

Ref 1.3

PR19: Supporting government policy and long-term agendas

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1. Introduction

1.1. A Welsh water company responding to Wales' needs

Dŵr Cymru Welsh Water is proud of its Welsh roots and identity.

While we also serve 165,000 customers in England, most of our customers are in Wales and the Welsh Government has primary legislative responsibility with regard to the activities of the water industry in our area.

In this business plan supporting document we describe how our programme for 2020-2025 responds to the Welsh Government's policies and strategies. Our Plan offers the opportunity to put many of the Welsh Government's ambitions into practice, so helping to enhance the economic, social, environmental and cultural well-being of Wales and its people.

We also describe how, by following the roadmap set in our Welsh Water 2050 document, our plans for the next 2020-2025 represent the first step toward delivering our longer-term vision, so that we can ensure that the services we provide will be resilient and affordable for current and future generations alike.

The sections in this document, explaining how the Welsh Government's legal and policy context has underpinned and influenced our plan, are set out in the following way:

Section 1: Introduction - which sets the scene, including Welsh Water's role in serving the people of Wales, and highlights the key Welsh Government legal and policy context that has underpinned and influenced our business plan;

Section 2: Applying Sustainable Management of Natural Resources Principles - showing how our business plan is an exemplar of putting this approach into practice;

Section 3: Alignment with the Welsh Government's Strategic Priorities and Objectives Statement to Ofwat – demonstrating how our business plan takes account of and helps to deliver the Welsh Government's strategic policy statement;

Section 4: Taking a long-term approach – Welsh Water 2050 – explaining how we have responded to the priority that the Welsh Government attaches to long termism; and

Section 5: Well-being of Future Generations Act – how we support the Well-being Goals - which includes examples of how our business plan aligns with the Welsh Government's well-being agenda.

1.2. Setting the scene

Most of Wales' 3.1 million population is concentrated along its coastline, including in the major cities which are located on the north and south coastline. Heavy industry was once the mainstay of the Welsh economy and, although it is now less dominant, it is still important in some parts of Wales. The service sectors, including tourism and health, are of increasing significance to the Welsh economy. A large proportion of our supply area is predominantly rural, and agriculture is the dominant sector in these areas. The geography of Wales, much of which is mountainous with a comparatively low population density, brings with it particular challenges in terms of the infrastructure needed to supply customers in those areas: we have a comparatively large number of assets for the population we serve. We also

have pockets of acute social deprivation in our supply area, where our customers struggle to pay their water bills.

The high quality of Wales' water environment plays a key part in supporting the social, economic and environmental well-being of Wales and its people. For example, largely as a result of historic and ongoing investment by Welsh Water, Wales boasts a third of the UK's Blue Flag beaches – an internationally recognised badge of excellence - even though it has only have around 15% of the UK's coastline. The economic importance of this was demonstrated by Visit Wales' decision to make 2018 the 'Year of the Sea', showcasing the quality of our coastline as a way of attracting more tourists.

1999 saw the establishment of devolved Government in Wales. That heralded a gradual transfer of powers from Whitehall to Cardiff, including in respect of the regulation of the environment and water. Over time, a distinct Welsh policy agenda has emerged from the Welsh Government, and a body of legislation has been passed by the National Assembly for Wales, tailored to reflect the needs and character of Wales.

1.3. Embracing the Welsh Government's agenda

Welsh Water's unique business model and strong customer focus make us ideally suited to the areas and customers we serve. For example, the Welsh Government remains cautious about introducing more competition into our sector: our not for shareholder model ensures it is our domestic and business customers, rather than profits, which are at the heart of everything we do. We are also free from the short-term constraints associated with having to pay dividends to shareholders, making it easier for us to adopt a longer-term approach.

We maintain close working relationships with the Welsh Government and its regulators so that we can understand and respond to their emerging policies and priorities. For example, Welsh Water wants to become an exemplar of how the business sector in Wales can drive forward the Welsh Government's ambitions for the sustainable management of natural resources (SMNR). We also intend to play our part to enhance the well-being of current and future generations. We also want to use our services to promote the Welsh language.

1.4. Our strategic position

Our overarching vision is to earn the trust of our customers every day.

Being the provider of services that are essential to the health and well-being of our domestic customers and relied upon by our business customers brings with it particular responsibilities. We want all our current domestic and business customers to receive high quality, reliable and affordable services, while respecting the natural environment. We also owe it to future generations to ensure that they inherit a resilient, affordable service that will meet their needs and enhance their health and well-being. These will always be our company's top priorities and their delivery will be pivotal to the achievement of many of the Well-being Goals set by the Welsh Government and National Assembly for Wales.

We are mindful of our wider role. We are amongst the top 10 largest companies in Wales, our headquarters are here and we have been identified by the Welsh Government as one of its 'anchor' companiesⁱⁱ. We have landholdings and reservoirs in some of Wales' most iconic landscapes, so we have an important stewardship role, as well as being the provider of high quality visitor attractions. We offer important direct and indirect employment opportunities

throughout most of Wales and, for example, we are investing in Wales' young people through our apprenticeship and graduate schemes. We are actively working with a number of the communities we serve, to encourage the co-creation of community-led projects. Our day-to-day activities harness Wales' natural resources. Through these, and many of our other roles, we can support the Welsh Government's ambitions.

Our supply area includes parts England and some 165,000 of the customers we serve are in those areas. Changes to the devolution settlement mean that from 2020 our activities in England will become subject to the English regulatory regime. We are working to prepare for that change and are identifying how best to operate within two different regulatory frameworks, while maintaining top quality services for all our domestic and business customers, irrespective of whether they are in Wales or England.

1.5. The legal and policy context

The Welsh legal and policy context has evolved considerably since the last price review, bringing with it distinct requirements and a refreshed policy framework for us and our regulators.

Through some landmark legislation, the Welsh Government and National Assembly for Wales have put the principle and goal of sustainable development at the heart of government in Wales. We have also seen the publication of important water-related policy documents. Our AMP7 business plan is designed to enable us to support the Welsh Government's ambitions for the people and environment of Wales.

(i) The Well-being of Future Generations (Wales) Act 2015

This Act requires public bodies in Wales to pursue the economic, social, environmental and cultural well-being of Wales in a way that accords with the sustainable development principle. Public bodies are encouraged to think more about the long-term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach. Although Welsh Water is not directly within the scope of the Act, we recognise that we have an important supporting role if the Act's far-reaching goals are to be realised. We have therefore embraced its ambitions when formulating our short and longer term plans.

(ii) The Environment (Wales) Act 2016

This Act gave the SMNR approach legal weight in Wales. Applying the SMNR principles became the general purpose of Natural Resources Wales, one of our key regulators. The Act has led to the first comprehensive snapshot of the Welsh environment and the pressures upon it, by requiring Natural Resources Wales to produce a State of Natural Resources Report. The Act also strengthened the biodiversity and ecosystems resilience duty placed on public authorities in the exercise of their functions, including Welsh Water.

(iii) The Welsh Language Act 1993 and the Welsh Language (Wales) Measure 2011

Amongst other things, this legislation requires organisations that provide public services in Wales, such as Welsh Water, to treat Welsh and English on an equal basis. We are aware that the legislation is under review and we stand ready to comply with the new requirements.

- (iv) Water Strategy for Wales – Supporting the sustainable management of our natural resources (Welsh Government 2015)

The Strategy set out the Welsh Government’s broad direction for water policy over the next 20 years. Its vision is to ensure that Wales continues to have a thriving water environment which is sustainably managed to support healthy communities, flourishing businesses and the environment. The Welsh Government wants the people of Wales to receive first class, value for money, water services with water used efficiently, safely and respectfully by all. To this end, the Strategy explained how the water industry can support the delivery of the ambitions in the Well-being of Future Generations Act through the practical application of the SMNR approach. The Strategy’s key themes include;

- Water for nature, people and business;
- Improving the way we plan and manage our water services;
- Delivering excellent services to customers;
- Protecting and improving drinking water quality; and
- 21st century sewerage and drainage systems.

- (v) Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991 (Welsh Government 2017)

Through this key, statutory advice, the Welsh Ministers encouraged Ofwat to ensure that its regulation of the water sector in Wales embraces the legal and policy differences between the UK and Welsh Governments and incentivises companies to contribute to the delivery of the Welsh Government’s agenda. Ofwat must demonstrate how it has taken account of the specific circumstances in Wales, including as part of the price review process. The Welsh Government’s priorities are:

- Affordability;
- Innovation;
- Long-term;
- Recognising the different policy in Wales in relation to competition;
- Resilience;
- Strong customer focus; and
- SMNR.

The priorities listed in the Welsh Government’s Statement to Ofwat and its Water Strategy for Wales are broadly consistent.

2. Applying Sustainable Management of Natural Resources Principles

At the heart of the Welsh Government's agenda for the environment and the water industry in Wales is the concept of the sustainable management of natural resources (SMNR). Our business plan offers the opportunity to put this approach into practice.

2.1. What is SMNR?

The Welsh Government and National Assembly for Wales have defined SMNR in sections 3 and 4 of the Environment (Wales) Act 2016.

Extracts from the Environment (Wales) Act 2016

3 Sustainable management of natural resources

(1) In this Part, “sustainable management of natural resources” means—

- (a) using natural resources in a way and at a rate that promotes achievement of the objective in subsection (2),
- (b) taking other action that promotes achievement of that objective, and
- (c) not taking action that hinders achievement of that objective.

(2) The objective is to maintain and enhance the resilience of ecosystems and the benefits they provide and, in so doing—

- (a) meet the needs of present generations of people without compromising the ability of future generations to meet their needs, and
- (b) contribute to the achievement of the well-being goals in section 4 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2).

4 Principles of sustainable management of natural resources

In this Part, the “principles of sustainable management of natural resources” are—

- (a) manage adaptively, by planning, monitoring, reviewing and, where appropriate, changing action;
- (b) consider the appropriate spatial scale for action;
- (c) promote and engage in collaboration and co-operation;
- (d) make appropriate arrangements for public participation in decision-making;
- (e) take account of all relevant evidence and gather evidence in respect of uncertainties;
- (f) take account of the benefits and intrinsic value of natural resources and ecosystems;
- (g) take account of the short, medium and long term consequences of actions;
- (h) take action to prevent significant damage to ecosystems;
- (i) take account of the resilience of ecosystems, in particular the following aspects—
 - (i) diversity between and within ecosystems;
 - (ii) the connections between and within ecosystems;
 - (iii) the scale of ecosystems;
 - (iv) the condition of ecosystems (including their structure and functioning);
 - (v) the adaptability of ecosystems.

2.2. Hard-wiring this approach into our plans

Our business is totally reliant on Wales' natural resources. If we are to provide resilient and sustainable water and sewerage services for existing and future generations, we need Wales' natural resources to be sustainably managed.

2.4 Our plans for SMNR

In setting out our business plan to 2025 we are applying the principles of SMNR set out in the 2015 Act (see above) as follows:

- Manage adaptively – as a supplier of essential services, we need to be agile in response to pressures and opportunities. Resilience is at the heart of our plans for the next five years and beyond which, in this context, means the ability to survive and adapt to chronic stresses (such as climate change) and shocks (such as severe weather events). We also need to be able to harness the opportunities offered by innovative new approaches to all aspects of our business. We always consider how we can do things better and have identified areas where we could improve, so we are investing significant amounts in our network to improve the resilience of our water and wastewater services.
- Consider appropriate spatial scale for action – this is a key consideration for us. Some of our proposals, e.g. our social tariffs, apply across our supply area. Other proposals may be targeted at, for example, supporting biodiversity at some of the Sites of Special Scientific Interest we own, or looking for ways to enhance our network of visitor centres, with the wider well-being benefits they bring. We know that the Welsh Government is keen that we look for opportunities to operate at a catchment scale and we believe that, for example, our proposals to develop Level 2 Drainage and Wastewater Management Plans and measures to protect our raw water sources respond to that agenda.
- Promote and engage in collaboration and co-operation – Welsh Water has a strong record of working in partnership, a record we intend to build upon and enhance. For example, we are an active player in the Black Mountains Land Use Partnership, working with others to restore the habitat in this iconic Site of Special Scientific Interest. Under the WaterSource banner, we have collaborated with other sectors (such as agriculture) to reduce levels of pesticides in the environment, to protect our water supplies, whilst also benefitting wildlife. Looking ahead, the delivery of our Brecon Beacons Mega Catchment and our proposed SMNR pilots offer exciting opportunities for us to collaborate with others with a mutual interest. Indeed, the full potential benefits of our Drainage and Wastewater Management Plans will only be realised if all the key players do their bit to manage the surface waters under their control.
- Make appropriate arrangements for public participation in decision-making – the participation of our customers and stakeholders has been pivotal to the development of our business plan for 2020-2025 and beyond. We have adopted a number of innovative ways to engage as many of our customers as possible, including through our online community, a range of customer focus groups and our new 'Youth Board'.
- Take account of all relevant evidence and gather evidence in respect of uncertainties – we believe that investing customers' money brings with it special responsibilities: we must spend their money wisely. During our current investment programme (2015-2020) we have undertaken programmes of investigations, the outcomes of

which underpin many of the environmental improvements in our National Environment Programme for 2020-2025. Our Water Resources Management Plan and emerging Drainage and Wastewater Management Plans are another way in which we gather and deploy relevant evidence to ensure the robustness of our long term plans.

- Take account of the benefits and intrinsic value of natural resources and ecosystems – Welsh Water is always mindful of our reliance on the ecosystem services provided by Wales’ water environment. If our company is to maintain the essential services we supply to our current and future customers, we must seek to protect this key natural resource and use it sustainably.
- Take account of the short, medium and long term consequences of actions – in March 2018 we published our new strategic vision document Welsh Water 2050 to provide a clear framework for our business in the medium and longer term. Welsh Water 2050 sets out how we will achieve our overall ambition, “to become a truly world class, resilient and sustainable water service for the benefit of future generations”. Our five yearly business plans, starting with AMP7, can now include clear deliverables to demonstrate progress towards the achievement of the 18 Strategic Responses outlined in Welsh Water 2050, in a way that is prioritised by the issues of greatest risk or importance to customers, and at a rate of improvement which is affordable.
- Take action to prevent significant damage to ecosystems – we know from our customer engagement surveys that they rightly expect us to enhance biodiversity and the environment in general, not least as it contributes to the well-being of the customers we serve. We have worked closely with Natural Resources Wales in formulating our proposals to reduce our impact on the environment, and thus its flora and fauna. We have also tried to accommodate growth (e.g. housing developments) so that our infrastructure will be equipped to cope with the additional volumes, so enabling economic growth while protecting the environment.
- Take account of the resilience of ecosystems – Welsh Water is proud to be the first public authority to have published our statutory plan under section 6 of the Environment (Wales) Act 2016 to maintain and enhance biodiversity and promote ecosystem resilience in the exercise of our functions. As required by the Act, our biodiversity plan, “Making time for nature”ⁱⁱⁱ, will be kept under review so that we can assess our progress in meeting our strengthened biodiversity and ecosystem resilience duty. We are hoping that our regulators will work with us in AMP7 to enable us to harness nature based solutions where appropriate as they can offer wider benefits to the environment as opposed to conventional, hard engineered solutions. Our AMP7 Wastewater Environment Programme also includes some biodiversity driven schemes to undertake activities to protect and enhance biodiversity sites where we impact. In addition and to support these activities we are undertaking biodiversity driven investigations to help us understand the risks of spreading Invasive Non-Native Species (INNS) and how to further enhance and protect biodiversity on our land and at operational sites. Looking further ahead, the 18 Strategic Responses in our Welsh Water 2050 document include “Supporting

ecosystems and biodiversity” demonstrating that supporting our natural environment has become an intrinsic part of our long-term business approach.

3. Alignment with the Welsh Government’s Strategic Priorities and Objectives Statement to Ofwat

3.1. From ambition to delivery – putting the Welsh Government’s aspirations into action

Our business plan takes account of and closely aligns with the key themes in the Welsh Government’s Strategic Priorities and Objectives to Ofwat issued under section 2B of the Water Industry Act 1991.

- (i) **Affordability** - impacts on affordability are always kept uppermost when we formulate our proposals. We want every household to receive a bill which is fair and which they can afford. Our strategic priority for affordability in AMP7 is ‘lower bills for all’, reflecting improved efficiency and lower financing cost.

Keeping bills as low as possible is fundamental to earning the trust of our customers every day. By 2020 we will have kept the increase in the average household bill below RPI inflation every year for 10 years – the only water company in the UK to achieve this. Our unique business model ensures that all our profits are reinvested in the business which has, for example, helped us to fund lower prices for over 100,000 of our most disadvantaged customers.

Building on our track record over the last decade, our plan for 2020-2025 will deliver improved affordability for customers through lower average bills in real terms: we propose to cut customer bills by around 5% on average over the period in real terms. We believe that our proposed bill reductions are sustainable beyond 2025. We also intend to increase the numbers of customers on our social tariffs and to reduce bad debt substantially as a proportion of our total revenue.

We believe that our package of proposals for 2020-2025 balances affordability with improved customer service; keeping costs down through additional efficiencies; while also maintaining our infrastructure; and reducing our environmental impact still further.

For more information on affordability in AMP7, see our Supporting Document 3.1.

- (ii) **Innovation** - if we are to achieve our Welsh Water 2050 ambition of becoming a “truly world class, resilient and sustainable water service for the benefit of future generations”, we need to be agile and responsive to emergent technologies and techniques.

AMP6 has seen a step change in our openness to new ideas. Our annual Innovation events now attract well in excess of 300 delegates. Heads of Service managers are accountable for the innovation required to deliver their objectives, supported by innovation champions across the business. Some of our best ideas come from our own people, so we also want to harvest those: 2018 saw our first waste water “Hackathon” in which colleagues and Alliance partners enthusiastically pooled their

ideas and skills. We now have well established in-house mechanisms (our “i-labs”) to assess emergent internal and external ideas using a structured process.

This has led to our trialling a wide variety of new technologies to help us, for example:

- understand issues impacting on drinking water (e.g. taste issues associated with chlorine and geosmin);
- improve waste water treatment processes (e.g. trying Flex Filters);
- use virtual reality IT (e.g. the Interactive Works Operating Manual);
- adopt new ways to communicate with our customers (e.g. using social media, on-line communities and developing a customer sentiment dashboard); and
- design new social tariffs (such as USave).

Innovation is a fundamental part of our PR19 plan, and will also be essential if we are to deliver our longer term Welsh Water 2050 Strategic Responses. These plans demonstrate our strong culture of innovation. Indeed, our plans will only be affordable if we use innovation to drive down costs and improve efficiency. Examples of innovation in our plans for AMP7 include embracing emerging technologies (e.g. through our Smart Networks programme); finding ways to tailor the catchment and partnership approach to align with the Welsh Government’s agenda (e.g. through our Brecon Beacons Mega Catchment and our SMNR trials); and our industry leading RainScape programme which makes our networks more resilient while avoiding constructing ever larger pipes.

Our planned investment in innovation during AMP7 has been shaped to align with the 18 Strategic Responses identified in Welsh Water 2050 to help us address anticipated medium and longer term research and knowledge gaps, encourage the trial of near market technologies and the adoption of new technologies.

We intend to publish an Innovation Strategy, which we will update every five years, to seek ideas globally on how to progress our priorities.

To take this ambitious programme forward during the next five year investment period, we have allocated a record £86 million on research and innovation during AMP7 with projects in all parts of the business. This includes around £44 million on environmental and catchment investigations to determine the most efficient, collaborative solutions to achieve longer term environmental outcomes.

For more detailed information on our proposals on innovation, see Ref 3.3 PR19 Innovation Strategy.

- (iii) **Long-term** - our not-for-shareholder ownership model makes it much easier for us to focus on the long-term as, unlike our counterparts in England, we do not the constraint of having to generate short-term dividends for shareholders.

The next price review period covers 2020-25, but we are already planning for 2030

and beyond. Our business plan includes performance commitments to 2030 and in some cases as far as 2050. We have also prepared a preliminary financial plan to 2030, to ensure that our commitment to reducing bills while improving performance is sustainable over the longer term. As set out in our performance commitments, we track and monitor asset health, and have committed to preventing any deterioration in these measures. We have worked closely with the Drinking Water Inspectorate in the preparation of our plans to ensure the long-term safety of public drinking water, and have committed to a significant reduction in customer contacts due to the acceptability of water.

Our AMP7 business plan is set in the context of our long-term plans published in our Welsh Water 2050 document, which has been warmly welcomed by the Welsh Government Minister. Welsh Water 2050 provides us with an overarching, long term framework for our future business planning. This means that we can make a start in AMP7 to responding to foreseeable long-term risks and trends. As a result, investment can be made at an affordable, efficient pace and avoiding problems being stored up for future generations to deal with in a reactive and ultimately much less efficient manner.

We believe that our proposals for AMP7 strike the right balance between investment to protect the interests of future customers, but at a cost that is affordable for our current customer base. Our on-going reservoir refurbishment programme is a good example.

Our statutory Water Resources Management Plan looks out across 30 years from 2020 to 2050 to assess any risks to our ability to meet the demand from our customers even during the driest years. The Plan demonstrates where we believe we have sufficient water to meet demand into the future and, where we do not, explains what we will do to resolve any imbalances. Delivering our Water Resources Management Plans forms the basis of our AMP7 investment plans for this side of our business.

The waste side of the business can learn lessons from the Water Resources Management Planning approach. During AMP6, Welsh Water has been one of the driving forces behind the pan-sector 21st Century Drainage programme, one of the deliverables of which is the development of a new framework for Drainage and Wastewater Management Plans: this is very much in line with one of the Welsh Government's ambitions in its Water Strategy for Wales. We are preparing a suite of Drainage and Wastewater Management Plans and intend to have our initial plans in place by 2022.

We believe that any future-proofed drainage plan must include sustainable drainage options to help our networks cope with the increased volumes expected from climate change and population growth. This is in line with the policies in the Welsh Government's "Natural Resources Policy"^{iv} as well as its "Water Strategy for Wales". Welsh Water welcomes the Welsh Government's decision to commence Schedule 3 of the Flood and Water Management Act 2010 and believes that its full impact may

be felt in AMP7: we stand ready to play our part in the new regime.

- (iv) **Markets and competition** - although the Welsh Government recognises the potential role of competition in raising performance and driving efficiency, it remains cautious about encouraging more widespread competition into the regulated water sector in Wales.

For our part, we believe that our unique, not for shareholder, structure ensures that we keep the customer at the heart of everything we do. We strive to be at least as good as the water companies that operate in a more competitive regulatory environment, including in the services we provide to our non-household customers.

To the extent that our non-householder customers are eligible under the legislation currently applicable to our area, Welsh Water is participating in the market for retail services. We are making plans to respond to the implications of our operational area in England coming under relevant UK Government legislation in April 2020, when there will be an increase in the number of our non-household customers eligible for competition for retail services.

We are also responding to changes in Ofwat's regulatory framework to extend the role of market forces, notably for bioresources and raw water transfers. We have set out our plans to respond to these specific opportunities, while at all times ensuring that we deliver the best value for customers and protect the environment.

- (v) **Resilience** - Welsh Water aspires to be a fully resilient business, in terms of our people, assets, governance, finance and culture, ready to meet the challenges up to and beyond 2050. We want to play our part in achieving the Welsh Government's goal of a resilient Wales. We must also be ready to harness future opportunities.

Strengthening resilience so that our customer can depend on their water and sewerage services, both now and in the future, is therefore a major feature of our 2020-2025 business plan. Our AMP7 plan includes investment to strengthen resilience, informed by an assessment against all aspects of our innovative Resilience Wheel, developed for our Welsh Water 2050 document. Resilience is not just about assets and our preparations include, for example, cyber and physical security, as well as supporting ecosystems and biodiversity. We monitor and measure the resilience of our assets and have included five Measures of Success as regulatory performance commitments (ODIs) in our AMP7 business plan.

- (vi) **Strong customer focus** - Welsh Water is proud that our unique ownership structure that puts the customer at the heart of everything we do. All the profits we make are reinvested in the business, to improve outcomes for our customers and the natural environment. This has, for example, helped us to fund lower prices for over 100,000 of our most disadvantaged customers.

We increasingly see customer involvement as part of 'the day job'. Our zonal programme is a good example. The programme is a cycle of continuous improvement centred on zonal studies. It is a risk-based, customer led success process that focuses on cost, customer and compliance to deliver the best

performance and value for money for customers and the business. The programme of work is targeted against poor performance for key measures of success, specifically customer acceptability.

AMP6 has seen our first trial of our exciting Water Resilient Community approach, co-creating and co-delivering schemes with our customers in Rhondda Fach to address local issues more holistically. Learning lessons from our on-going trial, we intend to roll out this approach in five low income areas during AMP7.

Given our not-for-shareholder model, we continue to put particular emphasis on metrics such as customer satisfaction and customer trust, and we challenge ourselves to be consistently among the best performing companies in the industry. We plan to maintain and improve on this strong record of customer service over the next period. We have undertaken a comprehensive programme of customer research to inform our business plan, with oversight from the Customer Challenge Group. This has included 'acceptability testing' to ensure that the plan is affordable and acceptable to customers, which found that 92% of customers found them acceptable and 95% affordable, with strong support across all customer groups.

Customers have also been instrumental in shaping our longer terms plans. Welsh Water 2050 was published for public consultation and we adopted a number of innovative ways to engage as many of our customers as possible. In response we received over 20,000 customer responses to our survey, including detailed and ongoing input from customers through our online community and our new 'Youth Board'. The feedback we received led to some significant changes being made before the final version of Welsh Water 2050 was published earlier this year.

The importance we attach to community engagement means that "Working with customers and communities" is amongst the 18 Strategic Responses in Welsh Water 2050.

Our customer and stakeholder engagement techniques are described in more detail in Supporting Documents 1.1 and 1.2.

- (vii) **The sustainable management of natural resources** - Welsh Water's business is totally reliant on the water environment. Its short and long term protection is in our own interest. It follows that we support the SMNR approach.

Environmental protection is part of our 'day job' and we take our responsibility to the environment every bit as seriously as our commitments to customers. For example, our Water Resources Management Plans enable us to weigh the need to maintain high quality, reliable supplies of drinking water for our customers with the environmental impact of our abstractions. Many of the watercourses from which we abstract are designated for their conservation importance, so we must ensure that our activities remain compatible. Our latest Plan acknowledges that in carrying out our water resource functions we must be mindful of our strengthened biodiversity duty.

In December 2021 the third and final cycle of the EU's Water Framework Directive will begin. Welsh Water wants to play our part in helping Wales' water bodies

achieve “Good” status by 2027. During 2015-2020 (AMP6) as well as making significant improvements to a number of our waste water treatment works, we have undertaken a series of investigations to assess our impact on compliance with the Water Framework Directive on various water bodies. AMP6 has also seen the completion of our largest ever study into our impact on Wales’ coastal waters.

Looking ahead, we have agreed a substantial National Environment Programme with Natural Resources Wales (NEP) and the Environment Agency (WINEP) which will see around 400 kilometres of river improved towards “Good’ ecological status. For example, our proposed new treatment works at Gwili-Gwendraeth will replace seven older works, delivering significant environmental benefits for the receiving watercourses.

The SMNR approach requires a more holistic approach to environmental protection as it recognises the interdependence of various activities and pressures. In liaison with Natural Resources Wales, we have selected three potential catchments (the Conwy, Afan and Teifi) where we want to work in collaboration with stakeholders to trial putting the SMNR principles into practice. We hope to identify the main pressures and then agree the most sustainable way to address them, whether by targeted investment at our own works, or through encouraging improved practices by other sectors, including land management. At its best, such an approach could deliver wider benefits, for example by engaging local communities in their environment and by enhancing biodiversity. We hope that valuable lessons will be learnt that can be rolled out elsewhere, including in the Area Statements that Natural Resources Wales are required to produce under the 2016 Act.

The health of Wales’ flora and fauna is a litmus test of whether Wales’ natural resources are adequately protected. To quote from Natural Resources Wales’ statutory State of Natural Resources Report⁵, “If biodiversity continues to decline, it is a strong indication that we are not achieving sustainable management of our natural resources.” It is therefore disappointing that the State of Natural Resources Report concludes that, “Overall...the evidence strongly suggests an ongoing decline”.

Welsh Water recognises the role we play in supporting Wales’ biodiversity. The Environment (Wales) Act 2016 placed a strengthened statutory duty on us (and other public authorities) to maintain and enhance biodiversity and promote ecosystem resilience in the exercise of our functions. We are proud to have been the first organisation that published a statutory biodiversity plan (“Making Time for Nature”) which includes 30 commitments to be completed by 2019, when our biodiversity plan must be reviewed.

We have worked with Natural Resources Wales to develop a biodiversity driver within our NEP. This will, for example, enable us to commence a programme of improvements to some of the sites of special scientific interest that are on land that we own.

We will also continue to roll out our Rainscape programme to priority catchments,

helping to reduce releases of storm water now and in the future so as to prepare for the long-term impacts of climate change. On the energy front, we expect to be generating around a third of our energy needs through our own energy generation activities by 2025.

Demand management and leakage control feature strongly in our plans, with our innovative new Project Cartref (i.e. Home) aiming to deliver a 15% reduction in leakage and reductions in household usage. The project will work in partnership with the Welsh Government's energy efficiency programmes, Arbed and Nest.

4. Taking a long-term approach – Welsh Water 2050

4.1. Background

The Welsh Government's Water Strategy for Wales and its Strategic Policy Objectives Statement to Ofwat both emphasise the importance of long term planning in our sector. We believe that our business plan for 2020-2025 (AMP7) responds to that agenda, helping us ensure that our services are resilient and affordable for current and future customers alike.

4.2. Taking a long term view

Our business is generally regulated in five yearly cycles. We are currently delivering our 2015-2020 programme and preparing our plans for 2020-2025. However, ours is a long term business, relying on long lived assets. If we are to continue to provide high quality services in the medium and longer-term, we must look toward a further horizon to identify the major challenges, such as climate change, and plan how we should respond. We can then develop our five yearly plans with our longer-term direction of travel in mind.

Back in 2008 we produced "Our Sustainable Future". We set ourselves ambitious targets with a 25 year horizon. In the intervening years we have made significant progress and we are now, for example, becoming much more self-sufficient in terms of our in-house energy production and we have a sector-leading record on sustainable drainage.

4.3. Welsh Water 2050

In 2016 our Board took the decision to accept a new challenge, "to become a truly world-class, resilient and sustainable water service for the benefit of future generations." Our ideas on how best to realise that ambition were crystallised in our new strategic vision document 'Welsh Water 2050' which we published for consultation in spring 2017. We were delighted with the level of engagement we had with customers and other stakeholders on our ideas: their feedback influenced our finalised Welsh Water 2050 which we published in March 2018.

Welsh Water 2050 provides a clear, long-term framework for our future business planning. It identifies a total of eight key trends of opportunities and challenges that lie ahead – from climate change to the pace of our technological progress and increasing customer expectations. It also sets out 18 Strategic Responses which we, our key stakeholders and our customers believe will help us meet these challenges.

It is clear from Welsh Water 2050 that we must start now to tackle the long-term challenges that the company faces. But it must be a measured approach. Achieving some of the goals depends on future technological advances and in some cases regulatory changes that we cannot predict at this stage.

AMP7 represents the first five year programme that we can design specifically against the backdrop of achieving our longer term ambitions for 2050. This is a recurring theme throughout our business plan. In putting together our proposals for AMP7, we have taken a 'no regrets' approach to planning long-term investment, implementing those investments that represent good value for money, that have good evidence, and that also deliver

performance improvements to today's customers as well as increasing our resilience in the longer term.

Our AMP7 package of proposals will put us on course to achieving the Strategic Responses identified in Welsh Water 2050. As evidence, we have set out clear deliverables to demonstrate appropriate progress towards the achievement of our 18 Strategic Responses.

The table below includes examples of the significant progress we will make during AMP7 toward the delivery of all of the 18 Strategic Responses identified in Welsh Water 2050.

Strategic Response	Related AMP7 plans (examples)
1. Safeguarding clean drinking water	Brecon Beacons Mega Catchment
2. Enough water for all	Reservoir safety improvements
3. Improving the reliability of drinking water supply systems	Major new treatment works in SE Wales
4. Protecting our critical water supply assets	Upgraded treatment works control systems
5. Achieving acceptable water quality for all customers	Zonal studies programme to replace and rehabilitate key iron mains
6. Towards a lead free Wales	7,000 lead pipes replaced, prioritising vulnerable customers
7. Addressing our 'worst served' customers	Worst served customers reduced by 260 for water and for waste
8. Employer of choice	Ongoing improvements to training and diversity programmes
9. Leading edge customer service	New appointment tracking service
10. Smart water business	Enhanced monitoring and automation to reduce flooding and water outages
11. Ensuring affordability for our customers	Increasing customers on social tariffs to industry-leading 150,000
12. Supporting customers in vulnerable circumstances	Doubling numbers on priority services registers over the period
13. Working with customers and communities	Implementing 'Water resilient community' concept in 5 low-income areas
14. Supporting ecosystems and biodiversity	Implementation of first statutory Biodiversity Strategy
15. Using nature to reduce flood risk and pollution	Further roll out of RainScape programme to divert rainwater from sewers
16. Cleaner rivers and beaches	418km of river improved to 'good' status
17. Protecting our critical wastewater assets	New treatment works replacing 7 old ones at Gwili-Gwendraeth catchment
18. Playing our part in the supply chain, the local economy and the circular economy.	Additional 12 GWh energy saving by 2025.

To ensure that we remain on track going forward, our PR19 submission also includes performance targets, forecast expenditure and bills to 2030. We have set out long-term targets for our performance measures to 2035, or in some cases as far as 2045. These long-term targets are consistent with our Welsh Water 2050 Strategic Responses.

Although we are not directly within the scope of the Well-being of Future Generations Act 2015, we mapped the 18 Strategic Responses that emerged in the finalised Welsh Water 2050 against the statutory well-being goals in the Act. Some clear synergies emerged

demonstrating how our plans will support the delivery in Wales of the Act's overarching goals in the years ahead.

5. Well-being of Future Generations Act – how we support the Well-being Goals

5.1. Supporting the wider, well-being agenda

Our Business plan represents an opportunity to put the SMNR approach into practice, bringing major benefits to the well-being of current and future customers, as well as the natural environment.

We believe our business plan is directly relevant to the delivery of Wales' statutory well-being goals defined in the Well-being of Future Generations (Wales) Act 2015, with the benefits that promises for our customers. It will support:

- (i) Wales' prosperity - by keeping bills affordable; by supporting business; by enabling growth; by bringing tourism benefits through a high quality inland and coastal natural environment; by the provision of a network of high quality visitor centres and other visitor attractions;
- (ii) A resilient Wales – by ensuring that our services are capable of coping with current future stresses (including climate change); by harnessing new opportunities; by maintaining and enhancing a biodiverse natural environment in the exercise of our functions;
- (iii) A healthier Wales - the water and sewerage services we provide are essential to the public health of our customers and visitors to Wales. Our business plan will enable us to invest in our network to improve still further the resilience of our water and wastewater services for current and future generations;
- (iv) A more equal Wales – by supporting those customers who genuinely struggle to pay; by keeping access to our visitor attractions free;
- (v) Cohesive communities – through our community based initiatives, such as our Water Resilient Community initiative; by encouraging community engagement in their local environment;
- (vi) Vibrant culture and thriving Welsh language – by celebrating our Welsh identity; by ensuring that we provide an equally good service to our customers through the medium of Welsh or English; by increasing to 25,000 the numbers of customers registered for our Welsh language services; and
- (vii) A globally responsible Wales – by encouraging our customers to become more water efficient; and by reducing our greenhouse gas emissions through our on-going commitment to increasing our use of renewable energy.

References

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