



## ANGLIAN WATER INDEPENDENT CHALLENGE GROUP

### MINUTES

**Date:** 21 August 2024

**Time:** 14:00-16:00

**Location:** Virtual

**Present:**

- Craig Bennett – Chair (M)
- Gill Holmes – Independent (M)
- Joanne Lancaster – MD, Independent (M)
- Paul Metcalfe – MD, PJM Economics (M)
- Nathan Richardson – Waterwise/Blueprint for Water (M)
  
- Mark Thurston – Chief Executive, Anglian Water
- Geoff Darch – Water Resources Strategy Manager, Anglian Water
- Rob Kelly – on secondment from Anglian Water to the Norfolk Strategic Flooding Alliance as Water Management Director
- Darren Rice – Regulation Director, Anglian Water
- Emily Timmins – Director of Water Recycling, Anglian Water
- Lottie Williams – PR24 Customer Insight Lead, Anglian Water
  
- Vicky Anning – Secretariat (O)

**Apologies:**

- Peter Holt – Chief Executive, Uttlesford District Council (M)
- Justin Tilley – Natural England (M)
- John Vinson – CCW (M)
- Victoria Williams – EA (M)

## Summary of actions

Actions from August meeting	Status
1. <b>Lottie</b> to circulate customer engagement slide deck	Closed
2. <b>Lottie</b> to circulate revised customer engagement materials	Open
3. <b>AW</b> to report on customer support measures	Open
4. <b>ICG members</b> to share additional thoughts on DD and customer engagement via email	Open
5. <b>Craig</b> to look at revised TORs	Ongoing
<b>Open actions from July meeting</b>	
6. <b>Nathan</b> to share report from environmental destination stakeholder group	Open
7. <b>AW/Darren</b> to provide updates on performance commitments (penalties/rewards etc) in a consistent way to help ICG members identify trends	Open
8. <b>AW</b> to provide update on Service Commitment Plan at next meeting	Closed
<b>Open actions from June meeting</b>	
9. <b>ICG members</b> to revise TORs	Ongoing
10. <b>CB/JV and VA</b> to draft/agree a standard answer for customer queries that come to the ICG	Open
11. <b>Jo</b> to reach out to Claire Higgins regarding future participation	Open
<b>Open actions from April meeting</b>	
12. Add winter preparedness to the autumn ICG agenda	Open
13. Add water demand in response to Cambridge development to future agenda	Open
14. <b>Peter Holt</b> to keep ICG updated on Water Summit outcomes	Ongoing
15. Set up Task and Finish Group on Zero Escapes Strategy	Pending
16. Regular updates on PIRP to be included at future ICG meetings	Ongoing
17. <b>Andrew Brown</b> to circulate slide deck	Open
18. AW colleagues to explore options of site visit, potentially to WRC	Open

## Meeting minutes

Item	Action
<p><b>1. <u>Welcome from Independent Challenge Group (ICG) Chair</u></b></p> <p><b>Craig Bennett</b>, Chair of the Independent Challenge Group, welcomed Mark Thurston, Anglian Water's new Chief Executive, to the ICG. Members of the ICG introduced themselves and shared their backgrounds/expertise.</p> <p>Minutes from the 19 July meeting were adopted.</p>	

Item		Action
2.	<p><b><u>Introduction from Mark Thurston</u></b></p> <p>The new Chief Executive of Anglian Water, Mark Thurston, introduced himself to the ICG. He had been involved for 15+ years in some of the biggest infrastructure projects in the UK – including London Olympics, CrossRail and HS2.</p> <p>He had been shadowing Peter for the first few weeks in post and was very impressed by the depth of competence and know how of the company. However, he was under no illusions that there was work to be done on the company’s operational performance.</p> <p>His focus was three fold:</p> <ol style="list-style-type: none"> <li>1) to finish off AMP7 to the best of the company’s ability, against a challenging backdrop</li> <li>2) to work with Darren to make sure the company achieved the right final determination with Ofwat</li> <li>3) to prepare the company for AMP8.</li> </ol> <p>Mark was keen to return to basics and build from there, with a strong focus on improving the company’s pollution performance. He had had a productive meeting with Craig earlier in the week and was aware of/committed to the work of the ICG.</p> <p><b>Questions:</b></p> <p><b>Nathan Richardson</b> asked whether there was anything in particular that had struck Mark (challenges or positives) on moving into the water sector?</p> <p><b>Mark</b> responded that, although Anglian Water was a large £10bn company, internally, it did not feel always that way. Despite the company’s focus on purpose and values, he felt AW had become distracted by too many priorities. The first priority was to now improve pollution performance, as it was shaping public perception of the company. The strong commitment from employees to the company’s purpose provided a solid foundation for moving forward as CEO.</p>	
3.	<p><b><u>Update on Anglian Water’s response to Ofwat’s Draft Determination</u></b></p> <p><i>Challenge questions:</i></p> <ul style="list-style-type: none"> <li>• <i>What is the effect of the DD and disallowance of enhancement expenditure on asset health and long-term resilience? What won’t the company be able to do? Which enhancement expenditures that have been disallowed are key?</i></li> <li>• <i>Stretching performance targets: We know that Anglian Water’s overall performance is not where they would like it to be. Comment was made at the last ICG meeting that the current suite of PCs were unachievable in their current form &amp; a suggestion that this was problematical across the sector. Against the</i></li> </ul>	

Item		Action
	<p><i>background of failing to meet current objectives we want to see improvement. There seems little point in setting targets that are unachievable, but they should be stretching performance. Are the current suite of PCs unachievable or simply stretching?</i></p> <ul style="list-style-type: none"> <li>• <i>It would be useful to understand Anglian Water’s position on the 30% cut between their smart metering funding request and Ofwat’s DD allowance.</i></li> <li>• <i>Some companies made the case that they could not deliver the 9% absolute reduction in non-household demand by 2038 in the Environment Act because of high levels of growth in the area. It looks like Ofwat has pushed back on this and will go with historical growth trends and only make adjustments if actual growth at the end of AMP8 is more than 3% higher. It would be good to know if this is correct and what the implications might be, if any, for Anglian.</i></li> <li>• <i>If the company’s ambition is bound by the constraints that seem to be emerging, then pressure on water supply and treatment would be inevitable. If this were to be the case, and given current and projected consumption, what do the company think the net impact would be on the ability of the region to deliver growth both in terms of the economic growth (now a statutory duty for Ofwat), but more fundamentally the housing growth that is being targeted into the region served by AW?</i></li> <li>• <i>On the LTDS, the net zero Totex disallowance is particularly frustrating given this was a flagship commitment of the sector, driven in large part by Anglian Water’s and Peter Simpson’s leadership. It feels like the 2030 net zero commitment is slipping away? It would be good to understand if other companies have the same issue and if their 2030 net zero commitments are at risk.</i></li> </ul> <p><b>Darren Rice</b> gave a detailed analysis of AW’s DD response, following on from the initial assessment shared at the July meeting. ICG members had also submitted some challenge questions, which helped to shape presentations for the meeting (see above).</p> <p>Darren had shared a <a href="#">slide deck</a> with ICG members ahead of the meeting, which had been presented to Ofwat to summarise the company’s response.</p> <p><b>Overall DD observations</b></p> <ul style="list-style-type: none"> <li>• A clear emphasis on delivery shaping the scale of investment within the overall Regulatory Framework</li> <li>• Material evolution of Ofwat thinking since Final Methodology, which has presented its challenges</li> </ul>	

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<ul style="list-style-type: none"> <li>• Attempts to reflect the different risks impacting investments (e.g. risk of cost overruns or underruns on different expenditure; Ofwat put new measures in place so companies are exposed to less overruns)</li> <li>• An inherent focus on the shorter term delivery of statutory programmes in AMP8.</li> </ul> <p><b>Positives</b></p> <ul style="list-style-type: none"> <li>• Ofwat has recognised the quality of the company’s Business Plan</li> <li>• The cost challenge (-4%) relative to other companies (-16% average) is smaller, and significantly smaller than that at PR19 (-20%)</li> <li>• Ofwat’s base cost ambition assessment remains challenging to understand</li> <li>• Positive movements – recognition of external factors impacting overall strategic interconnector delivery (which will be completed in AMP8)</li> <li>• With refinement, the PCDs could support Ofwat’s focus on delivery</li> </ul> <p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>• Overall – the cumulative risk presented by the DD is material and harmful to the prospects for equity investment now and in future (challenging asymmetric risk profile)</li> <li>• Pressure on base cost is significant (e.g. not allowing certain things such as cost of improving leakage; Ofwat has pushed some resilience costs onto base costs)</li> <li>• There’s a growing stack of pressures on base costs.</li> </ul> <p>Darren explained that, from a working capital perspective, companies would be spending more on energy etc., which would put pressure on cash flow over the next five years. However, companies wouldn’t get full recompense until 2030.</p> <p>Darren also highlighted that the ODI incentive framework looks quite miscalibrated. He explained that there were two big drivers here:</p> <ul style="list-style-type: none"> <li>- 1) Ofwat assumed the sector would be on target and on track for its PCs by the end of this AMP but this assumption was proving not to be accurate – there was an emerging performance deficit which was causing quite a problem in terms of where companies expect to be in 2030</li> <li>- 2) Stretching targets coupled with rewards and penalties were supercharged relative to previous targets</li> </ul> <p>Moody’s rating agency estimated that sector would be in excess of £2bn worth of penalties over next five years as a consequence of this</p> <p>This is presenting the biggest headache for AW and other companies.</p> <p>Darren explained that Ofwat had tried to recalibrate the risk and incentive package around AW cost proposals for reservoirs but under the DD, there was too much risk profile and cost uncertainty regarding major capital projects.</p>	

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<p>AW was working with Ofwat’s major infrastructure team on this and they had already reached out to Mark, drawing on his expertise in major infrastructure projects.</p> <p>Darren also presented indicative costs and revised bill impact relating to AW’s DD representation. There was a revised position of 25% (compared to 22% average before Ofwat interventions). AW’s bill increase was still below the water industry average bill increase.</p> <p><b>Craig</b> followed Darren’s presentation by reminding members about the briefing note dated 6 August looking at impact of DD on some aspects of the Long Term Delivery Strategy. This was circulated ahead of the 21 August meeting.</p> <p>Craig recently met with Chief Exec of Water UK (David Henderson), who had concerns about DDs as a whole and was planning a robust response to them.</p> <p>He asked Nathan to give a reflection on Waterwise’s response to the DDs which had been circulated ahead of the ICG meeting.</p> <p><b>Nathan Richardson</b> said from Waterwise’s point of view they were pleased by the size of water conservation programmes. From the perspective of environmental NGOs, there’s a huge WINEP programme but the size of nature-based solutions and catchment solutions was quite small; he anticipated that would be the main focus of the pushback from the environmental sector.</p> <p><b>Questions</b></p> <p><b>Paul Metcalfe</b> asked about service levels ratcheting to a new starting point. He asked whether AW was planning to argue against that as matter of principle? And was AW planning to challenge service levels or costs to achieve the service levels?</p> <p><b>Darren</b> responded that, on service levels themselves, reps would be asking Ofwat to reflect on performance in AMP7. At the moment Ofwat was taking median of the company’s upper quartile performance in original business plans, which were looking a bit stretching now. AW was proposing (for measures like pollutions and flooding) to take median of AMP7 performance.</p> <p>On expenditure, Ofwat assumed that improvement costs would come from base. AW was not proposing any more investment to improve performance on that basis, with the exception of requesting Ofwat to reverse the intervention they made on rejecting the costs associated with improving leakage.</p> <p><b>Gill Holmes</b> asked whether the ODI challenge was a sector wide issue? She also asked whether AW would be able to increase the customer support package to meet the proposed increase in bills?</p> <p><b>Darren</b> responded that the ODI miscalibration issue was a sector wide problem. The whole sector was potentially in net penalty on common ODIs.</p>	

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<p>On affordability, colleagues were still doing precise modelling. The scale of affordability support would stay the same but might be slightly spread across a larger base.</p> <p><b>Jo</b> asked whether AW was confident that the 25% bill increase was the final figure and also asked how this was affecting the company’s risk profile? How was that risk appetite going to be addressed at Board level?</p> <p><b>Darren</b> responded that there could potentially be further pressure on bills. He didn’t think Ofwat had gone far enough on cost of capital yet. There was potentially further pressure to reflect greater costs for reservoirs/scale of investment.</p> <p>On risk profile, <b>Mark</b> explained that there were three things that needed to come together:</p> <ol style="list-style-type: none"> <li>1) AW was making the case to Ofwat that the current regulatory context didn’t lend itself to major infrastructure projects</li> <li>2) AW as an organisation has had quite a lot of growing pains when working on the strategic interconnector project. There’s a lot of good learning coming from that to feed into future projects.</li> <li>3) The balance between providing clean water and dealing with day-to-day operations, as well as dealing with new capital projects, is shifting as large reservoir projects come on line – AW needs to organise themselves in a more sophisticated way to reflect this shift in focus.</li> </ol>	<p><b>AW to update on customer support</b></p>
<p><b>4. <u>Update on Pollution Incident Reduction Plan (PIRP) and Environmental Performance Assessment (EPA)</u></b></p> <p><i>Challenge question: How will the company’s investment through remainder of AMP7 and through into AMP8 enable a significant improvement in pollution performance to meet the targets set out in the WISER (i.e. zero serious incidents and 40% reduction in pollution incidents compared to 2016)?</i></p> <p><b>Emily Timmins</b> started her presentation with an admission that AW’s pollution performance was far still off track and the focus for the whole company was to double down on tackling this issue.</p> <p>She had shared a <a href="#">slide deck</a> ahead of the meeting focusing on hydraulic overload. She explained the company was materially affected by wet weather earlier this year, which led to flooding. She said that the company was affected by a number of assets owned by other agencies including EA, Highways Agency, riparian owners, private owners etc that were out of AW’s control.</p> <p>With this in mind, AW had seconded one of their senior leaders Rob Kelly into the multi-agency Norfolk Strategic Flood Alliance to increase awareness of drainage issue and to promote collaboration. Through cohesion, AW and other agencies could start to solve some of the issues for communities and customers.</p>	

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<p>Emily introduced Pathfinder catchments in Yaxley and Grimston. Both were severely hydraulically overloaded. By fixing AW assets, there was a danger of pushing the problem somewhere else (e.g. surface water flooding). Emily wanted to solve the broader drainage issue, working with other agencies so it didn't just become someone else's problem.</p> <p>AW was starting to see improvements in pollution reduction from work carried out so far. Emily felt confident in the activities being carried out but the company wanted to tackle pollution incidents in a concerted way; she had the backing of the Board and Mark to double down on this area and additional funding.</p> <p>Emily invited <b>Rob Kelly</b>, who had been seconded to Norfolk Strategic Flood Alliance to explain a bit about the work he has been doing. Rob reflected on 2020, when teams united during a crisis, emphasising that this collaboration should continue in normal circumstances.</p> <p>He explained that integrating organisations has been challenging, as seen in Hickling, which experienced flooding from both the Broads and surface water. The reality was that AW couldn't tackle these issues alone; they needed to collaborate with other agencies to address catchment problems holistically.</p> <p>Many issues have worsened due to lack of maintenance, but communication and education are key. Effective collaboration between the EA and other agencies had helped to address catchment challenges in Hickling, with the Parish Council actively holding agencies to account.</p> <p>A holistic approach to groundwater management, such as in the River Burn catchment, illustrates the complexity of this work, where collaboration and funding remain challenges, and solutions are not immediate.</p> <p>The aim is to reduce response times when things go wrong. A shared priority for all agencies was to support those affected, and Rob has convened relevant organisations to define what 'good' looks like in order to improve responses in the future.</p> <p><b>Emily</b> added that ten multiagency groups had been formed and were in various degrees of maturity and engagement. They all had a moral obligation to work together for the sake of the communities across the region.</p> <p><b>Questions</b></p> <p><b>Jo</b> questioned the pace of change. In the next five years, what are you confident in predicting that will have changed where we are now? What would AW have control over?</p> <p><b>Emily</b> responded that the underlying run rate was coming down and AW was on the right trajectory. She could plot a 40% reduction in pollution incidents with reasonable confidence. Long-term trajectory in the LTDS was zero. She wanted to bring that as close to near term as possible.</p> <p><b>Paul</b> was pleased to see flooding and water resource management were being considered as two sides of the same coin. Was that link also being considered within business planning?</p>	



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<p>Emily responded that these conversations were being started and there was a good track record on groundwater abstraction to manage flooding. They were looking at bringing forward opportunities for groundwater management in these times of plenty with current licences.</p> <p><b>Geoff Darch</b> added there was a need to look at physical and regulatory measures to assist in this regard.</p> <p><b>Nathan</b> wondered if there was policy learning to emerge from this. It was currently in a mess, particularly in terms of funding; could it be made clearer? He also asked whether reducing the frequency of tension on storm overflows was leading to hydraulic overload?</p> <p><b>Emily</b> responded that they were doing this more frequently than they would like to. Water getting into the system is then triggering storm overflows so that additional water becomes contaminated with sewage. It was also sapping water resources dealing with problems.</p> <p><b>Gill</b> was pleased to see that blockages were down, self reporting and collaboration had improved. But she was disappointed that she had sat on the group since 2015 and had not seen any improvements in pollution incidents. She said that speed of delivery was critical to gain any kind of trust with customers.</p> <p><b>Emily</b> acknowledged this was a justified challenge and reiterated that AW was going to move on this at a faster pace than ever before. If this is a model that could help all organisations, they should come together and co-fund this work.</p> <p><b>Mark</b> also reiterated that this issue was defining the reputation of the company and he was committed to getting pollution incidents down.</p> <p><b>Rob</b> added that the level of investment had been ramped up significantly from £27m to £100m over the last few years.</p> <p><b>Craig</b> said he was pleased to hear Rob’s presentation and approach. Building relationships was the right approach but it was resource intensive. Need to try and solve things before they occur. We’ve often seen pilot projects like this in small areas. With climate change and other challenges, trying to predict while these issues might occur will be challenging and need many more Rob Kellys.</p> <p><b>Rob</b> added that it didn’t always need to be AW leading on this. It could be EA or other agencies.</p> <p><b>Jo</b> urged caution. If AW leads on this, it will become AW’s problem. County Council has historically abdicated all responsibility and assets have been neglected by other statutory agencies.</p> <p><b>Mark</b> had a meeting pending with leader of Combined Authority and emphasised the need to be street smart to get off the naughty step.</p>	

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<p><b>5. Update on customer engagement, including <i>Your Water Your Say</i></b></p> <p><b>Lottie Williams</b> picked up on two areas of customer engagement:</p> <ul style="list-style-type: none"> <li>- Additional customer engagement carried out with online community on the DD (with 154 participants). She had only just got the results and shared <a href="#">headlines</a> with ICG members.</li> <li>- Ofwat's <i>Your Water Your Say</i> session</li> </ul> <p>She thanked ICG members for input on materials, which was really valuable/useful.</p> <p><b>Key takeaways from the customer engagement</b></p> <ul style="list-style-type: none"> <li>• Nearly three quarters of customers want AW to take a proactive approach to investing in assets to avoid expected deterioration</li> <li>• Although bill rises were a concern for customers, the majority opted for a plan that sees a small increase in bills if they believe it delivers value for money and long-term benefits</li> <li>• Intergenerational equity was important to customers, with 75% favouring a smoothed-out investment approach that feels fair and manageable.</li> <li>• For some, there was an underlying uncertainty and trust around deliverability and financial management linked to shareholders and executive bonuses</li> </ul> <p><b>Paul</b> said he had reviewed materials and identified quite a few issues. He also hadn't seen the final customer engagement materials; he cautioned against placing too much weight on this research.</p> <p><b>Action:</b> Paul would like to see materials and how comments were addressed.</p> <p><b>Lottie</b> said research would be independently verified in synthesis report and weighted accordingly. There was further analysis to come.</p> <p><b>Action:</b> Lottie would share slide deck with ICG and would welcome further feedback.</p>	<p><b>Action LW</b></p> <p><b>Action LW</b></p>
<p><b>6. <u>Brief discussion: Future role of customer challenge and ICG</u></b></p> <p><b>Craig</b> had met Mark on Monday and had given him a brief update on the transition from CEF to ICG and the waxing and waning of customer challenge over time, right up to the intention of the Labour Government to put in place robust customer board to hold companies to count. Now preparing for ICG 2.0.</p> <p>The COG – coordinated by CCW – has been making representations to DEFRA suggesting not to reinvent wheel when customer challenge groups already exist. Craig was due to meet with DEFRA the following week to discuss this.</p> <p><b>Mark</b> shared his initial thoughts, which were discussed with Craig on Monday. Three points:</p>	

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<p>1) If government are going to ask the industry to do this, it would be good to lean towards this and adjust accordingly rather than creating something new. Its constitution and powers may change. (He and the Board would also want to review TORs).</p> <p>2) As a company, need to look at how to support this group in terms of agendas etc, making it seamless and more efficient (e.g. falling under customer team under Peter).</p> <p>3) Huge value in this group acting as third line of defence/external adviser for AW's Board. Would like Craig to come to Board meetings more regularly (e.g. quarterly with a report). The value of this group is holding a mirror to the company and it would be useful to give Craig a voice on the Board.</p> <p><b>Craig:</b> makes sense for ICG to serve as an instrument for the Board. Hoped to align meetings with regular Board cycles.</p> <p>Craig planned to do more work on ICG's Terms of Reference next week. Hopefully this would be a good model for the sector as a whole. There had been good feedback from COG that this group works pretty well, compared to other challenge groups.</p> <p>Craig hoped to get on front foot for ICG 2.0 by the autumn – thinking about more explicit connection to Customer Board and understanding role of customer complaints.</p> <p>Craig invited further thoughts from ICG members by email.</p> <p>Craig was keen to submit some thoughts to Ofwat and would try to pull that together in the next few days. Although the company needed to submit their response by 28 August, there may be opportunity for the ICG to present their thoughts at a later date.</p>	<p><b>Action ICG</b></p> <p><b>Action CB/IICGCG</b></p>