water's key strategic outcomes. The CEF understood that business cases were required to reference the synthesis report, so that all parts of the company drew on the same shared understanding of customers' views.

With regard to **cost benefit analysis of its investment programme**, the CEF was on the whole content with Anglian Water's thorough presentation of the application of customer valuations, along with other constraints (legal, resourcing, etc.), to generate optimised portfolios of projects.

With regard to **quantification of ODIs**, in general the CEF saw strong evidence that the body of customer engagement and research had been well used, first to define which additional company-specific performance commitments Anglian Water would propose in its Business Plan, and then to calibrate the level to be achieved and the over- and under-performance financial incentives.

Performance Commitments

The CEF challenged Anglian Water robustly on its approach to setting performance commitments, including how well they reflected customers' views and how stretching they were.

It carried out a deep dive into the basis for Anglian Water's proposed performance commitment levels. In the areas where the company has some discretion (i.e. outside of those performance commitments and levels that are mandated and defined by Ofwat), the company has demonstrated a clear link between evidence from customer engagement and research on valuations and the proposed performance commitment levels. This evidence informed both the design of Anglian Water's proposed package of measures, levels and stretch, and then customers' views on the package as a whole. The latter evidence was derived from acceptability testing with >1,600 household customers via a structured sample survey.

Overall there was a reasonable level of support, with support for individual performance commitments ranging from 51-81%. In response to a challenge from the CEF on customer understanding of performance commitments, Anglian Water reanalysed the data excluding customers who stated they did not understand and the support increased to 53-82% among those customers who stated they understood the performance commitment proposals. On average, across measures, 70% of customers thought the performance commitment proposals were stretching.

The CEF examined the process by which the company generated its proposed package of bespoke performance commitments. The focusing of a wide array of possible measures down to the 18 selected was assisted by aligning it with the strong evidence base of customer engagement which had been developed via the earlier consultation on the revised SDS. This provided a high degree of coherence and a sense of customer prioritisation against which the company could assess candidate performance commitments. The specific performance commitments put forward were then further

tested via acceptability research. The process of developing the performance commitments and the resulting proposed package of measures was also independently scrutinised and challenged by Jacobs in three phases over the last six months.

The CEF has reviewed Anglian Water's current performance across all performance commitments on a regular basis, including examining historical trend data and forward extrapolation of current performance improvement trends. The proposed 2019/20 levels were also tested with customer acceptability research, in the context of recent historical performance. On the basis of this evidence, the CEF considers that the proposed 2019/20 initial service levels area a reasonable basis for starting the AMP7 performance commitments. The CEF independently challenged Jacobs and was assured by Jacobs' opinion following their audit and assurance activity on the company's year-end performance.

However, the CEF had several major challenges relating to specific performance commitments, notably in relation to Vulnerability, Natural Capital and the WINEP investment programme, which are summarised below.

Vulnerability

CEF members and the **Affordability and Vulnerability Panel** (A&V Panel) were satisfied that there had been widespread and extensive engagement on vulnerability and that this had helped to shape the company's impressive vulnerability strategy and wider Business Plan for PR19. There was strong evidence of good approaches to using customer data and working with third parties, including other utilities, to better identify and target support when addressing vulnerability.

The A&V Panel supported, and was assured, that there was widespread customer support for the company's proposed twin **Bespoke Performance Commitment on Vulnerability** (one quantitative and one qualitative measure).

However, the A&V Panel concluded that customer engagement had been inconclusive regarding support for the company's proposed reward-only incentive mechanism. Following the Panel's challenge, Anglian Water carried out further customer engagement on this issue through the online community, which also remained inconclusive. The company agreed to redraft the narrative in the Business Plan to reflect this challenge and to explain that, in the absence of a clear indication from customers, it has drawn on best practice from the energy sector in the proposal to use a reward-only mechanism for the vulnerability ODI. Any outperformance payments received will be invested to support customers in vulnerable circumstances. The Panel was content with the company's redrafted narrative.

Sustainability

The CEF and **Sustainability and Resilience** (S&R Panel) welcomed the fact that Anglian Water was proposing to continue its ambitions to be best-in-sector on leakage performance by driving down leakage by 50% over the next 25 years, reinforced by strong customer support for this approach. The S&R Panel also particularly welcomed the inclusion of an ambitious bespoke performance commitment on Natural Capital in the company's suite of ODIs. Members were impressed to see, embedded in this ODI, the company's ambition to become the first in the UK to develop a Natural Capital balance sheet for the region, working with other regional stakeholders.

Panel members acknowledged that this **Natural Capital** approach was a pioneering development and were pleased to see that the wording of the ODI was revised and clarified following members' input to include a stronger role for the S&R Panel in developing, testing and refining this Natural Capital approach over the next AMP.

Following robust challenge from CEF members and members of the S&R Panel, the company removed from its early delivery performance commitment on the **Water Industry Environment Programme (WINEP)** those schemes that may be suitable for catchment and Natural Capital solutions so as to avoid any bias towards more traditional but quicker hard engineering solutions.

Members were also pleased to see the introduction of a bespoke performance commitment on **Social Capital** to complement the Natural Capital ODI, following input from the CEF and S&R Panel members. S&R Panel members were generally keen to see the company working in partnership with other organisations – including the Environment Agency and Natural England, and environmental NGOs – and recognised that this performance commitment was a positive step in this direction.

Another area of robust challenge from members of the S&R Panel was around **pollution incidents**, where the company is proposing a financial incentive for this common performance commitment (in line with Ofwat guidance for common measures). However, the Panel and CEF members argued consistently that the company should not be rewarded in circumstances where pollution incidents are still happening. This was an outstanding challenge at the time of writing. While the company noted the Panel's concerns regarding the perception of outperformance incentives while still incurring some serious pollution incidents, it argued that the performance commitment level was based on only category three incidents, in line with the company's ambition for no category one or two incidents.

Other challenges identified by the S&R Panel related to the precise definitions of ODI targets and the use of deadbands for performance commitments on **Treatment Works Compliance** and **Bathing Waters**.

With regard to **Water Transfers**: it was difficult to discern from Anglian Water's draft **Water Resources Management Plan (WRMP)** the extent to which the company was planning to create inter-company water transfers. The S&R Panel questioned how the neighbouring water resources plan meshed together, in spite of the good work of Water Resources East. Panel members noted that this issue was not exclusive to Anglian Water. The Panel looked to Anglian Water to continue to engage positively in both national and regional water resource planning initiatives.

Financeability

The CEF was kept informed of proposals that were developed by the company to respond to the challenges made by Ofwat in their work on "Putting the Sector Back in Balance". The CEF urged the company to engage with, and to communicate to, their customer base on these issues. Members were pleased to see that this engagement took place, even though communication on technical aspects of company finance can be difficult.

In reaching its final conclusions concerning the proposed bill profile, the company modelled the impact of a range of profiles on metrics of financeability, both for the company's actual capital structure and the Ofwat notional capital structure. Initially the Economic and Valuation Sub-Group, and subsequently the CEF, reviewed this information, and the customer engagement on these issues. This review encompassed issues such as the reasonableness of the assumptions made by the company about net rewards likely to be earned in the remainder of this Asset Management Period. The CEF discussed with the company its proposals concerning RCV run-off rates and "Pay As You Go" rates. Members were pleased to see that the company had sought to engage customers and to elicit their views, on these issues. This had included discussion on the intergenerational considerations, and on the modelled profile of bills, both for AMP7, but also beyond, albeit recognising the inherent assumptions that had to be made to model further ahead. The CEF concluded that the efforts made to engage on these issues were acceptable, and commensurate with the bill proposals encapsulated

within the draft Business Plan. A majority of household and non-household customers were supportive of the approach that the company proposes to take.

Conclusions

The CEF and its subpanels have worked constructively and diligently over the past two years to scrutinise and challenge Anglian Water's extensive customer engagement programme. Members have been unanimous in their praise for the breadth, depth and innovative nature of the company's suite of customer research that has reached out to a diverse range of customers and captured their views.

The CEF has been robust in its challenges to the company, for example, regarding performance commitments on vulnerability and Natural Capital, and the company has responded proactively by adapting and revising proposals to accommodate CEF members' comments and suggestions accordingly.

Just as the company had to balance competing demands and pressures in producing a balanced plan, so did the CEF. The group challenged each other and the company about the relative priority to be afforded to different pressures for investment; for example, as to whether the company had gone far enough in terms of its environmental investments and catchment management approaches, and whether those customers who did not accept a bill increase were adequately supported.

However, through the additional scrutiny of the Economic and Valuation Sub-Group and the customer engagement audit by Jacobs, the CEF was also assured that this in-depth programme of customer engagement has informed the thinking behind the company's PR19 Business Plan and has produced an ambitious and stretching set of initiatives and performance commitments for AMP7 which are driven by customer priorities.

The CEF acknowledged that customer engagement had proved conclusively and robustly that more than 80% of customers were supportive of key investments to cope with future resilience issues and to protect the environment, and that they accepted bill increases of at least 2.5% as a result of the investment. Following this, the company had robustly challenged costs and, in its final plan, was able to offer the outcomes customers wanted for bill increases of around 1%. Customers perceived this to be good value for money.

Although CEF members were aware that this bill increase might prove to be controversial, they were assured both by the level of customer support and by the company's plans to increase support for customers who might struggle to pay their bills in future.

In overall summary, the Anglian Water Customer Engagement Forum commends the company on the length, breadth, depth, scale and innovative nature of its customer engagement programme for PR19. The CEF and its subpanels have worked hard to scrutinise the degree to which that engagement has fed into the company's proposed PR19 Business Plan. It is satisfied, with a number of minor caveats noted in the commentary above and in the CEF's report, that Anglian Water's PR19 Business Plan is indeed driven by the requirements of the company's customers, and that it recognises the challenges faced by customers across the region, including those in Hartlepool.

Chapter 1: Customer Engagement Process and Governance

i. Background

In 2011, Ofwat set out their expectations for a step-change to customer engagement for PR14, through a three-tiered approach to putting customers at the heart of the price setting process:

- Direct local engagement between water companies and their customers e.g. surveys, focus groups, interviews.
- A company supported Customer Challenge Group (CCG) to ensure that the company business plan reflects a sound understanding and reasonable balance of customers' views and that the outcomes are delivered in the most socially, economically and environmentally sustainable way.
- A sector wide Ofwat customer advisory panel to inform thinking on issues where consistent policies or assumptions will be applied across the industry.

In May 2016, Ofwat released a policy statement that superseded the 2011 document, but which built on the principles laid out for PR14. Key points are:

- The regulator will expect a further step-change in the way companies approach customer engagement, with mixed-methods approaches incorporating new and innovative techniques, less reliance on stated preference surveys and appropriate triangulation/proportionality.
- CCGs may now have a dual role of challenging current performance as well as looking at the quality of customer engagement and the evidence it provides for company decisions.
- There was greater clarity on areas that CCGs should influence – including most importantly (but not limited to): outcomes, performance commitments, Outcome Delivery Incentives, affordability and bill profiles.

ii. CEF's role and remit

Anglian Water's Customer Challenge Group (CCG) – known as the Customer Engagement Forum (CEF) – is a totally independent group that has challenged the company to produce a Business Plan for PR19 that meets the expressed service priorities of household and non-household customers (and key stakeholders) and their willingness to pay for services.

The brief was very clear: to provide **independent challenge** to companies and **independent assurance** on:

- the quality of the company's customer engagement; and
- the extent to which the results of this engagement are driving the company's decision making and being reflected in the company's business plan.

This role was reflected in the CEF's refreshed Terms of Reference for PR19, which laid out CEF's key functions as follows:

A. Challenge current performance

Challenge current performance and check that the company is delivering on the commitments made to customers in the 2015-2020 Business Plan. This will include looking at comparisons of performance against other companies, and ensuring that comparative information is communicated appropriately to customers and stakeholders

B. Challenge engagement activity that will underpin the business plan

Independently challenge the company on the quality and breadth of its customer engagement and provide assurance to Ofwat that the customer engagement informing Business Plan decisions for PR19 is robust, reliable and proportionate

A full copy of the CEF's Terms of Reference (ToR) is included as an annex to this report (see Annex 1: *Terms of Reference: Anglian Water Customer Engagement Forum*) and has also been made available on Anglian Water's website [here](#).² However, it is worth laying out here some of the Forum's key tasks as described in the ToR below:

To challenge current performance, the CEF will:

- Hold Anglian Water to account on performance during this business plan period – seeking clarity on areas of significant variance from performance targets, monitoring improvement activity where appropriate and developing a more in-depth understanding of service areas that are a high priority to customers
- Oversee the ways in which the company communicates with customers on its current performance, ensuring it is pitched at a level that customers understand and the context is appropriate

To challenge engagement activity that will inform future plans, the CEF will:

- Advise and challenge Anglian Water as it develops engagement and research plans that will inform the PR19 Business Plan, ensuring that members are confident that the engagement programme will provide robust evidence of customers' views.
- Assess the extent to which the customer engagement programme reflects the views of different customer types, and in particular customers in vulnerable circumstances.
- Challenge Anglian Water as it interprets customers' views and decides how to reflect them in the company's longer-term strategy and business plans.
- Advise and challenge Anglian Water and other regulators to consider:
 - the opportunities for using innovative or sustainable means of delivering the required or desired outcomes;
 - the scope, justification and cost-effectiveness of the preferred delivery mechanism; and
 - phasing delivery or outcomes to maximise the affordability and acceptability of the company's overall business plan.
- Provide a report to Ofwat at the end of the period which will provide assurance on the quality and reliability of the customer engagement process, and detail any trade-offs or concerns which were identified and addressed.

² See Anglian Water website: https://www.anglianwater.co.uk/assets/media/CEF_ToR_2015-2020.pdf

iii. CEF Members

The CEF is wholly independent of Anglian Water and draws membership from a wide range of backgrounds, representing the interests of household and business customers, the environment and the third sector (see below for a full list of CEF members and also Annex 2: *CEF Members and Panel Members*).

The 14 members of the CEF have an impressive breadth of knowledge and expertise between them. The CEF includes representatives from two key industry environmental regulators with a statutory remit (the Environment Agency and Natural England), as well as two representatives from the Consumer Council for Water (CCWater) and other key bodies in the region including the Citizens Advice Bureau, CBI, Blueprint for Water, and Huntingdonshire District Council.

As well as members representing key organisations, the CEF also includes a range of independent members who are not affiliated to any specific organisation. This is a structure that served the CEF well during PR14 without the need for a formal conflict of interest policy and was carried over into PR19. Several current members also sat on the CEF during PR14. The recruitment of CEF members with a range of different experience and expertise allowed the CEF to tap into a broad and rich diversity of views, which are reflected in this report.

The CEF is advised by four independent subpanels that have provided invaluable expert scrutiny into specific aspects of Anglian Water's evolving Business Plan: the Sustainability and Resilience Panel; the Affordability and Vulnerability Panel; the Hartlepool Independent Advisory Panel; and the Economic and Valuation Sub-Group (the panels' role in facilitating a more detailed focus on the concerns of particular stakeholder groups is described below in Chapter 1v: The Independent Advisory Panels).

In all, CEF members have spent an estimated 2,100 person hours over the past two years in CEF meetings, panel meetings, working groups, consultation exercises and consultation groups. CEF members have attended external events, including focus groups and external stakeholder groups as well as site visits. For example, members of the Sustainability and Resilience Panel have had the opportunity to visit Anglian Water's innovation shop window in Newmarket and exemplar projects around the region to see some of the company's most innovative catchment management-based work in action. And members of our Affordability and Vulnerability Panel have attended a number of customer focus groups and workshops for vulnerable customers.

In late 2017, in light of the increasing emphasis from Ofwat on the need for CCGs to address a growing range of substantive questions about how companies had conducted and then applied customer valuation work, the CEF recruited three additional members with a broad range of economic regulatory experience.³ They were recruited through a competitive process and were appointed following interviews with the CEF Chair and Anglian Water's Regulation Director Alex Plant.

The CEF was thus enlarged from early December 2017, and this body scrutinised and challenged the emerging findings from Anglian Water's customer valuation work through winter/spring 2017/18 – both as part of the CEF itself and as members of a newly established Economic and Valuation Sub-Group. Their views have helped to shape this report and their report is also included in Annex 8: *Report by Economic and Valuation Sub-Group*.

³ Daniel Storey, Paul Metcalfe and Beth Corbould.

As well as recruiting members with technical expertise to scrutinise specific elements of Anglian Water's plans, the CEF also engaged additional independent technical assurance from Jacobs (formerly Halcrow) to help challenge some of the technical and financial proposals behind the company's plans. Jacobs also carried out an audit of Anglian Water's customer engagement and investment planning. Jacobs was paid by Anglian Water but advised and independently assured the Forum on a confidential basis. They also gave the CEF additional assurance through their Customer Engagement Summary Audit, which was positive and did not identify any material concerns (see Annex 6: *Customer Engagement Summary Audit – by Jacobs*).

Who sits on the CEF?

Jeff Halliwell was appointed as Chair of the CEF in January 2016, through a competitive recruitment process carried out by an independent recruitment agent, and he performs this role in an independent capacity. Below is a full list of CEF members and their areas of expertise (also available on the Anglian Water website [here](#)):⁴

Jeff Halliwell – Chair, Customer Engagement Forum

Jeff Halliwell was appointed as Chair of the Customer Engagement Forum in January 2016. His executive and non-executive director positions for household names and a range of industries spanning food, health, education and transport have seen him lead public, private, governmental and charitable bodies, as well as various organisations supporting vulnerable or minority groups, such as Home Start and The Shaw Trust. Since 2015, Jeff has been Chair of the statutory independent transport consumer watchdog, Transport Focus. In January 2017, he was also appointed as the independent Chair of the new Customer Challenge Board for Heathrow Airport Ltd. The terms of reference for the CCB are modelled closely on those established for CCGs in the water sector. In addition, he serves as Governor of the University of Northampton. He is an Anglian Water customer and a strong and balanced advocate for customers within complex, highly regulated environments.

Craig Bennett – Chair, Sustainability and Resilience Panel and CEF member

Craig Bennett is Chief Executive Officer (CEO) of Friends of the Earth and Honorary Professor of Sustainability and Innovation at University of Manchester Alliance Manchester Business School and chairs the S&R Panel in his personal capacity. He has been described as “one of the country's top environmental campaigners”, and by *The Guardian* as “the very model of a modern eco-general”. He was recently listed as one of the UK's top “social media CEOs”.

Prior to Friends of the Earth, Craig was Deputy Director at the University of Cambridge Institute for Sustainability Leadership (CISL), and Director of The Prince of Wales's Corporate Leaders Group on Climate Change (from 2007 to 2010). He maintains his links with The University of Cambridge, as Policy Fellow at the Centre for Science and Policy (CsAP), and as a Senior Associate at the Cambridge Institute for Sustainability Leadership (CISL).

Beth Corbould – Economist and Policy Specialist, UK Civil Aviation Authority; member of CEF

Beth Corbould is an economist and policy specialist with particular experience working in economic regulation in the UK, currently with the UK Civil Aviation Authority. Beth is focussed on putting the consumer at the heart of airport regulation by leading on the implementation of consumer research

⁴ See Anglian Water website: <https://www.anglianwater.co.uk/about-us/the-customer-engagement-forum.aspx>

driven business plans and outcome-based regulation. Beth holds undergraduate and Master's degrees in economics, and has previous experience working in the Civil Service in Australia and the Office of Rail and Road in the UK.

Professor Bernard Crump – Regional Chair (Eastern Region), Consumer Council for Water; member of CEF and Anglian Water's Customer Engagement Steering Group (CESG); member of Economic and Valuation Sub-Group

Bernard Crump is the Consumer Council for Water Regional Chair for the Eastern Region. He is a qualified doctor with postgraduate training in Public Health. He had a long NHS career working as a Director of Public Health, Chief Executive of a Strategic Health Authority, and was the first CEO of the NHS Institute for Innovation and Improvement. He has lived and worked in the Midlands for more than 25 years and is currently Professor of Medical Leadership at Warwick Medical School. Bernard was a member of the CEF during the last business plan period and has continued in his role for the 2015-2020 period. He also sits on several other CCGs for other water companies. Bernard sat on the CEF in PR14.

Gill Holmes – Local Consumer Advocate, Consumer Council for Water; member of CEF and Anglian Water's Customer Engagement Steering Group (CESG); member of Affordability and Vulnerability Panel

Gill Holmes joined the Consumer Council for Water (CCWater) as a Local Consumer Advocate for the Central and Eastern region in April 2015. She is a Solicitor who has worked in the Courts' Service practising criminal and family law before becoming a Senior Manager for the Service in Bedfordshire. As part of this role Gill focused on 'quality' and customer service issues, working closely with other agencies and Customer Focus Groups to raise standards for all those using the courts. She also worked on a number of projects relating to the collection and enforcement of financial penalties and the ability to pay. Gill currently acts as Independent Person for four Local Authorities dealing with complaints and standards issues.

John Giles – River Basin Account Manager, Environment Agency; member of CEF and Sustainability and Resilience Panel

John Giles is the Environment Agency's River Basin Account Manager for the Anglian River Basin. He has worked for the Environment Agency for 23 years carrying out a number of compliance and enforcement roles, before specialising in strategic planning issues. John is also founding board member of Sustainability East.

Joanne Lancaster – Managing Director at Huntingdonshire District Council; member of CEF

Joanne Lancaster was appointed as Managing Director at Huntingdonshire District Council in June 2013. She began her career in local government as a technician in the planning department at Dudley Metropolitan Borough Council, and subsequently became a qualified town planner, working in many councils within the West Midlands in both rural and urban environments. Joanne is a strong supporter of good quality, efficient public services and is proud to be a governor at the local regional college.

Martin Lord – Chairman, Affordability and Vulnerability Panel and CEF member

Martin Lord was the Chief Executive of Central and East Northamptonshire Citizens Advice Bureau until he joined the Electoral Commission in summer 2018. He led the bureau through a period of growth and diversification including the acquisition of legal aid contracts, the development of

specialist debt, benefit and housing casework services – alongside digital inclusion and financial capability initiatives. He has been involved in the joint development and delivery of the assessment function for Anglian Water's "Lite" social tariff. Martin has also served as Chair of Voluntary Impact Northamptonshire, and the Voluntary Sector Representative on Northamptonshire Health and Wellbeing Board.

Dr Paul Metcalfe – Managing Director of PJM Economics; member of CEF

Paul Metcalfe's expertise lies in the interface of economics, regulation and customer insight with a particular focus on the water sector. He has completed dozens of studies focussed on the design and analysis of customer surveys to explore customers' priorities, preferences and willingness to pay within a regulatory context. This includes work for several water companies at PR09, PR14 and PR19 to support their business plans as well as similar work in energy, transport and postal services sectors, amongst others. He has also contributed to best practice industry guidelines including the UK Water Industry Research study 'Carrying out Willingness to Pay Surveys', and he managed the National Water Environment Benefits Study research, which focussed on national valuation of water quality improvements. Paul has a PhD in Environmental Economics from the London School of Economics.

Peter Olsen – Chairman, Hartlepool Independent Advisory Panel and CEF member

Peter Olsen trained as a Chartered Accountant in Skipton in West Yorkshire, qualified in 1972 and became a partner in a leading Hartlepool practice in 1974. He retired from the partnership in 2009 as Practice Chairman, having previously been managing partner for some 15 years. He specialised in charity audits and advice to that sector and in 2008 became chairman of Housing Hartlepool, the largest local social landlord looking after the welfare of 7,000 households. Peter was a member of the Hartlepool Independent Advisory Panel during PR14.

Dr Nathan Richardson – Senior Policy Officer, RSPB and member of Blueprint for Water; member of CEF

Nathan Richardson has more than 30 years' experience in the water sector in research, consultancy, industry and policy roles. Most of this has been in the Anglian region where he lives with his family. His career has focussed on developing solutions to water scarcity, pollution and flood risk pressures. Nathan is a past chair of the Chartered Institution of Water and Environmental Management (CIWEM) East Anglian branch, representing more than 2,000 water management professionals in the region. He is a Senior Policy Officer at the RSPB and sits on the Blueprint for Water NGO coalition which brings together 16 organisations, representing more than 6 million members, with an interest in water matters.

Daniel Storey – Chairman, Economics and Valuation Subgroup and CEF member

Daniel Storey is a professional economist with nearly 30 years' experience of working on policy-making at the interface of Government and business. Initially at the Department of Trade and Industry, he spent the early part of his career at HM Treasury, before moving into field of economic regulation at the Civil Aviation Authority. Since 2009 he has worked as a freelance economic consultant, providing advice to a range of companies mainly in the aviation and water sectors. He is Director of High Point Economics and is currently working for Gatwick Airport on regulatory strategy.

John Torlesse – Manager for Cambridgeshire, Natural England; member of CEF

John Torlesse has more than 25 years' experience working in the nature conservation field with the government's statutory advisory bodies. He has considerable experience through a variety of national and local roles in the management and restoration of wildlife sites and in the development of new partnerships and funding initiatives to advance public enjoyment of the natural environment and its enhancement. He currently manages Natural England's operational work across Cambridgeshire, Bedfordshire and Northamptonshire. Prior to working in nature conservation, John worked in commercial property consultancy having trained as a chartered surveyor.

Richard Tunnicliffe – Regional Director, CBI East of England; member of CEF

Richard Tunnicliffe is Regional Director, CBI East of England. Richard joined the CBI in 1997 after completing his degree in applied biology at the University of Hertfordshire. He completed his MBA in 2005. He moved to the CBI East of England office in July 2000 where he had responsibility for the whole range of CBI activities in the East. He was appointed Regional Director in July 2005. This role includes regular liaison with senior executives in CBI member companies and lobbying on a regional level on issues such as skills, transport, broadband, housing and aviation.

Drinking Water Inspectorate and other statutory bodies

Although the Drinking Water Inspectorate (DWI) did not have the capacity to send a representative to attend CEF meetings, Sue Pennison from DWI was able to make a presentation to CEF members on 6 March 2018. She reiterated that DWI was available to give any advice and guidance to the CEF during the PR19 planning period.

The DWI has given CEF assurances that, in relation to statutory obligations, there are no outstanding issues that should be regarded as material concerns. Their assurance letter supporting proposals contained within Anglian Water's Business Plan is attached in Annex 7: *Statement from Drinking Water Inspectorate*.

The Environment Agency and Natural England have made their views known through representatives sitting on the CEF and Sustainability and Resilience Panel.

iv. Governance and transparency

The independence of the CEF has been critical to the Forum's effectiveness, legitimacy and ability to challenge Anglian Water's business planning process and to see that customers' interests and views were taken into account. CEF members have been mindful of operating at arm's length from the company at all times.

Anglian Water provided administrative support to the CEF and its panels but it was decided to appoint an independent secretary to keep record of CEF and panel meetings and to help write both the CEF and panel reports. To ensure transparency, all minutes for CEF and independent panel meetings have been made publicly available on the Anglian Water's website [here](#).⁵

CEF members representing organisations were not paid time although Panel Chairs received an honorarium in recognition of their time commitment. Those members appointed in a personal capacity received remuneration for their time involvement.

⁵ See Anglian Water website: <https://www.anglianwater.co.uk/about-us/minutes-and-reports.aspx>

Anglian Water personnel were not members of the CEF but attended meetings to present to Forum members and to provide responses to questions and challenges from members; they left the meeting during private sessions of CEF and sub-panel members to enable them to have full and frank discussions in confidence.

CEF members also had access to the Anglian Water Board of Directors, mainly communicating to the wider board through Alex Plant, Anglian Water's Director of Regulation, and Peter Simpson, Anglian Water's Chief Executive, one or both of whom attended all CEF meetings.

Jeff Halliwell and the independent panel chairs also met with the company's Board and discussed the role and views of the CEF. Three Independent Non-Executive Directors (Polly Courtice, Natalie Ceeney and Paul Whittaker) attended the 5 June 2018 CEF meeting on behalf of the Board. In addition, Stephen Billingham, the Chairman of Anglian Water, also attended this meeting.

v. The Independent Advisory Panels

As already established above, the CEF was advised by four Independent Advisory Panels to help provide a more detailed assessment of Anglian Water’s understanding and implementation of customer and stakeholder views in the region. Members (from within and outside the CEF) volunteered to join the panels and spend their time helping Anglian Water to consult widely with stakeholders and customers in a range of areas.

Each panel produced a written report summarising its findings, which then helped to shape the CEF report. This work was critical in building the evidence regarding whether the company’s business plan strikes a reasonable balance between the views of different customers and stakeholders.

The independent advisory panels brought a wealth of knowledge and experience to the challenge process with the contributions of 29 different organisations, agencies and customer groups feeding into the panels. (The membership of individual panels is outlined in Annex 2: *CEF Members and Panel Members*).

The Chair of each independent panel was also a member of the CEF. Each panel Chair regularly reported to the main CEF meeting to update members on their panel’s progress.

The Panels covered four key areas:

Panel	Chair	Key issues explored
Sustainability and Resilience Panel	Craig Bennett, Chief Executive, Friends of the Earth	Environmental issues, specific topics such as biodiversity, carbon emissions, abstraction, natural capital; climate change; sustainability and resilience; Water Resource Management Plan (WRMP) and Water Industry National Environment Programme (WINEP); ODIs on natural capital and WINEP.
Affordability and Vulnerability Panel	Martin Lord, formerly Citizen’s Advice Bureau	Affordability and vulnerability; bespoke ODI on vulnerability.
Hartlepool Independent Advisory Panel	Peter Olsen, former Chairman, Housing Hartlepool	Hartlepool bills, future supplies and resilience, metering, affordability and vulnerability.
Economic and Valuation Sub-Group	Daniel Storey, Director, High Point Economics	Customer valuations and the application of these valuations, triangulation, ODIs, financeability.

Sustainability and Resilience Panel

The Sustainability and Resilience Panel – Chaired by Craig Bennett, Chief Executive of Friends of the Earth, in his personal capacity – represents a wide range of stakeholders from across 11 separate organisations, including the Environment Agency, Natural England, RSPB, The River’s Trust, River Nene Regional Park, the National Farmers’ Union, Adnams and Cambridgeshire County Council.

The Panel's priorities and goals include ensuring Anglian Water's role as a champion of Natural Capital and catchment management approaches. The S&R Panel argued strongly for the company to take a more strategic leadership role on these issues and to have much greater ambition in terms of partnership working and catchment management initiatives. The Panel's proposal to introduce a fourth ambition on catchment management to Anglian Water's 25-year Strategic Direction Statement was adopted by the company.

However, there were some challenges around the company's proposed performance commitments on Natural Capital, WINEP and pollution incidents, which are explored further in this report (see Chapter 2viii) and in the S&R Panel's report (see Annex 10: *Report by Sustainability and Resilience Panel*).

Affordability and Vulnerability Panel

The Affordability and Vulnerability Panel – chaired by Martin Lord, former Chief Executive of Central and East Northamptonshire Citizens Advice Bureau – comprised members from organisations representing various sectors of the community, including CCWater, Essex CVS Network, Groundwork East, Hunts Forum, Peterborough Dementia Action Alliance, Business in the Community, Great Yarmouth and Voluntary Action North East Lincoln.

The Panel was pleased to see a step change in Anglian Water's proposed services for vulnerable customers, and members welcomed the company's proposed qualitative and quantitative performance commitment on vulnerability. However, they challenged whether there was sufficient customer support for a reward only incentive mechanism for this ODI. These issues are explored further in this report (see Chapters 2vi and 2vii) and in the A&V Panel's report (see Annex 9: *Report by Affordability and Vulnerability Panel*).

Hartlepool Water Independent Advisory Panel

The Hartlepool Water Independent Advisory Panel included representatives from CCWater, Joseph Rowntree Foundation and West View Advice and Resource Centre Limited. It was chaired by Peter Olsen, former Chair of Housing Hartlepool.

In general, Panel members felt that the customer engagement research that had been carried out was representative of Hartlepool customers' views; they felt that the conclusion drawn by Anglian Water that Hartlepool customers' views were generally similar to the rest of the Anglian Water customer base was fair.

Members were pleased to see that bill profiles proposed for Hartlepool Water customers were lower than those of Anglian Water customers. Acceptability of Anglian Water's Business Plan was also high among Hartlepool Water customers.

These issues are explored further in this report (see Chapter 2ix) and in the Panel's report (see Annex 11: *Report by Hartlepool Independent Advisory Panel*).

Economic and Valuation Sub-Group

In spring 2018, a new Economic and Valuation Sub-Group was set up to scrutinise and challenge the company's research into customer valuations and the application of these valuations to the regulatory business plan.

The sub-group commended Anglian Water for a very thorough, strategically designed and well implemented programme of consumer engagement, which has generated a suite of robust data on consumer valuations.

In a small number of cases (leakage and internal sewer flooding), the sub-group challenged the approach taken by Anglian Water to deriving a central customer valuation and/or the application of that value to calibrating the relevant Outcome Delivery Incentive (see Chapter 2ii and the Panel's report, Annex 8: *Report by Economic and Valuation Sub-Group*).

Chapter 2: Anglian Water's engagement with customers

i. Quality of the company's customer engagement

Members of the Customer Engagement Forum have been impressed by the length, breadth, depth and innovative nature of Anglian Water's customer engagement programme for PR19. CEF members were involved in scrutinising, advising and helping to shape the company's programme of customer engagement from the very start as it was developed and rolled out for this price review. At each CEF meeting, members received a detailed update and overview of the company's customer engagement activities and future plans from the company's Head of PR19 Strategic Stakeholder Engagement, Carolyn Cooksey.

CEF members were involved in scrutinising the company's customer engagement objectives for PR19 and have had ample opportunity to challenge and critique the company's customer engagement plans in detail (see Annex 5: *Challenge log for Customer Engagement Forum*). The CEF Chair and two of its members were also regular attendees at the company's Customer Engagement Steering Group (CESG), which is a cross-company group that advises on the company's overarching customer engagement programme. In addition, CEF members attended a wide range of stakeholder forums, customer co-creation workshops, customer focus groups, webinars and other stakeholder events to see Anglian Water's customer engagement activities in action.

The four independent panels performed deep dives around certain aspects of the company's plans on key areas where more specific expertise was needed: sustainability and resilience, affordability and vulnerability, and economics and valuation (using Tables 1 and 2 of Ofwat's Aide Memoire as a guide for input to this report).⁶

The Forum believes Anglian Water's exemplary customer engagement programme represents a step change in the breadth of activities carried out for PR14 and that this has placed customers at the heart of the way the company does business and develops its plans. The programme has involved interaction with more than half a million stakeholders and customers – a programme that is ten times larger in scale than the company's customer engagement carried out in PR14.

In terms of gathering evidence for these views, the CEF used the non-exhaustive issues outlined in Ofwat's **Aide Memoire** for CCGs as a framework. This section will focus on the CEF's role in assessing the quality of Anglian Water's customer engagement before going on to look in more detail at the extent to which this engagement has driven the company's decision making, and, most crucially for this report, the thinking behind the company's PR19 Business Plan.

Understanding customers' priorities, needs and requirements

Anglian Water took the time to **understand customers' priorities, needs and requirements and to understand the issues that really matter to them**. The CEF was impressed to see that the company listened to customers carefully as it developed its priorities and plans for PR19 and beyond – looking at both current and future challenges facing the region, particularly in terms of population growth and climate change.

In developing its customer engagement strategy, Anglian Water adopted a **co-creation** approach, appointing a strategic partner, brand and sustainability consultant Given London, to help provide

⁶ See Ofwat's *Aide Memoire for Challenge Groups*, published 21 March 2018, available at <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

expert engagement insight and guidance. CEF members had the opportunity to meet colleagues from Given London and were impressed with their plans and approach. Over several months during 2016, they ran co-creation workshops with 70 customers and 200 Anglian Water colleagues. This helped to shape the company's customer engagement programme for the next two years.

During the first phase of the customer engagement programme (from January to September 2017), the company focused efforts on resetting the conversation with customers and developing new strategic engagement channels. It carried out detailed customer segmentation based on attitudes, held focus groups to help understand customers' worlds, and through this was able to develop ideas for engaging with customers on difficult topics such as resilience.

This phase included engagement on the revised 25-year **Strategic Direction Statement (SDS)**.⁷ Revisions to the SDS was designed to ensure that the PR19 Business Plan was put into a longer term context which customer engagement had shaped.

In consultation with customers, Anglian Water set out the longer term challenges facing the region – including rapid housing growth and a changing climate – and proposed four long-term ambitions: resilience to the risks of drought and flooding; enabling sustainable economic and housing growth; becoming a carbon neutral business by 2050; and digital transformation.

In response, customers told the company that digital transformation was something that Anglian Water should be doing as part of normal business. Engagement showed that customers wanted to see more long-term ambition related to improving the region's environment – showing that they had clearly understood longer term issues facing the region and how Anglian Water could play a role in tackling some of the challenges.

Concurring with this view, the Sustainability and Resilience Panel challenged the company to introduce a new fourth long-term ambition that focused on improving the ecological quality of the region's catchments (see the S&R Panel's report in Annex 10: *Report by the Sustainability and Resilience Panel* for more detail). The company's openness and willingness to adopt this new fourth ambition set the tone for the positive way it has responded to customer engagement in the development of strategy and plans. This is just one example of how Anglian Water has allowed, and indeed encouraged, customers and stakeholders **to co-create and co-deliver solutions to significant challenges facing the region.**

Drawing on a robust evidence base

Building on the SDS consultation, which laid the groundwork for the five-year price review, the company **engaged effectively with – and understood the needs and requirements of – a whole range of customers** during phases 1 and 2 of their comprehensive customer engagement programme for PR19. This took place from September 2017 to June 2018. Allto Consulting was engaged to carry out a segmentation of customers, based on attitudes, which was used to disaggregate customer views when possible and appropriate.

This enabled them to tap into the views of the whole spectrum of customers, with a particular focus on those customers who are living in circumstances that make **them vulnerable and those who are hard to reach**. As well as holding customer focus groups for customers living on low incomes and

⁷ See Anglian Water PR19 Business Plan, Annex 1a: *Strategic Direction Statement 2020-2045*. Also available on Anglian Water's website: <https://www.anglianwater.co.uk/about-us/thinking-about-our-future/strategic-direction.aspx>.

with disabilities, at the suggestion of CEF members, the company made sure to engage customers for whom English was not a first language, who make up a significant minority in some parts of the region (see Annex 5: *Challenge log for Customer Engagement Forum – CEF meeting 20 January 2017*). The company also took care to engage with Hartlepool Water customers, who make up 1.46% of Anglian Water's customer base, and who face very different needs and challenges from customers in the Anglian Water region (see Chapter 2ix and Annex 11: *Report by Hartlepool Independent Advisory Panel*). As can be seen in the maps in Section 12.3.4 of the company's Business Plan, the company's customer engagement covered a broad spread geographically as well as demographically.

Box 1: Going the extra mile

Anglian Water worked hard to provide opportunities for as many people as possible to contribute to developing its investment plans. The company held numerous events across the region, and in Hartlepool, aimed at being entertaining for customers, as well as providing an opportunity to gather customer views. Here are some examples:

- In June 2017, the Anglian Water bus toured the region, creating over 7,000 engagement opportunities across 18 locations; on board were voting boxes asking about customers about water saving ideas and smart metering.
- In August 2017, Anglian Water held a week-long water festival in Norwich called H2OMG!! where 33,000 visitors were able to interact with fairground themed attractions, all based on water resource challenges, to elicit customer preferences in how to tackle these issues.
- In April 2018, as part of the outline plan consultation, H2O Let's Go saw an electric van travelling around the region, challenging customers to 'Be the Boss'. More than 13,000 customers visited the van and 5,016 participated in Be the Boss – an innovative digital engagement tool for consulting on the company's Business Plan.

In all, the company created 38 different channels of engagement and communication with customers – from face-to-face focus groups to online engagement and water festivals in town centres (see Box 1 for examples; and see also Anglian Water PR19 Business Plan 12d: Customer Engagement Channels and Questions for a full list of customer engagement activities). The company gave due consideration to the most effective ways to reach out to and engage with customers from all different walks of life and the CEF felt those efforts were to be fully commended.

Anglian Water also clearly categorised its customer engagement channels into: i) targeted engagement, which includes deliberative and behavioural research; ii) business as usual and operational data; and iii) valuation. CEF members were pleased to see that this comprehensive approach aligns with Ofwat's views on **using a robust, balanced and proportionate evidence base**, as set out in its Customer Engagement Policy Statement and Expectations for PR19, published in May 2016.

Innovative approaches

As part of the customer engagement programme, Anglian Water created several new and innovative channels to engage with customers, which are now regarded as business as usual for the company. This has provided good evidence to the CEF of the company's commitment to engaging customers **in**

an on-going, two-way and transparent process, where customers are being informed at the same time as their views are being solicited on issues that matter to them. For example:

- An **online community** of 500 customers was initially set up as a trial in May 2017. This was so successful that it is now a permanent engagement channel with on average one activity/topic per week with the community. The CEF was particularly impressed by the way the company was using this innovative new platform to tap into customer views on key issues in a timely and very detailed way to gather informed and thoughtful responses. On several occasions, the company responded to CEF challenges by carrying out additional research with the online community (for example, around the *Putting the Sector Back in Balance* consultation – see Chapter 2xi of this report for more detail on this).
- A new role of **Community Ambassador** was created, partly in response to the demand from Anglian Water colleagues to be more involved in customer engagement. The company has trained 50 colleagues to talk to community groups across the region, including eight in Hartlepool. Feedback is being gathered from participants through Clickpad voting button technology during and after their talks. This idea of community outreach was suggested and supported by customers in Hartlepool in particular, where digital engagement is currently lower and where there are currently no customers represented on the online community. The first Community Ambassadors were due to meet with customers in June 2018 and the CEF was looking forward to hearing the results of this engagement.
- **Customer Board**, comprising 7 customers, first met in January 2018 and will meet four times a year, to consider and feedback on strategic issues. (The Hartlepool Panel was keen to see Hartlepool customers represented on this board – see Annex 11: *Hartlepool Independent Advisory Panel* for more detail.)
- Polls on **social media** which are possible through recently developed functionality on Facebook and Twitter.

CEF members have also seen clear evidence that the company takes account of **day-to-day** contact with customers through billing enquiries and complaints, which it regards as a valuable source of data for gathering customers' views and concerns. In addition, Anglian Water also engaged a company, Linkfluence, to analyse a years' worth of social media and online activity for insights into the topics that customers were interested in.

In addition, Anglian Water has an Education team that has talked to over 350,000 children through school visits and at two education centres over the past decade. The company tapped into this channel to gain views from young people and future customers for this price review.

Through the **Discover Water** website at <https://discoverwater.co.uk/> and the company's own performance portal (available at <http://ourperformance.anglianwater.co.uk/>), Anglian Water has **effectively informed customers on its current levels of performance and how this compares to other companies in a way they can understand.**

As a part of its customer engagement, the company explained its current performance levels on various criteria. A particular example is leakage, where it was important for Anglian to explain its sector-leading position, as an introduction to asking whether customers would support further

frontier improvements, even at the potential cost of higher bills via enhanced ODI rewards (for more on this, see Box 2: Leakage performance commitment below). Customers have consistently told the company that maintaining this industry-leading performance on leakage should be one of Anglian Water's top priorities. When customers were asked in the consultation on the outline plan whether the company should continue to drive leakage down, or remain at current levels, 78% voted to continue to reduce leakage, even though the costs are increasing, and they are willing to pay for an enhanced reward in order to see that happen.

Further, the company has engaged with **non-household** customers as well as household customers. It has engaged with a larger sample of non-household customers for PR19 than for PR14. Three tranches of acceptability research have included 500 non-household customers compared to one tranche during the same period of PR14 engagement. The company has also engaged with **retailers**, which represent a new class of customers for PR19 following market opening in March 2017. Five retailers out of 21 were consulted, covering former incumbents, self-suppliers and new entrants. Retailers were asked about Anglian Water's long-term ambitions, the relative importance of aspects of the company's service, the promotion of water efficiency, the level of Anglian Water's support to the retailer, the understandability of the company's tariffs, leakage targets, the use of alternative water sources and support for an ODI on retailer satisfaction. The Jacobs auditor inspected minutes and was satisfied that this engagement had been carried out satisfactorily. The company has developed a bespoke performance commitment on non-household retailer satisfaction, which shows the level of importance assigned to business customers (see Anglian Water PR19 Business Plan, Section 13.17 for more detail).

CEF members were pleased to note that the Jacobs audit of Anglian Water's customer engagement programme raised no material concerns. In fact, the auditor was as impressed as CEF members by Anglian Water's industry leading customer engagement initiatives (see Annex 6: *Customer Engagement Summary Audit – by Jacobs*).

ii. How customer engagement is driving decision making

A key part of the CEF's role has been to evidence the Golden Thread linking the company's customer engagement with business investment decisions. Customer valuation is core to this linkage.

This **customer valuation** aspect of Anglian Water's was scrutinised in more detail by the Economic and Valuation Sub-Group. (A full report by the sub-group is included as Annex 8: *Report by Economics and Valuation Sub-Group*.) The sub-group commended the company for a very thorough, strategically designed and well implemented customer engagement programme that has generated a suite of robust data on consumer valuations.

Members observed that Anglian Water had developed a valuation strategy, based on independent expert advice, some time before the start of the PR19 process. They concluded that this had resulted in a well-designed, deliberative approach, building on lessons from PR14 at Anglian Water and more widely in the sector. Anglian Water's resulting valuation work programme was multi-stage, and involved a number of innovative steps. The programme allowed time and space for evaluation of emerging results, course correction, and reworking as need be.

Willingness to pay estimation

In the view of the sub-group, Anglian Water and its technical consultants had executed thoughtfully designed and implemented experiments, focused on eliciting informed and unbiased views of customers on the key parameters for Anglian Water's service, investment and incentives. Based on

extensive written evidence and the CEF's interrogation of Anglian Water staff and consultants, it appears that the company's researchers have adopted best practice in theoretical frameworks for experiments, sampling approaches, and in practical design of briefing and questions for customers. The valuation research was supported by a very strong peer-review report.⁸

The sub-group was able to test thoroughly Anglian Water's written material, the company's own regulatory and customer engagement team and its professional researchers in a series of meetings through spring-summer 2018. As a result of challenges raised, Anglian Water has addressed the substantive questions, has clarified its explanation of methods used and results obtained, and has recorded the challenge process as part of its finalisation of valuation documents (see Annex 8: *Report by Economics and Valuation Sub-Group* for a full report and Annex 5: *Challenge log for Customer Engagement Forum* for a record of challenges).

The sub-group believes that Anglian Water appears to be operating close to the current leading edge of willingness to pay (WTP) methodologies. Nevertheless, the intrinsically challenging nature of this customer engagement (e.g. putting a value on very low likelihood downsides which are outside most people's lived experience, or thinking about the value of a clean beach) means that care needs to be taken to consider the weight each value will bear, in practice. Anglian Water's overall conservative stance (i.e. adopting lower rather than higher values) is one step in this direction.

Triangulation

Anglian Water has, in virtually all cases, adopted a very structured and transparent approach to triangulation, based on a series of logic steps comparing latest valuations with Anglian Water PR14 results, uprated for inflation and customer base dimensions, with a conservative bias to produce a recommended value range.

Anglian Water has then compared its emerging central valuation and range against other company data, for the purposes of sense-checking only. Other company data have been deemed secondary, and used simply as point of comparison with the Anglian Water recommended value, not to make adjustments. Anglian Water's researchers scaled other companies' valuations for the relative sizes of their customer bases versus their own. The effect of this scaling is to increase other companies' adjusted valuations. For the valuation of internal flooding, this approach to scaling was challenged by the sub-group, on the grounds that the value being scaled (change in risk measured as WTP per household per property affected) was already normalised to a per household level, and therefore should be invariant to the relative size of the water company. Anglian Water's technical advisers and peer reviewer strongly defended their approach, on the grounds that there were two factors linked to company size implicit in the valuation being considered – i.e. relative number of households across different water companies, and relative number of properties that each company serves. Given that the use of other company valuations in the triangulation process was simply as a point of comparison, rather than to make any adjustments to Anglian Water's central estimates or ranges, the sub-group decided not to pursue this challenge.

Customer interpretation of valuation experiments

In general, there is good evidence from focus group discussions after WTP exercises that experiments were well understood and tractable for individuals. In one case, though, customer feedback on the description of the service being valued (river pollution) resulted in realignment of

⁸ See Annexes 12i and 12j of Anglian Water's PR19 Business Plan for Professor Ken Willis's reviews of the Main Stage Willingness to Pay Survey and the Second Stage State Preference Survey.

the valuation with a more significant pollution incident (in other words, consumers responded to Anglian Water's description of a Category 3 pollution incident by interpreting that to be a more significant Category 2 incident).

The sub-group explored the question as to whether all other results were sound in this regard, or could be subject to similar (if less severe) drift in customer perception of service away from Anglian Water's corporate understanding. The company produced good evidence that the in-built validity testing, including content validity, provided a good basis for concluding that customer respondents to survey questions had a good understanding of the choice tasks. In addition, the company used an innovative post-survey focus group to test out that customer perceptions of reliability of water resource options and water restrictions were consistent with their interpretations.

Valuation results

Anglian Water's studies generally produced a **strong asymmetry in results** (willingness to pay (WTP) for improvements markedly lower than compensation value/willingness to accept lower service), but one that was in line with the research literature. The company's 'conservative' approach leads it in most cases to adopt the lower WTP for gains figure. The sub-group challenged to what extent would higher willingness to accept (WTA) values feed into penalty rates for outcome delivery incentives and into cost benefit analysis for investments to sustain current service levels. The company's response covered several issues:

- The Outcome Delivery Incentive (ODI) framework is largely targeted at companies making improvements to their levels of service during AMP7. For example, there are a number of measures where Ofwat prescribe companies to target improvements, i.e. upper quartile performance. For these and other measures involving improved performance, values of customers' WTP for better service are appropriate.
- The approach to setting incentives rates, based on the Ofwat formula, builds in asymmetry towards penalty, by default.
- The ODI framework is asymmetric towards penalty in a number of other ways. A number of asset health performance commitments are penalty only (such as Compliance Risk Index, Sewer Collapses). Also, the performance commitment levels are stretching (and some based on the forecast upper quartile), meaning companies will have to work hard to avoid penalty.

The sub-group was content with this response.

Anglian Water's studies generally produced a **wide and widely varying range in values** from lower to upper estimates for each service attribute. Typical low-high range is just over 100% of the central estimate, but the range is as low as 38% (hosepipe ban) and as high as 307%. Again, these ranges were not out of line with similar WTP studies found in the water sector and in the wider research literature.

Anglian Water's response noted that the valuation studies were fully transparent about the ranges of values generated and the statistical significance of each result from which confidence intervals were generated. The range was used in triangulation, but the company has been disciplined in adopting the central valuation except in a very small number of cases, where other judgement factors have been applied. Finally, Anglian Water has incorporated the mid, low and high values into its cost benefit analysis and investment portfolio tools, in order to undertake sensitivity analysis.

Anglian Water's studies generally produced a **big difference between unscaled values** (willingness to pay for one service attribute in isolation) **and much lower scaled values** (measuring value of a bundle of service improvements). The median unscaled/scaled factor is 4.6, but again there is a wide

range (1.2 to 6.2). Anglian Water's 'conservative' approach leads to scaled values being adopted (in nearly all cases). The sub-group examined this very significant adjustment, noting that different approaches are being taken by different companies. The scaling factors seen here are indicative that customers are not very sensitive to the scope of service change being offered when making their choices, which is a fundamental issue with the type of WTP research that is done here. While Anglian Water's approach is still consistent with best practice, it has limitations, which is why it is wise to explore multiple sources of evidence as Anglian Water has done, and to take a conservative approach to valuation. The sub-group supported the approach taken to scaling, while noting that it could be argued to give rise to an overly conservative estimate of the value of all the attributes.

For some service attributes, Anglian Water's studies show **differing valuations from lower income groups**: some results show statistically significant material difference in WTP among lower income groups (e.g. socio-economic groups DE – 25% of customer base – only willing to spend 43% of all customer average on leakage reduction). One way of responding to such results could be to give greater weight to low-income groups than to high-income groups when aggregating values, which would be consistent with HM Treasury *Green Book* guidance.⁹ Anglian Water noted that the company had explored the impact of differing valuations across socio-economic groups in the cost benefit analysis of drought resilience, which generated a number of planning and investment scenarios, driven by variations in valuation. With regard to the potential for weighting ODI parameters to the lower WTP of the lower income groups, Anglian Water noted that the socio-economic group DE had the same customer views as the rest of the customer base on the maximum of reward and penalties that are appropriate (2.2% of Return on Regulated Equity (RoRE) – focus groups with this segment confirmed this felt affordable). Given this, and the conservative approach to valuation in general and the asymmetry between financial incentives for over- and under-performance, Anglian Water considered that, alongside its affordability strategy, it had adequately accounted for differing views on WTP and affordability in the customer base.

The sub-group reviewed the **recommended valuations generated by Anglian Water's programme of work** and challenged two service measures:

- **Leakage**: In this case, the company applied an amended version of its own clearly defined steps for triangulating results from its PR19 valuation research, through introducing into the triangulation process an additional (higher) customer value generated as part of the research for its Second Stage Water Resources study. Given the significant financial incentives resting on this particular valuation, the sub-group sought further explanation from Anglian Water for this different approach (discussed further in Box 2: Leakage performance commitment, below).
- **Internal sewer flooding**: The sub-group consistently challenged the high values generated by Anglian Water's research as being out of line with a straightforward understanding of the proposed reduction in risk and the value of household property in the Anglian Water region. It was noted that other companies had used different valuation methods, which tended to produce lower results. In addition, the sub-group reviewed the subjective well-being (SWB) study which the company had commissioned to produce further evidence, from a different methodology to the other WTP studies. The SWB study generated even higher values than those obtained from the main WTP study. The sub-group recognised that this was a well delivered and innovative approach for the UK water sector, and one which produced relative valuations similar to the WTP studies. It was concerned though that the 'raw' results from the SWB study were not scaled to adjust the absolute values for an affected property to the

⁹ [The Green Book: appraisal and evaluation in central government](#), HM Treasury, last updated 6 March 2018.

risk reduction values generated by the WTP studies, as was recommended in the SWB study report. Furthermore, it questioned the use of data on subjective well-being of lottery winners as the primary evidence for quantifying the relationship between changing wealth and changing well-being. The company provided further assurance that this was an accepted approach among researchers in this field to establish a coefficient between marginal changes in wealth and the metric for subjective wellbeing.

Application of customer valuations to investment planning and delivery incentives

The sub-group challenged Anglian Water to **demonstrate the application of evidence from customer engagement to cost benefit analysis of its investment programme and to quantification of its performance commitments.**

The CEF was assured that the main messages and detailed findings from the emerging suite of valuation studies were thoroughly embedded alongside the other engagement carried out throughout the business, by means of the Anglian Water **Customer Research & Engagement Synthesis Report** (see Anglian Water PR19 Business Plan Annex 12c: *Anglian Water Customer Research & Engagement Synthesis Report*). This detailed and regularly updated document, which synthesised each channel of customer engagement, was cascaded through the organisation to business planners, and provided a clearly signposted summary of customer evidence for each of Anglian Water's key strategic outcomes. The CEF understood that business cases were required to reference the Synthesis Report, so that all parts of the company drew on the same shared understanding of customers. Jacobs provided independent assurance to the CEF, through their audit of customer engagement, that the Synthesis Report had informed the company's business planning.

CEF members had the opportunity to meet with the Synthesis Report's independent author, Sophie Ahmad, in December 2017 and to interrogate her about the processes involved in compiling the report. As a result of CEF feedback at the December meeting, future versions of the Synthesis Report included useful annotations to help guide CEF members and other stakeholders to the information they needed to see the links between customer engagement and company plans. Subsequent versions of the report included annotations for information relating to Hartlepool Water and non-household customers, in response to panel members' requests.

With regard to **cost benefit analysis of its investment programme**, the sub-group was on the whole content with Anglian Water's thorough presentation of the application of customer valuations, along with other constraints (legal, resourcing, etc), to generate optimised portfolios of projects. This scrutiny focused on the methodology adopted by Anglian Water, rather than investigating the application of that methodology to significant individual investment projects, to check that triangulated customer valuation results were in practice being applied appropriately. The CEF was additionally assured that this scrutiny had been undertaken by the audit of the business plan undertaken by Jacobs.

With regard to **quantification of ODIs**, in general the sub-group saw strong evidence that the body of customer engagement and research had been well used, first to define which additional company-specific performance commitments Anglian Water would propose in its Business Plan, and then to calibrate the level to be achieved and the over- and under-performance financial incentives.

Box 2: Leakage performance commitment

The notable exception to this generally positive conclusion on customer valuations was the approach taken to the leakage performance commitment. In its Business Plan, Anglian Water explains it is at the frontier for leakage and customers strongly support going even further. The company is proposing to reduce leakage by 23% from 2017-18 to 2024-25. The proposed performance commitment level was supported by 82% of household customers. The enhanced leakage reward for delivering this ambition was tested with, and supported by 78% of over 5,000 customers. Over the longer term the company is committed to reducing leakage by 50% by 2045.

The Economic and Valuation Sub-Group expressed two concerns:

- The customer valuation for leakage had been increased above the level implied by the main WTP studies by the application of a higher value (for the first 44Ml/day leakage reduction) from the Water Resources Second Stage Study, rather than the (lower) overall value from the WR study, as recommended in the valuation completion report itself. This had the effect of increasing the leakage valuation from around 110 to 134 (+22%).
- Since Anglian Water is currently a frontier-leading company on leakage, under Ofwat rules it is able to apply for enhanced rates of out-performance incentives. The sub-group recognised that the company sought to interpret and apply the Ofwat guidance objectively to arrive at an enhancement factor of 4.29. Nevertheless, they considered that the derivation of the factor was somewhat arbitrary, and that there was not a specific foundation of customer support for this level of enhanced financial incentive that would be paid by Anglian Water customers even though the benefits were supposed to spill over to other water companies' customers. The sub-group noted, however, that the bill impact of the enhanced incentive for leakage was included within the overall bill profiles which were accepted in customer engagement.

iii. Customer engagement for the Outline Business Plan

During April and May 2018, Anglian Water carried out targeted customer engagement on its outline Business Plan with customers and stakeholders, using a combination of existing and new business as usual channels, and some targeted research, including:

1. Publication of the outline plan and digital version of the plan on Anglian Water's website, with a link to the digital engagement tool, Be the Boss, which focused on high level investment options, priorities for maintenance and leakage, and associated bill impacts.
2. Seven focus groups with a focus on vulnerability, held during April 2018.
3. Six weeks of activities in the online community with 500 customers, based on the key investments in the plan, proposed performance commitments, financing levers and associated bill profiles.
4. Acceptability research with 1,600 household and 500 non-household customers.
5. H₂O Let's Go!! A tour in an electric vehicle and a series of activities in 14 locations
6. Discussion of the plan at the Customer Board meeting on 19 April 2018 to elicit views.

The consultation engaged with customers on a genuine and realistic range of options, particularly in terms of balancing the need for resilience with impacts on future bills. CEF members were particularly impressed by the Be the Boss digital engagement, which allowed customers to pretend

to be the boss of Anglian Water for the day to decide what trade offs and investments they would like to make.

The company presented three options within the draft plan, with three associated bill profiles. Each option was based on varying amounts of investment in two key areas, mitigating climate change risk (articulated in detail in the Water Resources Management Plan – WRMP), and environmental protection (set out in the Water Industry Natural Environment Programme – WINEP). The three options represented low, medium and high investment in these areas, and the associated bill profiles were flat, +2.5% and +5% over five years to 2024-25.

Through several channels, customers were asked for their preferred profile, and the majority of customers selected the highest investment profile. Using a mix of methods meant that the company was able to ask the question in various ways, including where customers saw all three options, and where they were simply asked their views on the underlying investment drivers. Through the company's Be the Boss online survey, customers were asked about the underlying investment drivers, shown the resulting bill profiles and then given the ability to switch to another profile. Only 13% of customers switched, with 9% switching to a lower cost profile, and 4% switching to a higher cost profile. Similar results were gained through all channels. Customers were asked why they had chosen the option they had, and the sentiment most often recorded was that the highest investment plan seemed to offer a lot in terms of reducing risk to supplies, and protecting the environment, for not very much money.

Anglian Water also asked customers whether they supported the idea of an enhanced reward, which would mean about £4 on bills per year, to incentivise the company to stay at the frontier of tackling leakage. Overwhelmingly customers supported this idea, with strong sentiment that leakage was a terrible waste that needed to be focused on as much as possible.

iv. Bill profiles and financeability

In the CEF's view, Anglian Water has undertaken a wide range of customer research, including across all its main geographies and with particular focus on vulnerable groups, and using a wide and innovative range of research tools, to generate evidence about the acceptability of the proposed bill profiles in Anglian Water's PR19 Business Plan.

There appears to be a good level of support within Anglian Water's customer base to pay a slightly higher bill over AMP7, in return for the company's continued delivery of good resilience outcomes against a challenging background of rapid growth in the region and the need for greater investment to meet longer term resilience and climate change adaptation objectives. The proposed step up in bills from 2019/20 to 2020/21 of £6 (from £423 to £429) is 1.5% in real terms, within the threshold of a 2.5% increase (over the whole AMP7) for which Anglian Water found majority customer support. This support has been forthcoming at a time when the sector as a whole has come under considerable public criticism, and against a background expectation from Ofwat that bills across England should fall.

Broader questions of the profile of bills between AMP7 and beyond, and the implications of different profiles for Anglian Water's financeability, were explored in material presented and discussed in a specially convened meeting with CEF members and members of the Economic and Valuation Sub-Group on 9 August 2018 and at an additional CEF meeting convened on 13 August 2018. Anglian Water explained clearly the equation it was balancing between delivering fair and reasonable bill profiles which customers supported, maintaining investment grade credit quality, testing the plan

for financial resilience to cost shocks, and “living within their means” according to the cost of capital allowance determined by Ofwat.

Mindful of Ofwat’s focus on Resilience in the Round, the CEF explored a range of factors that were severely constraining Anglian Water’s room for manoeuvre. It broadly concluded that there was customer support for the steps taken by Anglian Water to shape a first-year bill increase, notably by taking financial rewards for out-performance in AMP6 early in AMP7, and that shaping the bill profile in this way was a necessary step in order to maintain investment grade credit rating (on actual company basis). Alternative measures, such as deferring capital investment, were not available, given the regulatory constraints imposed by Environment Agency for the timely delivery of an agreed portfolio of WINEP projects. The strong level of customer support was reinforced by community engagement on the bill profile carried out through Anglian Water’s online community in August 2018 (this engagement was brought forward in response to the CEF’s request). This found that the proposed increase was a reasonable and fairly modest increase compared to some other utility bills, and it will render benefits that exceed the small investment expected from customers.¹⁰

Anglian Water surveyed customers as part of the acceptability testing of the proposed package on a range of possible RCV run-off rates, and received support for the proposed move over the AMP7 period towards the neutral rate, neither bringing forward nor deferring costs to customers beyond the normal economic depreciation rates. This represented an increase from the position in AMP6, when the RCV run-off rate had been held down in order to deliver more affordable bills to that generation of customers. Anglian Water explained clearly how it was proposing to transition gradually towards the higher neutral rate over AMP7, rather than implement a step-up, in order to moderate the impact on customer bills in the coming period.

In relation to cost adjustment claims: is there evidence that customers support projects?

Anglian Water is proposing three adjustment claims in its Business Plan: for maintaining sector-leading leakage performance; for advancing this frontier leakage performance; and for sludge transport.

In respect of the leakage cost adjustments, Anglian Water argued that there is very extensive support from across its customer base for continued efforts and investment in tackling leakage, as evidenced by a wide range of its customer engagement activity and quantified by the willingness to pay work. The valuation sub-group concurs with this assessment.

In respect of sludge transport, Anglian Water conducted a limited amount of customer engagement, via its online panel in the final stages of developing its business plan in July 2018. The research found that customers were nearly unanimous in their support for the company’s proposals regarding sludge transport. It was not something customers had thought much about in the past, but they were keen to learn more.¹¹

¹⁰ See Consultation on New Bill Outline carried out by Incling, dated 13 August 2018 (please note: this is not referenced in version 14 of the Anglian Water Customer Research & Engagement Synthesis, which was finalised before 13 August).

¹¹ Exploring sludge transport: *Report prepared by Incling for Anglian Water*, dated 20 July 2018. Referenced in the Customer Research & Engagement Synthesis, p18 (Anglian Water Business Plan, Annex 12c: *Customer Research & Engagement Synthesis*).

v. Outcome Delivery Incentives (ODIs)

Through the refresh of the SDS, customers updated Anglian Water's 10 Outcome goals. Evidence showed that customers wanted the company to be more ambitious in terms of delivering against long-term aspirations while continuing to maintain high levels of customer satisfaction. They did not want the company to delay investments in making the company more resilient and they were keen to maintain the company's frontier performance on tackling leakage.

The CEF challenged Anglian Water robustly on its approach to setting performance commitments, including how well they reflect customers' views and how stretching they are. As a result of CEF feedback, one-page summaries were drafted for each ODI to explain the Golden Thread linking each performance commitment with the trail of customer engagement leading up to it. These one-pagers were then submitted to Ofwat on 3 May 2018 and were expanded upon for the Business Plan submission (see Anglian Water PR19 Business Plan Annex 13k: *Our proposed performance definitions 3 May 2018*).

Throughout the development of the Business Plan, CEF members and members of the sub-panels carefully scrutinised the performance commitments and the company has made adjustments as a result of CEF members' input. Particular areas of focus that will be explored in more detail in later sections are the Bespoke Performance Commitment on Vulnerability (see Chapter 2vii of this report) and two of the proposed performance commitments on Natural Capital and WINEP (see Chapter 2viii of this report). Following input from the Sustainability and Resilience Panel, a further performance commitment on Social Capital was added to mirror the performance commitment on Natural Capital (see Annex 10: *Report by Sustainability and Resilience Panel* for more detail).

The Economic and Valuation Sub-Group carried out a deep dive into the basis for Anglian Water's proposed performance commitment levels. In the areas where the company has some discretion (i.e. outside of those performance commitments and levels that are mandated and defined by Ofwat), the company has demonstrated a clear link between evidence from customer engagement and research on valuations and the proposed performance commitment levels. This evidence informed both the design of Anglian Water's proposed package of measures, levels and stretch, and then customers' views on the package as a whole. The latter evidence was derived from acceptability testing with >1,600 household customers via a structured sample survey.

Overall there was a reasonable level of support, with support for individual performance commitments ranging from 51-81%. In response to a challenge from the CEF on customer understanding of performance commitments, Anglian Water reanalysed the data excluding customers who stated they did not understand and the support increased to 53-82% among those customers who stated they understood the performance commitment proposals. On average, across measures, 70% of customers thought the performance commitment proposals were stretching.

The CEF examined the process by which the company generated its proposed package of bespoke performance commitments. The focusing of a wide array of possible measures down to the 18 selected was assisted by aligning it with the strong evidence basis on customer engagement which had been developed via the earlier consultation on the revised SDS. This provided a high degree of coherence and a sense of customer prioritisation against which the company could assess candidate performance commitments. The specific performance commitments put forward were then further tested via acceptability research. The process of developing the performance commitments and the resulting proposed package of measures was also independently scrutinised and challenged by Jacobs in three phases over the last six months.

Setting ODI rates

In almost all cases, as noted above, the CEF and/or its valuation sub-group have challenged extensively the process adopted to generate customer valuations and the application of the results. In virtually all cases, the CEF and sub-group were content that the company's current proposals are driven by customer insight.

As noted above, Anglian Water carried out a robust triangulation process to derive recommended customer valuations in a transparent and reasonable manner. When determining performance commitments, the company has drawn on a wide range of sources including: Cost benefit analysis, Comparative information, Historical information, Minimum improvement, Maximum level attainable, Expert knowledge.

The Economic and Valuation Sub-Group has challenged thoroughly the company's approach to customer valuation, which underpins the setting of incentive rates. With very few exceptions (internal sewer flooding, leakage), the sub-group is assured that Anglian Water's proposals do reflect customers' views, correctly estimated and then consistently applied.

The proposed reputational-only ODIs appear reasonable: they are related to general environmental outcomes, not easily amenable to metrics that could support a financial incentive, and have relatively lower importance for most customers.

In-period ODIs

The CEF concurs with Anglian Water's rationale for proposing bathing water quality as the only end-period ODI, and notes that there is customer support for this approach. The CEF would support Anglian Water publishing annual performance data and public commentary on this each year, to inform customers and other stakeholders of progress towards this end-period target.

The overall size of a company's ODIs (the RoRE range)

The sub-group has seen good evidence that Anglian Water has obtained widespread support from across its customer base for the proposed RoRE range.

ODIs for asset health performance commitments

The sub-group is assured that Anglian Water has conducted appropriate customer research, via a structured sample survey, to obtain evidence about customers' views on asset health and the relative weight to give to these measures, versus services, in setting performance commitments.

Enhanced ODI outperformance payments and underperformance penalties

In the case of leakage, the sub-group queried the degree of customer support for the enhanced rewards (four times the regular incentive rate) which Anglian Water proposes for achieving a further improvement in its industry-leading performance. The evidence adduced for this was derived from focus groups and the relatively simple scenario setting of the Be the Boss digital engagement, albeit with a large level of participation (5,000 customers – see Chapter 2iii of this report for more detail). The sub-group also had concerns that the regular incentive rate was based on a non-standard approach to triangulation, which resulted in a higher value than would otherwise have been generated. The counter-argument is that, even if the company did achieve the high over-performance payments implied by the enhanced rewards rate, its overall financial rewards would be strictly contained within the +/- 2.2% RoRE range which did have a good degree of customer support, including from across the different socio-economic groups (see Box 2 for more information on leakage).

Setting initial service levels (2019-20) for performance commitments

The CEF has reviewed Anglian Water's current performance across all performance commitments on a regular basis, including examining historical trend data and forward extrapolation of current performance improvement trends. The proposed 2019/20 levels were also tested with customer acceptability research, in the context of recent historical performance. On the basis of this evidence, the CEF considers that the proposed 2019/20 initial service levels area a reasonable basis for starting the AMP7 performance commitments. The CEF independently challenged Jacobs and was assured by Jacobs' opinion following their audit and assurance activity on the company's year-end performance.

However, the CEF had several major challenges relating to specific performance commitments, notably in relation to Vulnerability, Natural Capital and the WINEP investment programme, which are outlined in more detail in the sections below.

vi. Affordability

The current financial climate and the recent high-profile political debates about the structure of water companies, encapsulated in Ofwat's *Putting the Sector Back in Balance* consultation (see Chapter 2xi for more detail), have meant that affordability of customer bills has been a key concern.

Affordability is an area that was scrutinised by the CEF's Affordability and Vulnerability Panel, and is discussed in more detail in the Panel's report (see Annex 9: *Report by Affordability and Vulnerability Panel*).

In summary, the Affordability and Vulnerability Panel believes, and CEF members concur, that there is robust evidence in Anglian Water's Business Plan showing how the company's approaches have, and will, deliver affordability for current customers, future customers and for those who are struggling, or who are at risk of struggling, to pay their water bills.

There is strong evidence of customer engagement around affordability and what that looks like for customers, as well as support for the approach the company has taken to affordability of bills. The Panel and CEF members were satisfied that Anglian Water can demonstrate strong customer support for its proposed bill increase of 1% over AMP7, although this comes against an expectation from Ofwat that bills across England should fall. Acceptability research has shown that more than 80% of customers supported a higher level of bill increase than this (2.5%) in order to make the necessary investments to continue to tackle leakage, to enable sustainable growth, to increase resilience to drought and flood, and to enhance the natural environment.

Panel members were pleased to see that Anglian Water had responded to the remaining 20% or so of customers who felt unwilling to accept a bill increase. They were impressed by company plans to deliver a positive step change in support for those who struggle to pay their bills in AMP7.

The CEF also welcomed the decrease in bill profile of 4.7% for Anglian Water customers in Hartlepool, reflecting the fact that, since Hartlepool Water is a water-only company, most of the environmental investments required in the main Anglian area are not relevant in Hartlepool. The reduction is also welcome in the context that Hartlepool Water serves an area of severe deprivation compared to the national and regional averages.

Although some CEF members expressed initial concern about the overall proposed bill increase, the strong weight of customer evidence convinced the CEF and Affordability and Vulnerability Panel that

customers are clearly in favour of making the necessary investments now to guarantee the resilience of services over the longer term. The company has engaged customers on anticipated long-term bill profiles (i.e. to 2025 and potential bill levels to 2029/30 – including inflation and impact of performance commitments). It has also engaged extensively with customers about the balance to be struck between current and future customers paying for investment (see also Chapter 2iv on Bill profiles and financeability above).

CEF members and members of the Sustainability and Resilience Panel noted this strong customer support for a bill increase of at least 2.5% and questioned why the company was proposing a bill increase in the order of only 1% over the next five years. They sought assurance from the company that this lower level of increase was not at the expense of progressing important investment in resilience or the delivery of environmental obligations. The company provided this assurance at the CEF meeting on 13 August 2018.

It was also noted that the company had originally intended to propose a bill decrease to customers but had to revise bills upward to respond to increased levels of environmental investment required under the Water Industry National Environment Plan (WINEP), having initially assumed a lower level of obligations.

vii. Vulnerability

CEF members were pleased to see that the company has proposed a step change in support for vulnerable customers over AMP7. This area was scrutinised by the **Affordability and Vulnerability Panel** (A&V Panel) in some detail. The company's approach to vulnerability is also discussed in more detail in the Panel's report (see Annex 9: *Report by Affordability and Vulnerability Panel*).

In summary, the Panel was satisfied that there has been widespread and extensive engagement on vulnerability and that this has helped to shape the company's impressive vulnerability strategy and wider Business Plan for PR19.

The Panel commended the wide range of initiatives responding to vulnerability, although the Panel was not persuaded that the company's activities were currently as targeted, efficient or effective as they could be in this regard.

There was strong evidence of good approaches to using customer data and working with third parties, including other utilities, to better identify and target support when addressing vulnerability.

The Panel supported, and was assured, that there was widespread customer support for, the company's proposed twin **Bespoke Performance Commitment on Vulnerability** (one quantitative and one qualitative measure) (see Anglian Water PR19 Business Plan, Section 13.34 for more details).

There was a high degree of confidence in the deliverability of significantly more Priority Service Registrations, and customers support this approach, although the Panel invites the development of a stretching and meaningful performance commitment in this respect. There were also significant challenges around the role and make up of the proposed independent vulnerability panel that would be set up to monitor the company's performance in this area (see Annex 9: *Report by Affordability and Vulnerability Panel – Challenge log*).

In terms of informing and engaging customers about company performance related to vulnerability, through consultation with customers around the Bespoke Performance Commitment, the company has discussed how it plans to benchmark itself against others – both inside and outside the water industry – to achieve excellence and become industry leading in this area.

However, the A&V Panel concluded that customer engagement had been inconclusive regarding support for the company's proposed reward-only incentive mechanism. Following the Panel's challenge on this at their July meeting, Anglian Water carried out further customer engagement on this issue through the online community, which also remained inconclusive.¹² As a result, the company agreed to redraft the narrative in the Business Plan to reflect this challenge and to explain that, in the absence of a clear indication from customers, it has drawn on best practice from the energy sector in the proposal to use a reward-only mechanism for the vulnerability ODI. Any outperformance payments received will be invested to support customers in vulnerable circumstances. The Panel was content with the company's redrafted narrative (see Annex 9: *Report by Affordability and Vulnerability Panel – Challenge log* (Annex I) for further details on this challenge).

viii. Resilience/Sustainability

The CEF and **Sustainability and Resilience Panel** (S&R Panel) welcomed the fact that Anglian Water was proposing to continue its ambitions to be best-in-sector on leakage performance by driving down leakage by 50% over the next 25 years, reinforced by strong customer support for this approach. The S&R Panel also particularly welcomed the inclusion of an ambitious bespoke performance commitment on Natural Capital in the company's suite of ODIs (see Anglian Water PR19 Business Plan, Section 13.26). Members were impressed to see, embedded in this ODI, the company's ambition to become the first in the UK to develop a Natural Capital balance sheet for the region, working with other regional stakeholders.

Panel members acknowledged that this **Natural Capital** approach was a pioneering development and were pleased to see that the wording of the ODI was revised and clarified following members' input to include a stronger role for the S&R Panel in developing, testing and refining this Natural Capital approach over the next AMP.

Following robust challenge from CEF members and members of the S&R Panel, the company removed from its early delivery performance commitment on the **Water Industry Environment Programme (WINEP)** those schemes that may be suitable for catchment and Natural Capital solutions so as to avoid any bias towards more traditional but quicker hard engineering solutions (see Anglian Water PR19 Business Plan, Section 13.27).

Members were also pleased to see the introduction of a bespoke performance commitment on **Social Capital** to complement the Natural Capital ODI, following input from the CEF and S&R Panel members (see Anglian Water PR19 Business Plan, Section 13.35). S&R Panel members were generally keen to see the company working in partnership with other organisations – including the Environment Agency and Natural England, and environmental NGOs – and recognised that this performance commitment was a positive step in this direction.

¹² Incling report Exploring affordability & vulnerability support increase dated 6 July 2018, referenced on p18 of Anglian Water Customer Engagement & Research Synthesis (Anglian Water PR19 Business Plan Annex 12c: *Anglian Water Customer Engagement & Research Synthesis*).

Another area of robust challenge from members of the S&R Panel was around **pollution incidents**, where the company is proposing a financial incentive for this common performance commitment (in line with Ofwat guidance for common measures) (see Anglian Water PR19 Business Plan, Section 13.23). However, the Panel and CEF members argued consistently that the company should not be rewarded in circumstances where pollution incidents are still happening. This was an outstanding challenge at the time of writing. While the company noted the Panel's concerns regarding the perception of outperformance incentives while still incurring some serious pollution incidents, it argued that the performance commitment level was based on only category three incidents, in line with the company's ambition for no category one or two incidents.

Other challenges identified by the S&R Panel related to the precise definitions of ODI targets and the use of deadbands for performance commitments as follows:

- **Treatment Works Compliance:** The company is funded for 100% compliance. It appears the applied target here (with deadband included) mirrors its worst performing year of the last 5 years at 98.6%. The Panel would prefer to see future alignment of this ODI with emerging Environmental Performance Assessment (EPA) metrics for AMP7, where only very high levels of compliance would reflect achievement of the target (i.e. no penalty). There are mechanisms already in place to take account extreme weather events for permit compliance purposes, so the introduction of a deadband for this purpose seems unnecessary.
- **Bathing Waters:** The S&R Panel acknowledged the need for a deadband to reflect a drop in the number of excellent beaches due to factors beyond the company's control, but would argue that this should also be applied above the target to reflect any improvements that were as a result of actions by third parties or benign weather (see Anglian Water PR19 Business Plan, Section 13.24). The company should be able to demonstrate where its actions have resulted in any improvements that could lead to reward under this metric. The Panel was also mindful that funded schemes within the WINEP may improve certain bathing waters to excellent so that there may be reward from an already established programme.
- **Water Transfers:** It was difficult to discern from Anglian Water's draft Water Resources Management Plan (WRMP) the extent to which the company was planning to create inter-company water transfers. The S&R Panel questioned how the neighbouring water resources plan meshed together, in spite of the good work of Water Resources East. Panel members noted that this issue was not exclusive to Anglian Water. The Panel looked to Anglian Water to continue to engage positively in both national and regional water resource planning initiatives.
- **Abstraction Incentive Mechanism (AIM):** This is an area that Ofwat would like the CEF to comment on, and challenge where appropriate. While S&R Panel members have seen the wording of the bespoke performance commitment on AIM (see Anglian Water PR19 Business Plan, Section 13.25) and have seen that there has been customer engagement around this issue, they were frustrated that neither they nor the CEF had been consulted and informed about the more granular details of the company's plans in this area. They would welcome more input on the company's plans on Abstraction Incentive Mechanisms moving forward.
S&R Panel members were pleased to note, however, that this performance commitment incentivises the company to reduce abstraction from ground and surface water at environmentally-sensitive sites, at times of low flows.

ix. Hartlepool

Hartlepool Water – which is a trading name of Anglian Water Services – provides water-only services to around 100,000 people in and around Hartlepool and has been part of Anglian Water Group since 1997.

Hartlepool Water customers represent 1.46% of the overall Anglian Water customer base and serves an area of severe deprivation compared to the national and regional averages. This has an impact on the ability of customers to pay for services.

There are clear differences between the Anglian Water and Hartlepool Water region in other ways too. Unlike some areas of Anglian Water, Hartlepool Water has an ample supply of water resources for current and foreseeable future demand.

The Hartlepool Independent Advisory Panel (HIAP) was set up as one of the CEF's sub-panels in 2012 to help scrutinise the customer engagement process in Hartlepool and to participate in the development of the company's long-term business strategy and business plan with the needs of Hartlepool customers in mind. A full report from the panel and challenge log is included as an Annex to this report (see Annex 11: *Report by Hartlepool Independent Advisory Panel*).

Panel members challenged the company to make sure customer engagement carried out in Hartlepool was statistically robust for customers in Hartlepool. As of July 2018, the customer engagement Anglian Water had carried out in Hartlepool for PR19 represented 1.38% of the overall engagement programme.

Anglian Water's customer engagement has explored the views of household and non-household customers in a wide range of different circumstances, business customers of various sizes operating in a variety of sectors, retailers, future customers and regional stakeholders.

During customer engagement focusing on the outline PR19 Business Plan, Hartlepool customers were presented with a different bill profile from Anglian Water customers, with smaller projected bill increases. These bill profiles assumed an average combined water and water resources bill in 2019-20 of £356, with efficiency savings of £11. The bill profiles were then (including inflation): option one, £381; option two, £387; and option three, £396. The same potential reward/penalty applied for performance on leakage as in the rest of the Anglian Water region.

The research found that low-income participants in Hartlepool were more open to the options involving proportionately greater investment. Even though participants expressed concerns about rising bills, by the end of the discussions, none of them chose the lowest bill option, and equal numbers chose options two and three. However, after agreeing to pay for option three, some customers felt it was a bit much for Anglian Water to ask them for an additional £4 to pay for leakage improvements.

In general, Panel members felt that Anglian Water's customer engagement research programme was representative of Hartlepool customers' views; looking at evidence from the Synthesis Report (Anglian Water PR19 Business Plan, Annex 12c: *Anglian Water Customer Research & Engagement Synthesis*), Panel members felt that the conclusion drawn by Anglian Water that Hartlepool customers' views were generally similar to the rest of the Anglian Water customer base was reasonable. Panel members were pleased that, following their input, comments relating to Hartlepool Water were drawn out separately in the Synthesis Report.

There was debate between the Panel and the company about the online community. Panel members would have liked to see the inclusion of some Hartlepool customers in the community; the company's supplier maintained that this was impractical as the overall panel sample size did not allow the inclusion of a representative number of Hartlepool customers. Panel members wanted to see this methodological issue explored further for the future.

Panel members were pleased to see that Anglian Water had responded to Hartlepool customers' enthusiasm for rolling out a Community Ambassador programme, which had a strong focus on face-to-face interaction with community members. They were pleased to see that eight of a total of 50 ambassadors across Anglian Water's entire customer base were being trained in Hartlepool and that this programme would be rolled out over the next few years. The Panel felt that the work the Community Ambassadors have done so far has been impressive.

However, they wanted to see Hartlepool customers represented through other channels, including Anglian Water's new Customer Board. Panel members wanted to see improved communication between Hartlepool Water and its customers, an issue that was flagged as a priority by customers too.

x. Innovation

The CEF was impressed by the company's innovative and nimble approach to delivering its customer engagement programme, introducing creative new elements such as the online community, which the CEF is assured will now be part of Anglian Water's business as usual approach to gathering customers' views.

CEF members were also impressed by the company's innovative approach to tackling future challenges facing the region, which is in evidence through the **Innovation Shop Window** in Newmarket, which members of the Sustainability and Resilience Panel had the chance to see in action.

The company has been piloting innovative engagement and water efficiency interventions in Newmarket, through its Smarter Drop campaign (see Anglian Water PR19 Business Plan, Section 10.11 for more details). The aim is to make Newmarket the water saving capital of the UK, by reducing customer consumption to an average of 80 litres/person/day. In less than a year, Anglian Water has helped Newmarket to reduce its consumption by 7.5% using water efficiency interventions alone. The Smarter Drop campaign has been enabled by the deployment of 6,800 smart meters and a customer visualisation portal, which allows customers to understand and monitor their own use. CEF members welcomed the company's proposal to roll out **smart meters** to more customers alongside messages that would help customers to reduce their water consumption, although members of the Sustainability and Resilience Panel expressed a desire to see more information about how the smart meters would work in practice.

Anglian Water has also pioneered an innovative, multi-sector planning approach for water resource management in the East of England, through a strategy called **Water Resources East** (WRE) to help tackle the operational and strategic water resource challenges facing the region in collaboration with local authorities, agriculture, industry, domestic customers and other water companies.

In March 2017, Anglian Water set up the Anglian Centre for Water Studies (in partnership with the University of East Anglia) to focus on the intersection between innovation and political, social and environmental sciences in four areas:

- Resilience to climate change
- Environmental sustainability in a circular economy
- Engaging society
- Competition markets and regulation

These initiatives and long-term partnerships reassured CEF members to believe that innovation is central to Anglian Water's approach to delivering long-term resilience, great customer service and affordability.

xi. Putting the Sector Back in Balance

CEF members were conscious of the legitimacy questions and controversy facing the water sector as a whole throughout the PR19 planning process. Anglian Water's Chief Executive Peter Simpson and Regulation Director Alex Plant gave regular verbal briefings to the CEF about company discussions with the Government and Ofwat. Panel members were impressed by the way Anglian Water responded quickly and decisively to the challenges raised during this period and in response to Ofwat's *Putting the Sector Back in Balance* consultation.¹³

The CEF urged the company to engage with, and to communicate to its customer base on these issues. As a result of this challenge, the company carried out additional customer engagement via its online community in July 2018. It shared a description of proposed initiatives with customers, who on the whole were supportive. Through being part of the online community, customers had recognised a growing momentum in embracing transparency, and accountability, and they were eager to see how the company would build on this going forward.¹⁴

Nonetheless, concerns remained among some customers, who were keen to hear what lay behind Anglian Water's decision to make these corporate changes, particularly in relation to the Cayman Island subsidiaries. Without this assurance, there was a risk that the company's actions could be interpreted as a company trying to reform shady practices, rather than a company that is going above and beyond in an effort to become more transparent and responsible.

In reaching final conclusions concerning its proposed bill profile, the company modelled the impact of a range of profiles on metrics of financeability, both for the company's actual capital structure and the Ofwat notional capital structure. Initially the Economic and Valuation Sub-Group, and subsequently the CEF, reviewed this information, and the customer engagement on these issues. This review encompassed issues such as the reasonableness of the assumptions made by the company about net rewards likely to be earned in the remainder of this Asset Management Period. The CEF discussed with the company its proposals concerning RCV run-off rates and "Pay As You Go" rates.

¹³ See [Putting the sector back in balance – summary of Ofwat's decision on issues for PR19 business plans](#), published by Ofwat 3 July 2018.

¹⁴ Corporate Governance by Incling, published on 3 August 2018, referenced on p18 of Anglian Water Customer Engagement & Research Synthesis (Anglian Water PR19 Business Plan Annex 12c: *Anglian Water Customer Engagement & Research Synthesis*).

Members were pleased to see that the company had sought to engage customers and to elicit their views, on these issues. This had included discussion on the intergenerational considerations, and on the modelled profile of bills, both for AMP7, but also beyond, albeit recognising the inherent assumptions that had to be made to model further ahead. The CEF concluded that the efforts made to engage on these issues were acceptable, and commensurate with the bill proposals encapsulated within the draft Business Plan. A majority of household and non-household customers were supportive of the approach that the company proposes to take.

In summary, CEF members were persuaded that this PR19 Business Plan provides evidence that Anglian Water has taken this into account and is proposing to deliver a plan that meets customer expectations – linking corporate, financial and operational resilience while keeping customers at the heart of every decision made.

Chapter 3: Conclusions

In summary, the CEF is mindful that its role is not to endorse Anglian Water's Business Plan per se, but is rather to comment (positively or otherwise) on the quality of the company's customer engagement and the degree to which this has driven the company's decision making during this price review.

The CEF and its sub-panels have worked constructively and diligently over the past two years to scrutinise and challenge Anglian Water's extensive customer engagement programme. Members have been unanimous in their praise for the breadth, depth and innovative nature of the company's suite of customer research that has reached out to a diverse range of customers and captured their views.

The CEF has been robust in its challenges to the company, for example, regarding performance commitments on vulnerability and Natural Capital, and the company has responded proactively by adapting and revising proposals to accommodate CEF members' comments and suggestions accordingly.

Just as the company had to balance competing demands and pressures in producing a balanced plan, so did the CEF. The group challenged each other and the company about the relative priority to be afforded to different pressures for investment; for example, as to whether the company had gone far enough in terms of its environmental investments and catchment management approaches, and whether those customers who did not accept a bill increase were adequately supported.

However, through the additional scrutiny of the Economic and Valuation Sub-Group and the customer engagement audit by Jacobs, the CEF was also assured that this in-depth programme of customer engagement has informed the thinking behind the company's PR19 Business Plan and has produced an ambitious and stretching set of initiatives and performance commitments for AMP7 which are driven by customer priorities.

The CEF acknowledged that customer engagement had proved conclusively and robustly that more than 80% of customers were supportive of key investments to cope with future resilience issues and to protect the environment, and that they accepted bill increases of at least 2.5% as a result of the investment. Following this, the company had robustly challenged costs and, in its final plan, was able to offer the outcomes customers wanted for bill increases of around 1%. Customers perceived this to be good value for money.

Although CEF members were aware that this bill increase might prove to be controversial, they were assured both by the level of customer support and by the company's plans to increase support for customers who might struggle to pay their bills in future.

In overall summary, the Anglian Water Customer Engagement Forum commends the company on the length, breadth, depth and innovative nature of its customer engagement programme for PR19. The CEF and its subpanels have worked hard to scrutinise the degree to which that engagement has fed into the company's proposed PR19 Business Plan. It is satisfied, with a number of minor caveats noted in the commentary above and in the CEF's report, that Anglian Water's PR19 Business Plan is indeed driven by the requirements of the company's customers, and that it recognises the challenges faced by customers across the region, including those in Hartlepool.

The Drinking Water Inspectorate (DWI) has additionally given assurance that, in relation to statutory obligations, there are no outstanding issues that should be regarded as a material concern. DWI's assurance letter is attached to this report as Annex 7 (*Statement from Drinking Water Inspectorate*). In addition, the Environment Agency and Natural England have made their views known as members of both the CEF and the Sustainability and Resilience Panel.

Acknowledgements from Jeff Halliwell, Chair of the CEF

I would like to thank all CEF members and members of our four independent panels, who gave freely of their time, energy and expertise to serve the needs of Anglian Water and Hartlepool Water customers. They were always mindful that their duty was to serve the interests of customers and other stakeholders.

I would also like to recognise the role of our four Panel Chairs who led critical work in specialist areas on behalf of the CEF as a whole, and also of Vicky Anning, who acted very ably in an independent Board Secretary role, and led the drafting of this report.

Many thanks should go to the Managing Director Peter Simpson and senior staff of Anglian Water, including Alex Plant, Darren Rice and Carolyn Cooksey, who responded to CEF challenges appropriately and showed commitment to ensuring that CEF concerns were promptly followed up.

Finally, I would like to thank the customers and stakeholders who helped to co-create and shape the Anglian Water Business Plan, participated in extensive customer research and direct engagement activities and whose opinions provided a major part of the evidence base for this report. We believe that Anglian Water's PR19 Business Plan has placed customers views and concerns at the very heart – and is all the better for doing so.

Annex 1: Terms of Reference: Anglian Water Customer Engagement Forum

1. Background

In 2011, Ofwat set out their expectations for a step-change to customer engagement for PR14, through a three-tiered approach to putting customers at the heart of the price setting process¹⁵:

- **Direct local engagement** between water companies and their customers e.g. surveys, focus groups, interviews
- A company supported **customer challenge group** to ensure that the company business plan reflects a sound understanding and reasonable balance of customers' views and that the outcomes are delivered in the most socially, economically and environmentally sustainable way
- A **sector wide Ofwat customer advisory panel** to inform thinking on issues where consistent policies or assumptions will be applied across the industry.

In May 2016, Ofwat released a policy statement¹⁶ which superseded the 2011 document, but which built on the principles laid out for PR14. Key points are:

- The regulator will expect a **further step-change** in the way companies approach customer engagement, with mixed-methods approaches incorporating new and innovative techniques, less reliance on stated preference surveys and appropriate triangulation/proportionality
- **CCGs may now have a dual role** of challenging current performance as well as looking at the quality of customer engagement and the evidence it provides for company decisions, which should be reflected in updated terms of reference
- Greater **clarity on areas that CCGs should influence** – including most importantly (but not limited to): outcomes, performance commitments, Outcome Delivery Incentives, affordability and bill profiles
- **Transparency** of CCG finance and governance
- The **Customer Advisory Panel** will not continue to advise on regulatory assumptions, instead Ofwat will use a variety of other methods including CC Water, CCG Chairs and the Water 2020 panel.
- Companies are expected to use **comparative information** to demonstrate performance and set appropriate context for this
- The **regulator welcomes discussion** with companies on new methods of engagement with customers, including co-creation and co-delivery, but aims to provide clarity rather than prescription – offering freedom for companies to design their own approach
- **At the time companies submit their business plans, CCGs should report to Ofwat** on suitability of plans for customers, tensions between proposals and compliance with statutory obligations and how concerns have been addressed

¹⁵ Ofwat Involving Customers in Price Setting August 2011, see

http://www.ofwat.gov.uk/future/monopolies/fpl/pap_pos20110811custengage.pdf.

¹⁶ Ofwat Customer Engagement Policy Statement and Expectations for PR19; May 2016, see

http://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf.

2. Role of the Anglian Water Customer Engagement Forum

For PR19, the CEF has two key functions:

A. Challenge current performance

Challenge current performance and check that the company is delivering on the commitments made to customers in the 2015-2020 business plan. This will include looking at comparisons of performance against other companies, and ensuring that comparative information is communicated appropriately to customers and stakeholders

B. Challenge engagement activity that will underpin the business plan

Independently challenge the company on the quality and breadth of its customer engagement and provide assurance to Ofwat that the customer engagement informing business plan decisions for PR19 is robust, reliable and proportionate

To challenge current performance, the CEF will:

- Hold Anglian Water to account on performance during this business plan period – seeking clarity on areas of significant variance from performance targets, monitoring improvement activity where appropriate and developing a more in-depth understanding of service areas that are a high priority to customers
- Oversee the ways in which the company communicates with customers on its current performance, ensuring it is pitched at a level that customers understand and the context is appropriate

To challenge engagement activity that will inform future plans, the CEF will:

- Advise and challenge Anglian Water as it develops engagement and research plans that will inform the PR19 business plan, ensuring that members are confident that the engagement programme will provide robust evidence of customers' views.
- Assess the extent to which the customer engagement programme reflects the views of different customer types, and in particular customers in vulnerable circumstances
- Challenge Anglian Water as it interprets customers' views and decides how to reflect them in the company's longer-term strategy and business plans.
- Advise and challenge Anglian Water and other regulators to consider:
 - the opportunities for using innovative or sustainable means of delivering the required or desired outcomes;
 - the scope, justification and cost-effectiveness of the preferred delivery mechanism; and
 - phasing delivery or outcomes to maximise the affordability and acceptability of the company's overall business plan.
- Provide a report to Ofwat at the end of the period which will provide assurance on the quality and reliability of the customer engagement process, and detail any trade-offs or concerns which were identified and addressed

The agenda for each CEF meeting will consider the two distinct functions and allow appropriate time to cover each area of work.

For all of its activity, the CEF will ensure that its operations, governance and finance is transparent and that as much information as possible is publicly accessible online and/or through other channels.

The forum may also consider issues which may not be specific to business plans or PR19 but will affect customers and influence the future of the industry for example market reform and changes in legislation. The CEF will take into account findings and recommendations made by the Panels and Task & Finish Groups mentioned in Section 3.1 below.

The forum is not expected to provide technical assurance of customer engagement activities e.g. of willingness to pay surveys or cost benefit analysis. Anglian Water will provide assurance to satisfy the group that results are robust by providing evidence of, for example, peer review or technical input into the activities.

Throughout the business plan period, the CEF Chair will attend relevant Ofwat-led meetings and engagement events. The Chair may require attendance and/or participation from other CEF members with these events, depending on the subject matter and time requirements.

The CEF is not expected to provide assurance to Ofwat that costs are efficient, however it can challenge costs if members feel this is appropriate and in the interests of customers.

The CEF is not expected to formally approve the company business plan.

The company strategy, business plans and consultation documents are owned by Anglian Water.

3. Anglian Water Customer Engagement Forum membership

Ofwat guidance recommends companies decide on the membership of their CCGs, which should be suited to the needs of the area and the make-up of its customers.

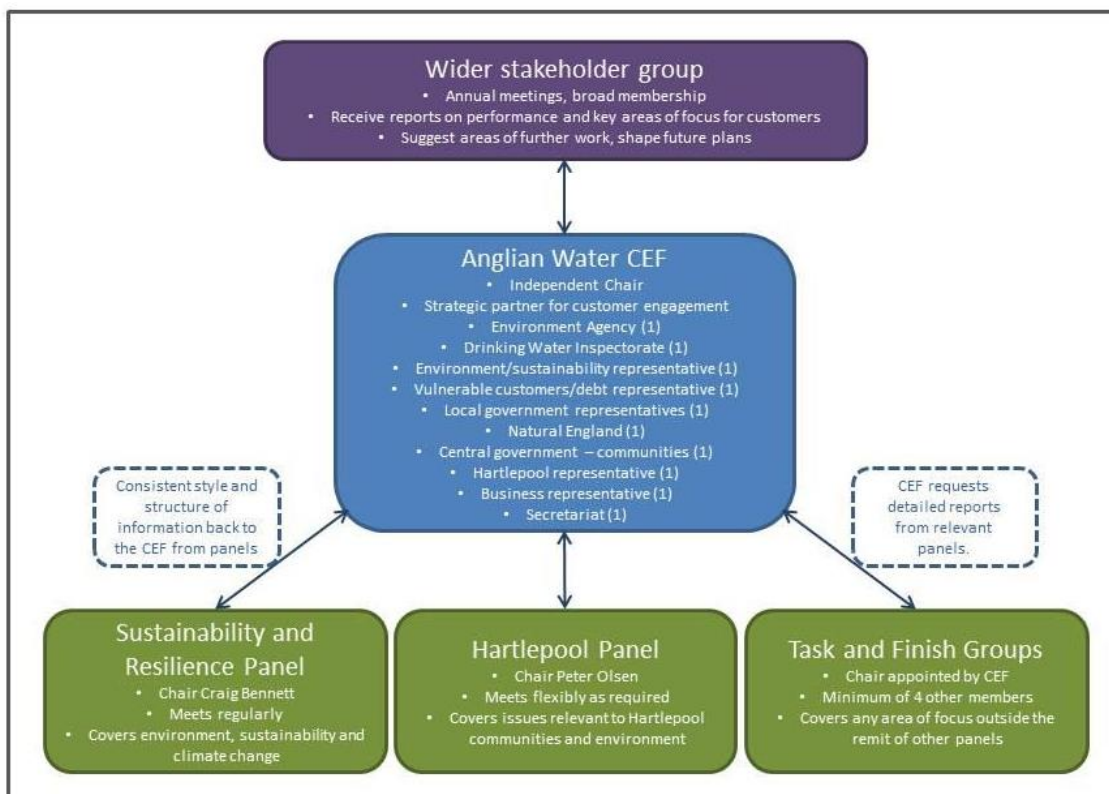
The Anglian Water CEF should represent the following customer groups:

- Key stakeholders across the region (including Hartlepool) such as local authorities, community representatives, environmental agencies, NGOs
- Regulatory bodies
- Business customers and their representatives
- Organisations which represent customers in vulnerable circumstances and specifically a debt advisory body

The potential number of bodies that can represent Anglian Water customers is extremely large; if all of these organisations were to be members of the CEF it would be an unwieldy and ineffective forum for communication.

A framework is shown below which allows a high number of stakeholders to be involved in the engagement and challenge process, while responding to the evolving regulatory environment and maintaining a manageable forum of key stakeholders.

The membership of the forum will be reflective of the Anglian Water geography and demographics of its customers.



3.1 Panels / Task and Finish Groups Chairs

Anglian Water set up four Independent Advisory Panels during AMP5, providing specialist advice and evidence on the environment, Hartlepool, economic issues and customers.

For this price review period, to reflect the increasing rate of change in the sector, requirements for PR19 and to allow flexibility to consider all issues arising which may impact on customers, the Environment and Hartlepool Panels will remain and the CEF will appoint other groups on a task and finish basis for specific needs as required. The environment panel will meet regularly, while the Hartlepool panel meetings will operate more flexibly to respond to issues as required, and make more use of other organisations in its wider network to gather customer insight. The Panels and Task and Finish Groups will take their findings and recommendations to the CEF for consideration.

Task and Finish Group Chairs and members will be appointed by the CEF to reflect the topic of interest. They will operate for the time required to provide necessary evidence and submit their findings to the CEF. The Task and Finish groups will be able to represent a broad range of customers relevant to the specific areas of interest and incorporate their views into CEF discussions, providing a broader and more in-depth insight to the topic than the CEF would be able to in its programme of work.

3.2 Wider stakeholder group

In order to understand the broad and evolving needs of the communities Anglian Water serves, one meeting per year of the CEF will include a wider stakeholder forum. These meetings will have the following purpose:

- Provide performance updates from Anglian Water, particularly areas of significant under/over performance, ODIs most of interest to customers
- Provide information and visibility on upcoming work, and how this has been shaped by customer views
- Offer an opportunity to identify areas where closer work between Anglian Water and stakeholders could lead to improved outcomes for customers
- Provide a platform to identify areas of policy or societal shift identified by stakeholders which may impact Anglian Water communities or environment
- Allow Anglian Water to understand the perspectives of a broader range of customer groups – in particular a range of groups which may be classed as ‘vulnerable’, such as the elderly, those with physical or mental disabilities, those experiencing ‘life events’ (such as divorce, bereavement etc) or those who are rurally isolated.

3.3 Representatives

Each member of the Anglian Water CEF should nominate appropriate senior representative(s) to attend the meetings. It is important that individual representatives can attend the majority of meetings to ensure consistency throughout the process and we would wish to keep the use of delegates to minimum.

Other representatives from member organisations or elsewhere may be invited to join on an ad-hoc basis as appropriate for example to present specialist agenda items, or to attend task and finish groups.

Ofwat will not be a member of the Anglian Water CEF but may be invited to attend by the Chair subject to members’ agreement. Ofwat has indicated that in the main, it will maintain a line of sight to CCGs through regular workshops and meetings of CCG Chairs.

More detailed bi-lateral conversations between some members, for example on water resources management plans, are likely to be required to supplement discussions within the group. These should inform rather than replace discussions within the Anglian Water CEF.

3.4 Customer Engagement Steering Group

The Anglian Water Customer Engagement Steering Group is responsible for developing the customer engagement strategy for PR19 and aligning the various strands of customer engagement across different areas of the business.

The customer engagement steering group governance is set out in its terms of reference.

A representative from the CEF attends steering group meetings and copies of minutes and meeting papers are sent to the CEF Chair to maintain consistent and open dialogue between the steering group and CEF, offering maximum opportunity for CEF input and challenge.

The customer engagement steering group owns the relationship between Anglian Water and the customer engagement strategic partner.

4. Outputs

Ofwat has asked that the company's Customer Challenge Group provide a report to them alongside the company's business plan and they have asked that this covers, as a minimum:

a) The company's engagement process

- *the effectiveness of, or any concerns with, the company's engagement with its various customers and with the CCG (taking account of the principles of good engagement set out by Ofwat in its May 2016 Customer Engagement policy statement and subsequent policy documents)*
- *whether the level of engagement and assurance is proportionate to the materiality of the company's business plan proposals*
- *the level of understanding around customer needs and preferences, including on longer-term resilience issues*
- *how the company has engaged on issues that are important to customers and which customers can genuinely influence*
- *the extent to which the company has engaged with and understood the needs of customers in vulnerable circumstances, and used a suitable range of methods to reach different groups of customers*
- *the level and quality of engagement on current performance, and provision of comparisons against other companies that are easily understood*
- *how well the company has genuinely built an ongoing conversation with customers that includes information from day-to-day contacts and which has been considered as part of the wider customer engagement strategy to inform the business plan*

b) The company's strategy and business plan

- *comments on any tensions that may exist between the delivery of the proposed plan and compliance with statutory obligations, and the extent to which those concerns have been addressed*
- *whether the company has actively considered the opportunities for more innovative and sustainable approaches to delivering the required or desired outcomes;*
- *whether the company's longer-term strategy and business plan is an appropriate response to customers' views;*
- *whether the company's business plan strikes a reasonable balance between the views of different customers and stakeholders, highlighting any areas where particular segments of current or future customers are likely to have outstanding concerns;*
- *whether the company has explored the range of cost-effective solutions and phased delivery of its various outcomes to maximise acceptability to customers; and*
- *whether the company's overall final business plan appears likely to be acceptable to a majority of customers, highlighting any areas of concern.*

The Anglian Water CEF will produce the report having consulted with the wider stakeholder forum.

Other outputs from the forum will be determined when the work plan is agreed but may include reports on:

- Plans for customer engagement
- Draft regulatory submissions
- Customer consultation document
- Outcomes of engagement on the Draft Determination

5. Governance

5.1 Chair

Ofwat recommend that the Chair is appointed by an independent process and is not a CC Water representative. Anglian Water commissioned an independent agency to appoint a Chair from outside the industry for AMP 6 (see Appendix 1 for role brief).

The Anglian Water CEF work programme and approach will be agreed with members of the group. The Chair will collate views and provide a note to summarise the discussion and approval of the approach.

5.2 Secretariat

Anglian Water will provide secretariat and administrative support to the group. Agendas and other materials will be provided in a timely and accessible way.

Minutes will be kept and made publicly available on the Anglian Water website once approved by the members of the forum.

It is anticipated the group will meet three times per year, generally in Peterborough although this may be rotated to other locations in the Anglian region.

5.3 Quorum

At least four members of the CEF should be present for meetings (not including Anglian Water representatives). Members may participate by phone if they are unable to attend the meeting in person.

5.4 Funding

Anglian Water will fund secretariat and administrative support to the group. Ofwat recommends that details of CCG financing are made publicly available.

5.5 Confidentiality

While the group will report publicly on its activities, some matters discussed by the group will be sensitive and not for public release. All other items, such as meeting minutes and papers, will be publicly available once agreed by the CEF.

5.6 Communication with Ofwat

The group, supported by the Chair, will agree the most effective way to communicate with Ofwat throughout the process.

The Chair will be involved in meetings and forums with Ofwat and other CCG Chairs, and will maintain a link to Ofwat and other companies through this work. Other CEF members may be required to support the Chair in maintaining positive and ongoing dialogue with Ofwat, and/or attending events.

The Chair will manage communication of the group's agreed position.

Ofwat have indicated that they would welcome ongoing discussion with companies as they develop and execute their engagement strategies for PR19. Anglian Water will work with the customer engagement strategic partner to build this into its approach, with oversight and challenge from the CEF.

6. Roles and responsibilities

6.1 Ofwat

- Provide guidance on sector-wide regulatory policies and cost assumptions (including a ready reckoner) to inform the business plan development and to support the Anglian Water CEF.
- Provide advice or input on request to support the Anglian Water CEF
- Organise meetings and key updates for CCG Chairs
- Take account of the views of the Anglian Water CEF on issues of concern or risk to customers in targeting the scrutiny of the company business plans.

6.2 Independent Chair

- Chair the Anglian Water CEF meetings, coordinating collation of views and members' approval of agendas, minutes, reports and overall work programme.
- Ensure members work together effectively, providing strategic direction and facilitating constructive and effective working.
- Present to Ofwat a report approved by members to summarise the views of the Anglian Water CEF on the effectiveness of the engagement process, how well customers' priorities have been taken account of in the company's plan and any areas of contention.
- Lead the selection of Chairmen for Task and Finish Groups, and the nomination of their members
- Represent and be an ambassador for the Anglian Water CEF

6.3 Members

- i. Contribute to development and quality assurance of the direct engagement process.
- ii. Participate in the Panels / Task and Finish Group programme.
- iii. Bring broad and representative views of customers to the CEF
- iv. Advise and challenge where necessary to maximise acceptability of bill impacts and service levels for current and future customers.
- v. Scrutinise the evidence provided by Anglian Water to satisfy themselves that the requirements outlined by Ofwat have been met

In addition, some members will have a specialist contribution to make for example:

- Confirming that the companies' plans deliver the required legal outcomes.
- Ensuring the company's business plan is consistent with other strategic plans such as water resources management plans, river basin management plans and local flood risk management strategies.

6.4 Anglian Water

- Set up the forum, provide secretariat and administrative support and costs
- Organise meetings of the CEF and Customer Engagement Steering group
- Work with the customer engagement strategic partner to design, run and own direct local engagement with customers and stakeholders, including gathering evidence and seeking out views.
- Provide results from engagement and evidence of technical assurance to the Anglian Water CEF to demonstrate customers' views including on acceptability of the overall plan.
- Provide evidence to the CEF to enable members to assess the outputs required by Ofwat
- Develop a strategy and business plan that takes account of customers' priorities and advice and challenge from the Anglian Water CEF
- Submit to Ofwat a proportionately evidenced and assured business plan that takes account of customers' views
- Provide evidence to the CEF of current business performance, and how it is has communicated this to customers

Appendix 1: Independent Chair summary of role

Key purpose of role

The Anglian Water CEF exists to help, advise and challenge Anglian Water as it engages with customers and stakeholders to develop its long term strategy and business plan for 2020 to 2025.

This plan will affect over 6 million water and wastewater customers in east of England and Hartlepool as well as local businesses, communities and the environment. The last business plan resulted in a £5 billion investment programme for the region between 2015 and 2020.

The Anglian Water CEF will play an important role in helping ensure that the plan for the next five years strikes the right balance between the views and priorities of different customers and stakeholders in the region, as well as the longer-term requirements for a safe and resilient water supply.

It will report to Ofwat on how well Anglian Water has engaged with customers and stakeholders to understand their priorities and how well customers' priorities have been accounted for in its business plans.

The Chair will play an essential role in ensuring the forum operates effectively, collaboratively and responsibly. They will be an ambassador for the forum, providing strategic direction and coordination.

Role and responsibilities

- Chair meetings of the forum, coordinating collation of members' views and approval of agendas, minutes, reports and the overall meeting programme.
- Ensure the forum members work together effectively by facilitating constructive discussions, ensuring every member has the opportunity to voice their views, agreements are reached wherever possible and areas of differing views are managed effectively
- Ensure that the forum reviews, advises and challenges Anglian Water on its engagement programme and business plans in a constructive and timely way that will satisfy the group that customer, Ofwat and quality regulators' requirements have been met.
- Report to Ofwat on the view of the Anglian Water CEF on whether the company's business plan reflects a sound understanding and reasonable balance of customers' views, and whether the phasing, scope and scale of work required to deliver outcomes is socially, economically and environmentally sustainable.

Skills and experience

- Independent of Anglian Water and other members of the Anglian Water CEF
- Excellent leadership, facilitation and communication skills
- Ability to understand complex strategic issues, analyse and resolve difficult problems
- Experience of customer and stakeholder engagement
- Sound judgment, common sense and diplomacy
- Business and financial acumen
- Living in the Anglian Water region.
- Interest in the water industry (previous knowledge and experience not essential)

Terms and conditions

- **Term** - The Chair will be appointed for a four year contract from January 2016 until June 2020.
- **Time commitment** – estimated 8-20 days per year (varying between years) to include full day meetings of the Anglian Water CEF three times per year plus additional time for preparing agendas, reviewing minutes and materials, other meetings and writing reports.
- **Location** – meetings will most commonly held in Peterborough though may also rotate within the Anglian Water region.

Annex 2: CEF Members and Panel Members

Members of the Customer Engagement Forum

Jeff Halliwell – Chair, Customer Engagement Forum

Jeff Halliwell was appointed as Chair of the Customer Engagement Forum in January 2016. His executive and non-executive director positions for household names and a range of industries spanning food, health, education and transport have seen him lead public, private, governmental and charitable bodies, as well as various organisations supporting vulnerable or minority groups, such as Home Start and The Shaw Trust. Since 2015, Jeff has been Chair of the statutory independent transport consumer watchdog, Transport Focus. In January 2017, he was also appointed as the independent Chair of the new Customer Challenge Board for Heathrow Airport Ltd. The terms of reference for the CCB are modelled closely on those established for CCGs in the water sector. In addition, he serves as Governor of the University of Northampton. He is an Anglian Water customer and a strong and balanced advocate for customers within complex, highly regulated environments.

Craig Bennett – Chair, Sustainability and Resilience Panel and CEF member

Craig Bennett is Chief Executive Officer (CEO) of Friends of the Earth and Honorary Professor of Sustainability and Innovation at University of Manchester Alliance Manchester Business School and chairs the S&R Panel in his personal capacity. He has been described as “one of the country’s top environmental campaigners”, and by *The Guardian* as “the very model of a modern eco-general”. He was recently listed as one of the UK’s top “social media CEOs”.

Prior to Friends of the Earth, Craig was Deputy Director at the University of Cambridge Institute for Sustainability Leadership (CISL), and Director of The Prince of Wales’s Corporate Leaders Group on Climate Change (from 2007 to 2010). He maintains his links with The University of Cambridge, as Policy Fellow at the Centre for Science and Policy (CsAP), and as a Senior Associate at the Cambridge Institute for Sustainability Leadership (CISL).

Beth Corbould – Economist and Policy Specialist, UK Civil Aviation Authority; member of CEF

Beth Corbould is an economist and policy specialist with particular experience working in economic regulation in the UK, currently with the UK Civil Aviation Authority. Beth is focussed on putting the consumer at the heart of airport regulation by leading on the implementation of consumer research driven business plans and outcome-based regulation. Beth holds undergraduate and Master’s degrees in economics, and has previous experience working in the Civil Service in Australia and the Office of Rail and Road in the UK.

Professor Bernard Crump – Regional Chair (Eastern Region), Consumer Council for Water; member of CEF and Anglian Water’s Customer Engagement Steering Group (CESG); member of Economic and Valuation Sub-Group

Bernard Crump is the Consumer Council for Water Regional Chair for the Eastern Region. He is a qualified doctor with postgraduate training in Public Health. He had a long NHS career working as a Director of Public Health, Chief Executive of a Strategic Health Authority, and was the first CEO of the

NHS Institute for Innovation and Improvement. He has lived and worked in the Midlands for more than 25 years and is currently Professor of Medical Leadership at Warwick Medical School. Bernard was a member of the CEF during the last business plan period and has continued in his role for the 2015-2020 period. He also sits on several other CCGs for other water companies. Bernard sat on the CEF in PR14.

John Giles – River Basin Account Manager, Environment Agency; member of CEF and Sustainability and Resilience Panel

John Giles is the Environment Agency's River Basin Account Manager for the Anglian River Basin. He has worked for the Environment Agency for 23 years carrying out a number of compliance and enforcement roles, before specialising in strategic planning issues. John is also founding board member of Sustainability East.

Gill Holmes – Local Consumer Advocate, Consumer Council for Water; member of CEF and Anglian Water's Customer Engagement Steering Group (CESG); member of Affordability and Vulnerability Panel

Gill Holmes joined CCWater as a Local Consumer Advocate for the Central and Eastern region in April 2015. She is a Solicitor who has worked in the Courts' Service practising criminal and family law before becoming a Senior Manager for the Service in Bedfordshire. As part of this role Gill focused on 'quality' and customer service issues, working closely with other agencies and Customer Focus Groups to raise standards for all those using the courts. She also worked on a number of projects relating to the collection and enforcement of financial penalties and the ability to pay. Gill currently acts as Independent Person for four Local Authorities dealing with complaints and standards issues.

Joanne Lancaster – Managing Director at Huntingdonshire District Council; member of CEF

Joanne Lancaster was appointed as Managing Director at Huntingdonshire District Council in June 2013. She began her career in local government as a technician in the planning department at Dudley Metropolitan Borough Council, and subsequently became a qualified town planner, working in many councils within the West Midlands in both rural and urban environments. Joanne is a strong supporter of good quality, efficient public services and is proud to be a governor at the local regional college.

Martin Lord – Chairman, Affordability and Vulnerability Panel and CEF member

Martin Lord was the Chief Executive of Central and East Northamptonshire Citizens Advice Bureau until he joined the Electoral Commission in summer 2018. He led the bureau through a period of growth and diversification including the acquisition of legal aid contracts, the development of specialist debt, benefit and housing casework services – alongside digital inclusion and financial capability initiatives. He has been involved in the joint development and delivery of the assessment function for Anglian Water's "Lite" social tariff. Martin has also served as Chair of Voluntary Impact Northamptonshire, and the Voluntary Sector Representative on Northamptonshire Health and Wellbeing Board.

Dr Paul Metcalfe – Managing Director of PJM Economics; member of CEF

Paul Metcalfe's expertise lies in the interface of economics, regulation and customer insight with a particular focus on the water sector. He has completed dozens of studies focussed on the design and analysis of customer surveys to explore customers' priorities, preferences and willingness to pay within a regulatory context. This includes work for several water companies at PR09, PR14 and PR19 to support their business plans as well as similar work in energy, transport and postal services sectors, amongst others. He has also contributed to best practice industry guidelines including the UK Water Industry Research study 'Carrying out Willingness to Pay Surveys', and he managed the National Water Environment Benefits Study research, which focussed on national valuation of water quality improvements. Paul has a PhD in Environmental Economics from the London School of Economics.

Peter Olsen – Chairman, Hartlepool Independent Advisory Panel and CEF member

Peter Olsen trained as a Chartered Accountant in Skipton in West Yorkshire, qualified in 1972 and became a partner in a leading Hartlepool practice in 1974. He retired from the partnership in 2009 as Practice Chairman, having previously been managing partner for some 15 years. He specialised in charity audits and advice to that sector and in 2008 became chairman of Housing Hartlepool, the largest local social landlord looking after the welfare of 7,000 households. Peter was a member of the Hartlepool Independent Advisory Panel during PR14.

Dr Nathan Richardson – Senior Policy Officer, RSPB and member of Blueprint for Water; member of CEF

Nathan Richardson has more than 30 years' experience in the water sector in research, consultancy, industry and policy roles. Most of this has been in the Anglian region where he lives with his family. His career has focussed on developing solutions to water scarcity, pollution and flood risk pressures.

Nathan is a past chair of the Chartered Institution of Water and Environmental Management (CIWEM) East Anglian branch, representing more than 2,000 water management professionals in the region. He is a Senior Policy Officer at the RSPB and sits on the Blueprint for Water NGO coalition which brings together 16 organisations, representing more than 6 million members, with an interest in water matters.

Daniel Storey – Chairman, Economics and Valuation Subgroup and CEF member

Daniel Storey is a professional economist with nearly 30 years' experience of working on policy-making at the interface of Government and business. Initially at the Department of Trade and Industry, he spent the early part of his career at HM Treasury, before moving into field of economic regulation at the Civil Aviation Authority. Since 2009 he has worked as a freelance economic consultant, providing advice to a range of companies mainly in the aviation and water sectors. He is Director of High Point Economics and is currently working for Gatwick Airport on regulatory strategy.

John Torlesse – Manager for Cambridgeshire, Natural England; member of CEF

John Torlesse has more than 25 years' experience working in the nature conservation field with the government's statutory advisory bodies. He has considerable experience through a variety of national and local roles in the management and restoration of wildlife sites and in the development

of new partnerships and funding initiatives to advance public enjoyment of the natural environment and its enhancement. He currently manages Natural England's operational work across Cambridgeshire, Bedfordshire and Northamptonshire. Prior to working in nature conservation, John worked in commercial property consultancy having trained as a chartered surveyor.

Richard Tunnicliffe – Regional Director, CBI East of England; member of CEF

Richard Tunnicliffe is Regional Director, CBI East of England. Richard joined the CBI in 1997 after completing his degree in applied biology at the University of Hertfordshire. He completed his MBA in 2005. He moved to the CBI East of England office in July 2000 where he had responsibility for the whole range of CBI activities in the East. He was appointed Regional Director in July 2005. This role includes regular liaison with senior executives in CBI member companies and lobbying on a regional level on issues such as skills, transport, broadband, housing and aviation.

Members of the Economic and Valuation Sub-Group

Daniel Storey: Chairman, Economics and Valuation Subgroup and CEF member (see above for bio)

Professor Bernard Crump: Regional Chair (Eastern Region), Consumer Council for Water; member of CEF and Anglian Water's Customer Engagement Steering Group (CESG)

Dr Paul Metcalfe: Managing Director of PJM Economics; CEF member

Beth Corbould: Economist and Policy Specialist, UK Civil Aviation Authority; CEF member

Members of the Affordability and Vulnerability Panel

Martin Lord: Chairman, Affordability and Vulnerability Panel and CEF member (see above for bio)

Gill Holmes: Local Consumer Advocate, Consumer Council for Water; member of CEF and Anglian Water's Customer Engagement Steering Group (CESG)

Peter Christmas: formerly Groundwork East, now Quaker Social Action

Janet Cooke: Peterborough Dementia Action Alliance

Trevor Edwards: Dept of Work and Pensions, seconded to Business in the Community, Great Yarmouth

Julie Farrow: Chief Executive, Hunts Forum

Jenny Hodson: Voluntary Action North East Lincs

Lorraine Jarvis: Chair, Essex CVS Network

Members of the Sustainability and Resilience Panel

Craig Bennett: Chairman, Sustainability and Resilience Panel and CEF member (see above for bio)

John Giles: River Basin Account Manager, Environment Agency; CEF member

Dan Bean: Environment Agency

Julia Beeden: Cambridgeshire County Council

Barry Bendall: Rivers Trust

Katherine Hardcastle: River Nene Regional Park

Ben Orchard: Adnams

Philip Pearson: RSPB

Richard Powell: Wild Anglia

Phil Rothwell: Regional Flood and Coastal Committee (RFCC)

Anne Ramsey: Natural England

Rob Wise: National Farmers' Union

Members of Hartlepool Independent Advisory Panel

Peter Olsen: Chairman, Hartlepool Independent Advisory Panel and CEF member (see above for bio)

Jeremy Garside: Tees Valley Wildlife Trust

Jonathan Gibson: Joseph Rowntree Foundation

Steve Grebby: CCWater

Rebecca Innes: Orangebox Training

Beth Major: Youth Manager, Hartlepool Borough Council (changed roles before end of process)

Lyndsay McGregor: West View Advice and Resource Centre; Hartlepool Financial Inclusion Partnership

Tracey Rix-Mason: Tees Credit Union

Dawn Vincent: West View Advice and Resource Centre (changed role before end of process)

Colin Wilkinson: CCWater

Annex 3: Chronology of Meetings: Customer Engagement Forum and Panels

Customer Engagement Forum Meetings 2016 to July 2018

2016

20 January 2016 – Anglian Water, Thorpe Wood House, Peterborough

10 June 2016 - Kingsgate Conference Centre, Peterborough

28 September 2016 – Peterborough Arena, East of England Showground, Peterborough: Stakeholder Forum

2017

20 January 2017 – Anglian Water, Lancaster House, Huntingdon

31 March 2017 – Kingsgate Conference Centre, Peterborough

17 May 2017 – Kingsgate Conference Centre, Peterborough: Stakeholder Forum

31 July 2017 – Anglian Water, Lancaster House, Huntingdon

5 October 2017 – Anglian Water, Lancaster House, Huntingdon

8 December 2017 – Anglian Water, Lancaster House, Huntingdon

2018

16 January 2018 – Anglian Water, Lancaster House, Huntingdon

6 March 2018 – Anglian Water, Lancaster House, Huntingdon

5 June 2018 – Anglian Water, Lancaster House, Huntingdon

31 July 2018 – Anglian Water, Lancaster House, Huntingdon

Additional calls on 9 August and 13 August

Sustainability and Resilience Panel Meetings

17 March 2017 – Anglian Water, Milton House, Cambridge

12 July 2017 – Barnsdale Lodge Hotel, Rutland Water North Shore

22 September – Templewood, Frogshall, Northrepps, Cromer

17 October – Cambridge University, Anglian Water event on Natural Capital

27 March 2018 - British Antarctic Survey, Cambridge

25 April 2018 – Anglian Water, Lancaster House, Huntingdon

1 May 2018 – Anglian Water, Lancaster House, Huntingdon

5 July 2018 – Huntingdon Marriott Hotel, Huntingdon

Affordability and Vulnerability Panel Meetings

31 October 2017 – Pinnacle House, Peterborough

23 February 2018 – Anglian Water, Thorpe Wood House, Peterborough

16 April 2018 – Anglian Water, Thorpe Wood House, Peterborough

25 May 2018 – Anglian Water, Lancaster House, Huntingdon

12 July 2018 – Anglian Water, Thorpe Wood House, Peterborough

Additional call on 10 August

Hartlepool Independent Advisory Panel Meetings

14 June 2017 – Hartlepool Water offices

13 December 2017 – Hartlepool Water offices

22 February 2018 – Hartlepool Water offices

17 April 2018 – Hartlepool Water offices

10 July 2018 – Hartlepool Water offices

Economic and Valuation Panel Meetings

6 March 2018 – Anglian Water, Lancaster House, Huntingdon

20 April 2018 – Anglian Water, Lancaster House, Huntingdon

22 May 2018 – Anglian Water, Lancaster House, Huntingdon

21 June 2018 – Anglian Water, Lancaster House, Huntingdon

9 July 2018 – Anglian Water, Lancaster House, Huntingdon

Additional call on 9 August

Minutes of meetings are available on Anglian Water's website [here](#).

Annex 4: Customer Engagement Forum Agendas: 2016-2018

See file named: Annex 4 Customer Engagement Forum Agendas

Annex 5: Challenge log for Customer Engagement Forum

See file named: Annex 5 Challenge log for Customer Engagement Forum

Annex 6: Customer Engagement Summary Audit – by Jacobs

See file named: Annex 6 Customer Engagement Summary Audit Report

Annex 7: Statement from Drinking Water Inspectorate (DWI)

PR19 Drinking Water Inspectorate statement for Anglian Water Services Ltd Customer Engagement Forum report to Ofwat

See file named: Annex 7 PR19 CCG ANH Drinking Water Inspectorate Statement

Annex 8: Report by Economic and Valuation Sub-Group

See file named: Annex 8 Report by Economic and Valuation Sub-Group

Annex 9: Report by Affordability and Vulnerability Panel PR19

See file named: Annex 9 Report by Affordability and Vulnerability Panel

Annex 10: Report by Sustainability and Resilience Panel PR19

See file named: Annex 10 Report by Sustainability and Resilience Panel

Annex 11: Report by Hartlepool Independent Advisory Panel PR19

See file named: Annex 11 Report by Hartlepool Independent Advisory Panel

