

PR24

# Board Assurance Statement

October 2023



**Welsh Water**  
**PR24 Board Assurance Statement**  
**October 2023**

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## 1. Introduction

This statement has been produced in support of Dŵr Cymru Welsh Water's PR24 Business Plan. It sets out, in accordance with Ofwat's guidance, the Board's assurances on the quality of the submission's content and the process followed in preparing the plan itself.

Dŵr Cymru is a non-shareholder company, so the members of its Board are motivated solely by the interests of customers, rather than returns to shareholders. This plan is intended to deliver on the company's six promises to our customers:

- Safe, clean water for all
- Safeguard our environment for future generations
- Put things right if they go wrong
- Personal service that's right for you
- Fair bills for everyone
- A better future for all our communities

The Board has provided strategic leadership and direction to the preparation of the company's PR24 plan from the outset of the process whilst also ensuring it meets its statutory duties and obligations. The resulting plan is fully endorsed by the Board as delivering the best value to customers and the environment, over the next five years and beyond.

## 2. Our Approach to Assurance of the PR24 Plan

We follow a detailed assurance process encompassing all aspects of our PR24 plan. This process has been designed to give the Board the confidence it requires in order to make the statements within this Assurance Statement.

There are three specific objectives we intend to achieve through our assurance process:

- To provide Ofwat (and any other body or organisation reviewing our plan) with confidence that our plan has been developed using robust processes and accurate data, to support its assessment of our plan and its use for comparisons against other companies;
- To provide the Dŵr Cymru Welsh Water (DCWW) Board with confidence that the plan has been developed using robust processes and accurate data, to support its approval of assurance statements required by Ofwat, and give it confidence that the plan is appropriate to deliver future success of the Company; and
- To provide the DCWW Board with confidence that the plan meets the objectives and tests set out by Ofwat, Welsh Government, and other relevant regulators and stakeholders (e.g. DWI, NRW, CCW)

The PR24 Assurance Plan was presented to the Board for approval in July 2022. Further updates on progress were provided in March 2023 and July 2023. The final assurance statement was presented to the Board for approval in September 2023.

Assurance was identified as a dedicated workstream within the PR24 process, providing regular updates and reporting progress through our PR24 governance structure. For each aspect of the plan, we considered the inherent risks and controls associated with it, to define the level of assurance required. This allowed us to set a framework of internal and external assurance where appropriate.

We have a three lines of defence model for governance, which was applied to the PR24 process:

- In the first line, management has accountability for identifying risks and managing these by developing and maintaining sound processes, systems and controls in the normal course of their operations. The first line consists of checks by peers or relevant experts within the company, who are able to challenge and review data sources, methodologies and commentary documents. This provides detailed scrutiny of our approach for each area of the plan.
- Second line is provided by the Strategy and Regulation department, providing the framework and governance for regulatory reporting; and oversight and challenge to ensure that line one reviews have been carried out appropriately and that any relevant findings have been acted upon. Within this line, further oversight is provided via scrutiny from the DCWW Executive Committee.
- Third line is provided by the Company's Internal Audit function. They carried out an audit of the PR24 assurance process in February 2023, to assess the strength and appropriateness of the assurance framework, controls and governance structures. This found that the level of assurance for the PR24 plan was satisfactory.

We also made use of expert external assurance from our financial and technical auditors to review our methodologies for completing data tables, where our risk assessment found that this was appropriate and proportionate. The results of this assurance were provided to the Board through regular updates.

We carried out a risk assessment on each area of the business plan to consider what level of internal and external assurance was required. This resulted in an element of external assurance being applied to each area of the plan covered by the Board Assurance statement. A full schedule of the external assurance activities carried out and references to the supporting reports is provided as Appendix 2 to this statement.

### 3. Governance

#### **Ofwat requirement 1**

**“We expect the board to consider how it satisfied itself that the systems, approach to risk management, and internal controls and processes in place to develop the data and information on which it based its decisions was appropriate and effective.”**

#### **Systems**

Data was produced through the corporate data and management information systems used to provide management information and other analyses. The principal data systems for PR24 Business Plan are:

- SAP is used to provide financial data
- Rapid billing system for customer data
- Microsoft Sharepoint used for storage and collaborative work on files and documents
- Financial model as provided by Ofwat
- Data is generally produced and analysed within Microsoft Excel
- The internal Unit Cost Database was used to support investment planning estimates

These are subject to regular audit by Internal Audit, our External Auditor and our Regulatory Data Assurer (The “Reporter”).

#### **Risk Management**

The Company maintains a company-wide risk management framework under the stewardship of the Chief Risk Officer. This consists of risk registers for business areas, functions and projects across the business. The sufficiency of risk management systems is reviewed by the Executive Directors, the Audit Committee and Board.

The PR24 Business Plan falls under the remit of this system. The PR24 risk register is maintained and reviewed by the PR24 steering group, led by the Director of Strategy & Regulation. Material risks are escalated to the Dŵr Cymru Executive and the highest-level risks are escalated to the Board, which include PR24 risks. The Board reviews risks at each Board meeting with a more in-depth review held quarterly.

In addition, PR24 Board papers (as with all Board papers) included a high-level summary of key risks and mitigations.

#### **Internal Controls and Processes**

The PR24 plan has been managed as a specific project within Dŵr Cymru, drawing in relevant experts from across the business to contribute to the plan.

#### **Board**

The Board has provided strategic leadership and direction to the preparation of the company’s PR24 business plan from the outset of the process. Oversight of the development of the plan has run in parallel to the Board’s ongoing governance role over the last two years. All the major strategic decisions that have shaped the plan have been made at Board level, reflecting the results of our customer research and engagement programme and having taken into account continuing input and challenge from the Welsh

Government PR24 Forum, Independent Challenge Group (ICG), from the Members of Glas Cymru, and from our regulators and other stakeholders. As a result, the Board is able to provide comprehensive assurance that this is a high quality plan that delivers the optimal value to customers and the environment, today and in the future, balancing affordability, quality of service, and resilience.

Updates on key PR24 issues have been provided to the Dŵr Cymru Board at meetings from 2021-2023. A full schedule of items discussed is included as appendix 1.

The Board approved the PR24 assurance statement and associated documents at its meeting on 7<sup>th</sup> September 2023.

### **Dŵr Cymru Executive**

The Executive Team has monthly strategy meetings dedicated to the development of the Long-Term Delivery Strategy and PR24 Business Plan, providing oversight and direction for their production. The meetings are chaired by the CEO, and they also review and approve all papers submitted to the Board.

A sub-group of the Executive Team, comprising the Chief Financial Officer, Managing Director of Water, Managing Director of Waste, Strategy & Regulation Director and Asset Planning Director met periodically to review and provide direction on key aspects of the PR24 Business Plan.

### **PR24 Steering Group**

The PR24 Steering Group is chaired by the Strategy & Regulation Director, who provides leadership and guidance for the overall production of the plan. This group is comprised of Heads of Service and other senior managers with responsibility for provision of defined workstreams. The Steering Group met monthly to review the status of each workstream, the programme plan, and specific deliverable papers or decisions.

<b>Workstream</b>	<b>Lead (role)</b>
Long Term Delivery Strategy	Head of Regulatory Strategy
Stakeholder Engagement	Head of Regulatory Strategy
Customer Engagement	Customer Insight Manager
Investment Plan	Head of Portfolio Management
Botex Plan	Head of Economics
Finance	Financial Controllers (Water and Waste)
Performance Plan	Head of Regulatory Data and Reporting
Financial Modelling	Head of Economics
Tables and Assurance	Head of Regulation and Charges
Documents and Publications	Head of Regulatory Strategy
Retail	Retail Business Planning Manager

### **Internal Audit Review**

In March 2023, Internal Audit undertook a review of the PR24 governance framework to determine whether there are effective governance processes in place for the preparation, scrutiny and formal sign off of the PR24 business plan.

The control objectives of the audit were to confirm the adequacy and application of internal controls established to ensure:

- Lessons learnt from the PR19 process have been evaluated and incorporated within the PR24 process as applicable;
- Effective plans are in place for the completion, review and sign off of data tables and commentaries to enable accurate, complete and timely publication of the business plan in accordance with the Ofwat PR24 methodology;
- Clear roles and responsibilities within the process have been established;
- Management have developed an agile PR24 plan to deliver accurate, complete and timely outputs, which is subject to stress testing, monitoring and regular reporting;
- Management have developed appropriate PR24 risk management processes;
- Data owners have been provided with adequate support and training to ensure that they fully understand their role and responsibilities within the process; and
- Compliance with documented DCWW policies and procedures.

Internal Audit concluded that there is Satisfactory Assurance. That is, controls evaluated are adequate, appropriate and effective.

#### **Ofwat requirement 2**

**“The board should be confident that the overall strategy for data assurance and governance processes delivers high-quality data across all aspects of the plan and long-term delivery strategy.”**

The Board is satisfied that the PR24 submission delivers high-quality data that has been subject to appropriate assurance.

- The Board approved a PR24 Assurance Framework which utilised a systematic approach to ensuring that elements of the plan were subjected to appropriate assurance based on their impact on the plan.

The Framework assesses each data table in terms of its impact on the PR24 plan and the likelihood of error in data reporting. This assessment followed the principles of the risk assessment of our Annual Reporting data, as set out at <https://corporate.dwrcymru.com/en/library/assurance-framework-documents>.

- Lower risk elements have been subjected to appropriate internal processes which include first and second line reviews. First line controls comprised a review by a peer to check the accuracy and appropriateness of calculations and methodologies, and included expert reviews, sign-off by data owners and overall Executive sign-off. Second line oversight is provided by the Strategy and Regulation team, to review the first line process and ensure alignment with regulatory requirements and consistency within the plan.
- The ‘higher risk’ elements (as assessed through our framework) have also been subjected to external assurance from expert and independent third parties including our technical assurance provider, Jacobs and our financial auditor Deloitte. In total Jacobs audited 58 tables and Deloitte nine.
- Jacobs reviewed the methodologies for producing data and forecasts, to confirm that:
  - all individuals within the approval process have signed-off the data;
  - the methodologies used for data production are appropriate, aligned to the reporting requirements and sufficiently evidenced;

- data is competently sourced and processed; and
  - commentaries were consistent with the data provided to audit and did not contain any obviously false or misleading statements in relation to that data.
- Deloitte carried out an agreed upon procedures exercise focused on the input and output data from the financial model, to ensure consistency and alignment with key figures presented to the Board for approval. Deloitte noted “no findings or exceptions in relation to any of the procedures performed.”

### **Ofwat requirement 3**

**“The Board should be confident that it had access to a complete and transparent view of the company's historic and expected performance when making decisions and that it is satisfied that all the elements add up to a submission that is high quality in the round.”**

The Board receives regular updates on performance against PR19 commitments through our Monthly Management Report. This provides data on performance against targets, and the expected Outcome Delivery Incentive payment.

The Board reviews annual performance as part of its role in providing the Risk and Compliance Statement which accompanies the Annual Performance Report. This includes review of performance against PR19 commitments and associated incentives.

Every year the Board reviews and challenges the Executives’ proposed annual business plan which includes forecast performance to the end of the current AMP.

The Board also receives regular updates on the Company’s relative performance in the industry, with benchmarking data and analysis presented following publication of Annual Performance Reports. The September 2022 Board meeting was presented with a summary of industry 2021/22 performance and implications for PR24 performance targets.

### **Ofwat requirement 4**

**“The company’s board should challenge and satisfy itself that its submission will deliver operational, financial and corporate resilience over the next control period and long term. This includes a clear responsibility to ensure that the company can meet its statutory obligations, now and in the future.”**

The Board has satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and the long term through its governance and assurance processes, taking account of its track record of performance.

- We have developed a long-term plan - Welsh Water 2050 - which included a resilience framework (the Welsh Water ‘Resilience Wheel’) tested against worldwide best practice in the industry and beyond.
- We have conducted an external assessment of all aspects of resilience set out in the Resilience Wheel, comparing the current status and the status following implementation of our AMP8 plans for performance improvement and investment, with industry best practice benchmarks where available to guide the objectives we have set.
- We have strong ongoing governance and risk management processes and procedures. These processes support the assessment of resilience related risks and controls, thereby protecting the delivery of the

essential services that we provide against unexpected shocks and stresses. These are set out in our Risk and Compliance Statement as part of our Annual Performance Report and in the Corporate Governance section of our Annual Report. We have tested and confirmed the financial resilience of the company using a challenging set of financial scenarios including reverse stress testing, in accordance with Ofwat's guidance, using our PR24 plans as the baseline. These scenarios covered the 10-year period 2025 to 2035.

- Looking beyond AMP8, actual financial resilience will depend on the outcome of future price controls. However, the Board minimises future resilience risks by adopting prudent financial policies at all times. These include maintaining gearing and other credit metrics at levels consistent with very solid investment grade credit ratings; ensuring a wide maturity spread of debt so that no more than 20% of debt is due for repayment in any two year period and hedging policies to mitigate inflationary pressures and cost pressures on key inputs e.g. energy.

### **Statutory Obligations**

- The Board has ongoing mechanisms to understand the company's statutory and licence obligations and to ensure that they are being met as part of the company's risk and compliance process.
- We have taken into account the relevant existing obligations in developing the PR24 Business Plan. Any new obligations, such as those arising from NRW's National Environment Programme (NEP), The EA's Water Industry National Environment Plan (WINEP) and DWI's requirements, have also been addressed.
- We are therefore confident that the Board can provide assurance that the PR24 business plan enables the company to meet its statutory and licence obligations.
- In addition, our long-term planning document, Welsh Water 2050, is aligned with the Wellbeing Goals of the Well-being of Future Generations (Wales) Act 2015.
- We have reviewed the Welsh Government's Strategic Priorities and Objectives Statement to Ofwat as published in July 2022, the Water Strategy for Wales (2013), and the Programme for Government (2021) and confirm that our plan takes account of these objectives, which we fully endorse.
- LTDS planning has taken account of relevant requirements from the Welsh Government, DWI, Natural Resources Wales and the Environment Agency.

### **Ofwat requirement 5**

***"The board should also be involved with the testing of assumptions that underpin the submission. It should be fully aware of the impact that alternative assumptions may have."***

The PR24 team compiled a list of relevant key facts and figures underpinning the plan, which was provided to the Board to support its approval of the plan.

Where relevant and material, assumptions were identified in papers provided to the Board, and challenged in Board meetings.

Our view on long term trends and risks are identified within Welsh Water 2050, and scenario analysis was undertaken as part of the production of the LTDS and reviewed by the Board.

### Ofwat requirement 6

*“In particular we expect that the range of skills and experiences from the whole board be used to test the impact of the assumptions on the wider stakeholder base.”*

The Board made use of its range of skills and experience to challenge key assumptions within the PR24 plan. The composition of the Board and their relevant skills and experience are as follows:

<p><b>Alastair Lyons CBE</b> – Board Chair.</p> <ul style="list-style-type: none"><li>• Extensive experience of preparing strategic and operational plans as a senior executive – CEO and CFO – and challenging such plans as non-executive chairman.</li><li>• Detailed experience in financial planning as CFO of a number of businesses.</li><li>• 7 years exposure to the regulated water sector as Chair, including leading the Board through the PR19 price review for which the company was awarded an A by Ofwat for its assurance process.</li><li>• In-depth experience of funding and credit management as a member of the Association of Corporate Treasurers.</li></ul>	<p><b>Joanne Kenrick</b> – Senior Independent Director, Remuneration Committee Chair.</p> <ul style="list-style-type: none"><li>• 30 years working in customer facing roles across multiple sectors, always focussing on improved consumer outcomes.</li><li>• significant experience of running large teams in operational businesses and sitting on boards of substantial organisations as both executive and non executive.</li><li>• developed and ran the digital businesses for two major national retailers.</li><li>• 14 years experience in boardrooms, scrutinising strategic plans, risk assessments and scenario planning.</li></ul>
<p><b>Debra Bowen Rees</b> – Environment, Social and Governance Committee Chair.</p> <ul style="list-style-type: none"><li>• Extensive experience in strategic planning, operational delivery and regulation, and risk management within the aviation sector as a senior officer in Royal Air Force and CEO.</li><li>• Significant exposure to delivering results in challenging, rapidly changing and safety critical environments, as senior officer responsible for the RAF’s air traffic control organisation and operations director and CEO of an international airport.</li><li>• Understanding of government, Welsh political and business environments building on experience gained within the Armed Forces working in diverse functional areas across and beyond government, including international engagement and influence.</li><li>• 13 years experience of Board-level leadership and oversight, in executive and non-executive roles, including 3 years in the regulated water sector.</li></ul>	<p><b>Professor Tom Crick MBE</b> – Technology Committee Chair.</p> <ul style="list-style-type: none"><li>• Extensive major research and innovation project delivery and evaluation in academia, including international multi-million pound research programmes.</li><li>• Deep digital/tech/cyber expertise, both at a technological level as well as at a national regulatory and policy level.</li><li>• Significant experience of Welsh and UK policymaking and senior advisory across national infrastructure, digital, economy, environment, and education/skills (including chairing multiple Welsh Government reviews).</li><li>• 10+ years experience at board-level (as a NED and trustee) scrutinising strategic plans, audit and risk, health &amp; safety, and scenario planning.</li><li>• Board-level experience of highly-regulated sectors including health &amp; social care and telecoms (alongside six years in UK water sector).</li></ul>

<p><b>Jane Hanson CBE</b> – Audit Committee and Finance Committee Chair.</p> <ul style="list-style-type: none"> <li>• Experience of preparing strategic and operational plans as a senior executive and extensive experience in performing oversight, review and challenge as a Non Executive Director, Audit Committee Chair and Chair.</li> <li>• Substantial exposure to, involvement in and oversight of regulatory submissions and strategic plans in heavily regulatory sectors, including requesting and challenging stress and scenario testing to validate assumptions and outcomes.</li> <li>• As a Fellow of the Institute of Accountants in England and Wales, extensive experience as a former external auditor, Head of Audit and Chief Risk Officer and subsequently as a Non-Executive Director, Chair and Audit Committee Chair of putting in place, testing and placing reliance on all aspects of a robust 3 lines of defence governance framework, ensuring appropriate and reliable controls are in place over the completeness and accuracy of management information and plans and the integrity of the control framework.</li> </ul>	<p><b>Barbara Moorhouse</b> – Quality &amp; Safety Committee Chair.</p> <ul style="list-style-type: none"> <li>• 5 years experience as an executive director in a Water Utility, latterly as Regulatory Director: responsible for leading an Interim Determination, Price Review 1995 and a Monopolies and Mergers Commission referral.</li> <li>• As Chair, NED and executive director, extensive experience of preparing and reviewing strategic plans across a range of business sectors reflecting different business models and strategic priorities.</li> <li>• As Director General in HM Government, responsible for performance management and resource allocation across departmental organisations.</li> </ul>
<p><b>Lila Thompson</b> – Non-Executive Director.</p> <ul style="list-style-type: none"> <li>• Experience of drafting and delivering strategic and operational plans as a senior executive /CEO and challenging these plans as a non-executive director/trustee.</li> <li>• Experience in financial planning and monitoring as a CEO.</li> <li>• Over 10 years’ experience of water regulation at home and overseas as a senior executive.</li> <li>• Significant experience of supply chain / innovation engagement working alongside key stakeholders in the UK water sector.</li> </ul>	<p><b>Graham Edwards OBE</b> – senior independent director and Quality &amp; Safety Committee chair until July 2023.</p> <ul style="list-style-type: none"> <li>• Significant senior executive experience in the regulated utility sector running gas distribution, electricity distribution and water businesses.</li> <li>• Held senior positions in various functions across a wide range of manufacturing businesses, including engineering, production and human resources.</li> </ul>

The Board has been involved in the scrutiny and challenge of the PR24 business plan at each stage of its development. Details of the topics reviewed at Board meetings from 2021 are set out in Appendix 1 of this statement.

In addition to the items reviewed at regular Board meetings, the Board held a full-day PR24 strategy session on 3<sup>rd</sup> November 2021, which set the strategic direction for the plan. This considered the long term context of the plan, as set out in Welsh Water 2050, and the investment objectives for AMP8. This meeting reviewed initial outputs from customer engagement, potential scenarios for investment and bills, and the approach to setting performance commitments.

A second strategy day was held on 2<sup>nd</sup> November 2022, which reviewed key elements of the PR24 plan, including

- Customer Insight Update
- Performance Measures and Targets
- Botex plan and efficiency
- Investment plan
- Retail plan
- LTDS draft
- Financial plan, bills and financeability

The items reviewed by the Board are set out in Appendix 1.

#### **Ofwat requirement 7**

*“We would expect the boards of each company in Wales to satisfy itself that the long-term strategies take into account the outputs of the collaborative approach, as well as what is learnt from wider stakeholder and customer engagement”*

We have taken a positive and proactive approach to stakeholder engagement throughout the PR24 process. A new feature of PR24 was the “collaborative approach” bringing all major stakeholders together to review and discuss key aspects of our plan. The Board welcomed this process and considers it has been beneficial to development of the plan.

#### **PR24 Forum**

The Price Review Forum (PR24 Forum) aimed to deliver a collaborative approach comprising government, regulators, water companies and wider stakeholders in Wales to provide strategic steers that would guide and inform the development of water companies' Long-Term Delivery Strategies and Business Plans and provide views on the priorities for the sector in Wales.

The PR24 Forum has focussed on the priorities and themes set out in the Welsh Government’s Strategic Priorities Statement to Ofwat. Forum members have provided challenge, views and feedback to the water companies as they developed business plans and Long-Term Delivery Strategies.

The PR24 Forum was chaired by a representative of Welsh Government. Membership included representatives from:

- Ofwat
- CCW
- DWI
- NRW
- Dŵr Cymru
- Hafren Dyfrdwy

Details of items discussed with the PR24 Forum were provided in Board papers.

The PR24 Forum provided a document identifying the steers it had provided in general and specifically to Dŵr Cymru . This document [WSH-38- Response to PR24 Forum Strategic Steers](#) includes our response to these steers, where relevant identifying where these are addressed in our plan. Our aim has been to develop a plan that delivers against each of the strategic steers specified by the PR24 Forum as this is the best guide to the objectives of all our stakeholders.

## **Customer Research**

The Board has been kept up to date on the findings of the PR24 customer research programme, and how those findings have been incorporated within the plan. We set out in further detail in section 8 of this statement how the Board has ensured that the plan reflects the outcomes of the customer engagement process.

## **Independent Challenge Group**

We retained the role of Customer Challenge Group from PR19, relabelled as the Independent Challenge Group. The role of this group<sup>1</sup> is to:

- (1) provide independent challenge on the quality of the company's customer/citizen/community engagement and the extent to which the results of this engagement are reflected in the company's business planning, decision making and operations.
- (2) bring independent external perspective to the company's involvement of citizens, customers and communities in the coproduction of solutions to business plan priorities
- (3) present independent representations to the Board, Ofwat, customers and the wider community, including responsibility for reviewing the delivery of the Wellbeing Commitments as set out in "Our Commitments to Your Wellbeing".

The ICG Chair contributed to 3 DCWW Board meetings and also attended the Wales PR24 Forum.

The ICG's report is available on its [website](#) and included within our submission as WSH33-Independent Challenge Group Report.pdf.

The Board notes the conclusions of the ICG, as set out on page 1 of its report, in particular that, "The company has been successful in securing an understanding of the views of its customer base, which have informed the proposed business plan".

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<sup>1</sup> <https://cynnalcyrmru.com/wp-content/uploads/2021/11/Dwr-Cymru-Welsh-Water-Customer-Challenge-Group-TOR-July20-final-draft.docx>

## 4. Long Term Delivery Strategy

### Ofwat assurance requirements

- *That the board has challenged and satisfied itself that the long-term delivery strategy:*
  - *reflects a long-term vision and ambition that is shared by the board and company management;*
  - *is high quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainties;*
  - *will enable the company to meet its statutory and licence obligations, now and in the future*
  - *is based on adaptive planning principles;*
  - *has been informed by customer engagement; and*
  - *has taken steps to secure long-term affordability and fairness between current and future customers*
- *That the board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy.*
- *The board should provide evidence of where it has challenged company management and an explanation of the process it has used to arrive at the view that its strategy is the best it can be*

We set out our response to each of these requirements in turn:

#### **Reflects a long-term vision and ambition that is shared by the board and company management**

Our long-term strategy is set out in our Welsh Water 2050 document. We first published Welsh Water 2050 in 2018. This has been updated and was reissued in March 2022<sup>2</sup>.

This document outlines our view of the long-term trends and risks that we anticipate will impact our business in the long term, and the 18 strategic responses we have identified to mitigate those risks.

In addition, for PR24 we have produced a separate Long Term Delivery Strategy document, in accordance with the requirements for PR24.

The Board has been involved in setting the long-term strategy for the company throughout the PR24 planning period. This included:

- Discussion of long-term context as part of strategy sessions in Nov '21 & Nov '22, and receiving a presentation from the CEO of the Royal Meteorological Society, Liz Bentley, in September 2020
- Review of the overview of our approach to the LTDS in November 2021
- Presentation of draft LTDS conclusions at March '23 Board meeting
- Approval of LTDS document outline and Exec Summary at May '23 Board meeting
- Approval of the final LTDS at September '23 Board meeting

#### **Is high quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainties**

The Board is confident that the strategy is of high quality, having been closely involved in setting all aspects of the long-term strategy reviewing and challenging proposals from relevant experts within the business, supported where appropriate by external consultants. The Board is very experienced in providing oversight and direction for long term strategies. Welsh Water 2050, the company's own long-term strategy, originally

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<sup>2</sup> [Welsh Water 2050 Review and Update](#)

published in 2015 was updated at the start of the PR24 process to provide a benchmark for the PR24 long term delivery strategy.

The options, sequencing and profile of the LTDS, as set out in the 'Rationale' section of the document, demonstrate the approach taken to ensuring the LTDS represents the best possible strategy.

The key consideration for the Board has been getting the right balance between investment to protect the environment, improved service and greater operational resilience to climate change, and affordability of bills for customers, the deliverability of larger investment programmes and the financial resilience of the company. The Board has reviewed these important criteria on several occasions over the past two years, as detailed in Appendix 1. We recognise that the future is characterised by significant uncertainty, so we are only committing in the near term to the things we have to do in all plausible scenarios and we are putting significant resources into investigations and research to ensure that we make the best-informed decisions in the next phase of the strategy.

### **Will enable the company to meet its statutory and licence obligations, now and in the future**

The Board has considered long-term targets for performance commitments and associated investment and bill impacts, including those which are expected to be required in order to continue to meet statutory and licence obligations, and customer expectations.

### **Is based on adaptive planning principles**

The LTDS has been produced in accordance with adaptive planning principles that will allow for variations in the pace of delivery if necessary.

### **Has been informed by customer engagement**

The LTDS reflects the outcome of the company's programme of customer engagement, the Board's role in the oversight of this is set out in section eight of this statement.

The LTDS targets for 2050 for water supply interruptions, acceptability of water, pollution incidents and internal sewer flooding were adjusted at the March 2023 Board meeting, in response to customer views that we should be more ambitious in our targets for those measures.

The phase 2 research found that customers would generally prefer that bills increase gradually over time rather than they be higher in the shorter term and lower in the longer term or vice versa, given the need for higher investment in the future. The bill profile over the 25-year period broadly reflects this finding.

### **Has taken steps to secure long-term affordability and fairness between current and future customers**

The Board has reviewed the bill impacts arising from the LTDS, and considers that the profile provides an appropriate balance between current and future customers. In particular, use of the "natural" Pay As You Go rate supports inter-generational fairness of bill impacts.

### **The Board has considered the overall strategy for the period to 2050, and considers that the level of investment proposed for the AMP8 period to 2030 provides an appropriate balance between current and future bill payers.**

The Board considered the overall level of bill increase required through the LTDS, and the extent to which that is affordable to customers. The Board also considered the appropriate phasing of investment, so as to avoid disproportionate bill impacts in particular AMPs.

The increase in investment during the AMP8 period compared to the current AMP7 period is mostly attributable to enhancement expenditure rather than base expenditure (which, due to efficiency, falls in real terms in AMP8). Enhancement expenditure is not recovered from bill payers when it is spent, instead

it is recovered over a longer period and spread between current and future generations of bill payers. On that basis, the Board considers that the level of investment proposed for AMP8 provides an appropriate balance between current and future bill payers.

**That the board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the long-term delivery strategy.**

The Board confirms that the 2025-30 plan will implement the first five years of the long-term delivery strategy.

The first indicative AMP8 investment plan prepared by the company's asset planning function identified capital expenditure of some £5 billion. Management supported by the Board has over the past two years revised the investment programme downwards to the proposed £3 billion by deferring to later AMP periods, that which could be deferred, and ensuring that expenditure included in any one AMP period is on a 'no regrets' basis.

The Board has also used the company's long-term plan, Welsh Water 2050 as a benchmark for challenging the LTDS and the 2025-30 business plan.

**The board should provide evidence of where it has challenged company management and an explanation of the process it has used to arrive at the view that its strategy is the best it can be**

The LTDS has been discussed at Board at eight separate meetings through the period of development of the PR24 plan, systematically working downwards from high level outcomes to specific issues. Examples of challenges made to company management include:

- The appropriateness of the climate change scenario included in the core pathway
- The inclusion of alternative pathways for example:
  - Tightening of drinking water standards primarily around PFAS and disinfection by-products
  - Tightening of wastewater standards including spreading of sludge to land
  - More adverse climate change induced rainfall events resulting in more sewer flooding and increased CSO spills.
- The removal of new Hydrogen manufacturing driving a need for new raw water sources as an alternative pathway, as it was considered developments in this area would be self-financing
- Increasing the ambition of delivering Storm Overflow "No Harm" earlier
- The long-term performance improvements deliverable from base expenditure
- The adequacy of investment to deliver net zero carbon ambitions

## 5. Affordability

### Ofwat assurance requirement 1

***“That the board has challenged and satisfied itself that the full implication of the 2025-30 business plan for customers was considered and that the plan achieves value for money”***

The Board has taken all reasonable steps to ensure that the business plan is affordable for all customers, including in the long term and in particular appropriate assistance for those struggling, or at risk of struggling, to pay.

Affordability has been a primary consideration in the Board’s deliberations on the company’s plans during the development of PR24. This is especially the case in a region that has average incomes below the UK average, and a relatively high poverty rate.

At PR19 we made a commitment that bills would not increase beyond the 2019 level (excluding inflation), and this was achieved. The 2024/25 expected bill level remains below the 1999/00 level in real terms. We have done this while maintaining a strong balance sheet and credit rating, to ensure that bills are sustainable and do not impose an undue burden on future customers.

The PR24 plan identifies a significant increase in the level of investment required compared to previous AMPs. This will place upwards pressure on bill levels, which are expected to increase by 26% above inflation between 2024/25 and 2029/30.

84% of household customers surveyed say that they consider our proposed average household bills for 2025-30 to be acceptable, including 80% of financially struggling customers. The Board also notes the research finding of 15% of household customers stating the plan to be affordable, and provides its view on that against requirement 7 in section 6 below.

In terms of ensuring that the 2025-2030 Business Plan achieves value for money, the Board has considered three key factors. Firstly, customer research that shows broad customer support for key Business Plan deliverables and in particular, strong support for the environmental improvements at the heart of the plan. Secondly, the Board is satisfied that the investment programme is supported by robust cost-benefit analyses and reviewed itself the multi-capitals methods considered by management. Thirdly, the Board reviewed and challenged executive management’s efficiency proposals, utilising Ofwat’s botex econometric models, and is content that these proposals are both challenging and achievable.

### Ofwat assurance requirement 2

***“The board has challenged and satisfied itself that the long-term delivery strategy protects customers’ ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers.”***

Dwr Cymru’s average household bill in 2023/24 is lower in real terms than it was in 1999/2000. From 2025/26 onwards, we expect, alongside other stakeholders including Welsh Government, that water bills will increase by more than inflation for the foreseeable future in order to meet the challenges of climate change and increasing public demand to protect the environment. Over AMP8, typical household bills will increase on average by some 5% a year above inflation and our LTDS modelling indicates that beyond AMP8 and through to 2050 typical household bills will need to increase by 2-3% above inflation each year. Our customer research indicates that customers are accepting of real terms bill increases of this scale in order to deliver climate change resilience and environmental improvements.

Intergenerational fairness is embedded into our LTDS. Firstly, the core pathway is focused on 'no regrets' investment decisions so that only strictly necessary investment is allocated to each AMP period. Secondly, the LTDS does not anticipate increases in base expenditure and the needed additional investment is treated as enhancement expenditure. This means that the investment bill impacts are equitably spread over current and future generation of customers.

## 6. Costs and outcomes

### Ofwat assurance requirement 1

*That the board has challenged and satisfied itself that; the performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure*

To satisfy itself that performance commitment (PC) levels are stretching but achievable the Board has considered the following:

- the company's past and current performance for existing PCs.
- Customer expectations and preferences expressed via customer research and engagement exercises.
- PC performance achieved by other water and sewerage companies.
- The potential impact on performance of factors outside the direct control of management i.e. weather events or customer behaviours. For example, freeze-thaw on supply interruptions or hot weather on per capita consumptions, taking into account the increasing likelihood of more frequent severe weather events.
- Management's delivery plans for PC improvements, in particular, for new PCs where there is limited historical information to draw on.

Having scrutinised and challenged evidence provided by the Executive, The Board is content that whilst stretching, the business can, assuming no material adverse external factors, deliver the outcomes and performance commitments set out in the plan.

In reaching this conclusion, the Board has reviewed the capital investment needed to deliver the performance improvements with particular attention to the performance improvement that can realistically be delivered from base expenditure, taking into account the efficiency cost reductions that will be applied to base expenditure.

Specific assurance was provided by Jacobs on the proposed performance commitment in relation to Combined Storm Overflows, to appraise the merits of using ecological impact (as opposed to number of spills) as the basis for DCWW's CSO approach for PR24. Jacobs stated that it "*broadly supports the approach taken by DCWW and agree that a strategy where ecological impact is prioritised will provide best value for customers and the environment*".

### Ofwat assurance requirement 2

*the expenditure forecasts included in the company's business plan are robust and efficient*

The Board's ambition is that DCWW's cost base, taking into account the particular characteristics of its licence area and customer base, should be industry upper quartile in terms of relative efficiency.

For the wholesale businesses, Executive Management have adopted a comparative efficiency approach, based on Ofwat's published models, populated with available industry data, to determine an upper quartile wholesale Botex level for the company. Currently, the company's wholesale Botex costs are above this assessment of upper quartile. Consequently, DCWW's Botex plans consist of two elements; an efficiency "catch-up" to upper quartile and an ongoing continuous efficiency improvement. This has led to a Botex efficiency plan with a 11% cost reduction by the end of AMP8. This Botex efficiency plan is ambitious. To satisfy itself, that the plan is achievable, the Board has challenged Executive Management on its deliverability taking into account:

- Expected productivity improvements
- The improvement in performance that needs to be delivered from base expenditure
- Input price pressures beyond management control
- The impact of more frequent weather events as a result of climate change.

The wholesale businesses' enhancement expenditure plans are costed using a well-established unit cost database, with ongoing efficiency targets to incentivise further improvements. These have been subject to external review and challenge by expert independent consultants and external assurance of our costing methodology by Jacobs.

Historically, the costs of our retail businesses are significantly higher than allowed at previous price controls and higher than most other companies. This is largely driven by our costs of debt management and doubtful debt, associated with serving some of the poorest communities in the UK and in this regulatory period by exceptionally high levels of inflation which cannot be offset by cost savings. For AMP 8, Executive Management have identified opportunities to deliver efficiencies of 12% compared to our expected retail costs in 2024/25, subject to inflation falling to Bank of England targets by the start of AMP8. The Board has reviewed the cost efficiency initiatives and are content that they are ambitious but deliverable.

The Board confirms the expenditure forecasts included in the company's business plan are robust and efficient.

#### **Ofwat assurance requirement 3**

***the needs for enhancement investment are not influenced by non-compliance of non-delivery of programmes of work (both base and enhancement) that customers have already funded***

Enhancement expenditure in our PR24 business plan represents new obligations on the company, principally driven by statutory obligations arising from NRW's National Environment Plan, EA's Water Industry National Environment Plan, DWI's requirements and the impact of growth in the number of customers.

The Board confirms that enhancement investment has not been influenced by non-compliance of non-delivery of programmes of work that customers have already funded.

#### **Ofwat assurance requirement 4**

***the options proposed within the business plan are the best option for customers and a proper appraisal of options has taken place.***

Our investment plans represent the outcome of a detailed optimisation process, which considered the optimum balance of expenditure against performance delivered.

The starting point to our approach was a multi-capitals framework, which considered other benefits delivered in addition to the performance impact. Our initial investment plan was aimed at delivering the maximum value considering all capital equally, however, the total cost was prohibitive particularly in light of the current cost of living crisis. The plan was adapted to include a more weighted approach to financial capital. This has resulted in a lower financial cost programme but allows a quantification of the wider value created.

In producing our investment plans we have followed a clearly defined process to ensure the investment cases are founded on robust data and were developed in compliance with our ISO55001 accredited asset management process. Our asset management process also delivers compliance with our legal and regulatory requirements as well as delivering value for customers. We have also implemented a strict review and governance process to ensure that subject matter experts develop and challenge the plans, which have been separately and independently reviewed by our senior leadership team and Board, and; have been challenged and supported by the Independent Challenge Group (ICG). We have also made use of targeted external assurance:

- **Data provision and assurance:** We have worked closely with data owners and Subject Matter Experts (SMEs) from across the business to provide data and engineering expertise to inform our business plan. This has been assured through the application of the Data Assurance Guidelines (DAG) process.
- **Comprehensive methodology documents:** We have documented our overall process for developing our Totex plans, within the context of our ISO 55000 accredited business as usual approach, which have been reviewed by our external assurance providers, Jacobs. We have also produced comprehensive internal methodology documents to record the development of our plans which has been reviewed and approved by key SMEs within the business and have been subject to external assurance by Jacobs.
- **Ongoing engagement with DCWW senior leadership:** We have utilised water and wastewater working groups and our Asset Investment Group (AIG), attended by our senior leadership team and directors, to consider investment proposal outputs for compliance with strategy and that they were fit for purpose. These included a review and sign-off phase.
- **Internal Audit:** Our business-as-usual processes include second line controls and independent internal audit. For example, the costs produced for the plan have been reviewed by our Cost Intelligence Team. Technical Standards have similarly been covered by Internal Audit.
- **Focussed engagement with our Board:** Our Board have been intimately involved in the development of our plan with regular working sessions on plan development. The outputs from work at the ICG and water and wastewater working groups fed into sessions with both our Executive Team and Board, that allowed extensive challenge and review.

In accordance with our assurance process, in areas of particular complexity we have employed specialist external third-party suppliers to assure the work undertaken.

Jacobs has carried out assurance of our PR24 investment plans, and provided a report setting out its approach to the review of cases and key findings. Following an initial report, a second iteration was provided to encompass additional evidence provided and amendments to the relevant documents.

Jacobs also provided assurance on our approaches to costing methodology and carbon accounting, and on the DWMP, WRMP and NEP submissions which are reflected in our PR24 proposals.

Economic Insight carried out assurance on our application of cost benefit analysis for options proposed to meet an investment need, specifically in relation to our Risk and Value tool. EI assessed that the design of the R&V tool is consistent with Ofwat's guidance.

Service impact modelling was reviewed by PwC, which reviewed our approach to valuing the impacts of interventions on service levels.

#### Ofwat assurance requirement 5

*the plan and the expenditure proposals within them are deliverable and that the company has put in place measures to ensure that they can be delivered; This includes setting out the steps the Board has taken to satisfy itself that supply chain risk is manageable and delivery plans account for:*

- *the ability of the company and its supply chain to expand its capacity and capability at the rate required to deliver the increased investment;*
- *the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and*
- *key supply chain risks and capacity constraints, such as the availability of specialist resource or components, e.g. river quality monitors, smart meters or SuDS designers.*

Since the start of the Board's PR24 planning process back in November 2021, the Board's strategic concerns have been the affordability, the financeability and the deliverability of its plan. Deliverability has become a prominent issue because of the step change in the investment needs for AMP8 and beyond, both for the company and the wider water industry, and the potential impact this additional demand will have on supply chain capacity and capability. Deliverability has featured prominently in Board discussions on the PR24 investment plans culminating in the Board approval of the company's AMP8 Delivery Plan. The key features of this Delivery Plan may be summarised as follows:

- Move from the current capital alliance to four design & build contractors in 2024
- The company's Asset Planning teams will lead the front-end feasibility and optioneering development supported by a new Engineering Consultant Frameworks to be appointed by early 2024
- Roughly doubling the level of direct delivery through our in-house Engineering Delivery Team drawing on resources from the already appointed DCC Major Framework Contractors
- Setting up catchment and river water modelling teams in 2023 to secure the specialist environmental investigation resource required to target the river water quality programme.

The procurement process for the Engineering Consultant and D&B contractor Frameworks have started. The aim is to have the year one AMP8 construction programme allocated to contractors in 2024. The early award of contracts and the certainty of AMP8 workload is key to securing supply chain capacity and capability.

A specific review and report of the deliverability our AMP8 plan has been carried out by Jacobs and provided to the Board. The Board has also been made aware of the relevant findings of industry-wide review of Deliverability, carried out by Stantec on behalf of Water UK.

However, it is important to recognise that whilst this delivery plan is designed to mitigate the risks to supply chain capacity and capability as much as possible it cannot fully eliminate such risks.

#### Ofwat assurance requirement 6

*the plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments);*

We have carried out a detailed review of enhancement expenditure requirements, and assessed which areas of expenditure are not already directly incentivised through performance commitments.

We have identified that Price Control Deliverables are required in relation to the following areas of investment:

- Dam Safety
- WRMP Drought & Metering / Meters
- Network Reliability / AC Mains
- Catchment Management
- Resilience of WTW / Critical Tanks
- Resilience Water Network / Cardiff Resilience
- Lead
- Security / SEMD
- SECS Main

The details of the proposed PCDs are set out in the business plan document.

These PCDs are designed so that funding is returned to customers if the intended outputs are not delivered.

#### Ofwat assurance requirement 7

*that the expenditure proposals are affordable by customers and do not raise bills higher than necessary;*

The plan proposes bill increases of 5% per year on average during AMP8, including a 14% increase in 2025/26 from the forecast 2024/25 bill level.

We propose to smooth this impact where possible between years, whilst recognising that a significant immediate uplift in bill levels is required. The Board considered a smoother bill profile during the AMP, but as this would lead to a higher overall bill level by the end of the AMP a front-end loaded profile was preferred.

The extent of enhancement investment has already been constrained by what is judged to be affordable by customers as determined through our engagement with the Welsh Government's PR24 Forum.

We have carried out affordability and acceptability testing on this proposed increase, in line with the approach set out by Ofwat as part of the standardisation of customer research for PR24. This research found that our proposal is acceptable to 84% of household customers and 82% of non-household customers.

Our research programme has explored in depth the views of vulnerable customers and non-household customers as well as household customers.

In terms of the bill proposals specifically, only 15% of household customers said that the bills would be 'easy' or 'very easy' to afford to pay. This dropped to 2% for those struggling financially, and 14% for customers with a vulnerability. 47% of household customers said they would find the bills 'difficult' to afford to pay.

The following summarises our interpretation of these results as they apply to our Business Plan:

1. While the low number finding the bills 'easy to pay' is disappointing, this should not be surprising. In a time in which bills and prices are rising relentlessly for customers, it is to be expected that few will say that rising water bills will be easy to pay.

2. This result should not be interpreted as saying that only a small proportion of customers will be able to afford to pay their water bill. Payment of water bills is not optional, and through the cost of living crisis, so far at least bad debt levels have remained stable.

3. The vast majority of customers found the plan overall to be acceptable. Those who considered they would not be able to afford to pay their forecast water bills would be unlikely to answer in this way.

4. We therefore conclude that customers do not welcome the increase in bills, but reluctantly accept them in the context of the increased investment and improved performance and outcomes.

5. This is consistent with previous research that suggested that customers do not wish to see investment postponed, even at the expense of higher bills. We also note that the more informed customers are about the challenges, and about our plans, the stronger the support from our plans and the willingness to make a contribution through higher bills.

On this basis, the Board concludes that the expenditure proposals are affordable to a significant majority of customers.

The Board recognises that the company provides extensive support through social tariffs for those customers who may experience affordability issues, and is expanding this through its Cymuned scheme to provide short-term bill relief, and intention to increase the level of discount offered through social tariffs by only reflecting inflation in increases in social tariffs and not the required real bill increases.

We currently have 124k<sup>3</sup> customers on social tariffs, which at 9% is by far the highest proportion of customers on social tariffs in the industry, and we have capacity to increase this number by a further 50% to 190,000 during AMP8, with a direct financial contribution ('customer dividend') from the company above and beyond the customer cross-subsidy, with the latter being maintained at around the current level in line with the feedback from our consultation with customers.

Our social tariffs are targeted at those who struggle to pay, or who are at risk of struggling to pay, and are at substantial discount to other tariffs. The HelpU tariff currently provides a discount of 42% against the typical bill. It is our ambition to increase this discount during AMP8 by limiting social tariff increases to inflation only, rather than applying any increases to social tariffs above the level of inflation. We also provide advice on metering, water efficiency, payment options and benefit entitlement to help those customers.

#### **Ofwat assurance requirement 8**

##### ***the expenditure proposals reflect customer views, and where appropriate are supported by customers***

The Board confirms that the programme of customer research outlined in detail in section 8 below has been used to inform the expenditure proposals within the plan. The research programme has been subject to a detailed programme of external assurance by expert providers and review by the Independent Challenge Group. The assurance report received from Blue Marble on the affordability and acceptability testing research is attached as appendix 3 to this document. This research found that the plan is acceptable to 84% of household customers and 82% of non-household customers, and on that basis the Board concludes that the proposals fairly reflect customer views and are supported by customers.

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<sup>3</sup> 22/23 APR table 2N

## 7. Risk and Return - Financeability & Financial Resilience

### Ofwat assurance requirement 1

*The board should provide assurance that the business plan is financeable on the basis of the notional capital structure and set out clearly the steps taken to provide assurance, including the consideration of the financial ratios*

The Board confirms that the company's business plan is financeable on the basis of the notional capital structure (as set out in Ofwat's PR24 methodology).

Our assessment of financeability is focused on an ability to access funding from capital markets to refinance existing debt as it falls due and raising new funding to finance the cashflow needs of the business. That ability to access funding is protected by maintaining a "solid" investment grade credit rating (Baa1/BBB+). Our plan delivers credit rating agencies' financial metrics (Gearing, interest cover ratios, FFO/debt ratios) consistent with sustaining Baa1/BBB+ credit ratings across the period.

The Board has considered the range of scenarios and sensitivity analyses set out by Ofwat and our own combined downside risk scenarios. These scenarios did not result in the credit rating agencies' financial metrics falling below the level consistent with investment grade credit ratings.

Deloitte, our auditors, have performed agreed upon procedures on the inputs and outputs of the financial model to provide assurance that the financial metrics upon which the Board makes its assurance statement are appropriately calculated from the PR24 Business Plan.

The value of the financial metrics consistent with different levels of credit ratings for the notional company have been taken from credit rating agencies' publications.

### Ofwat assurance requirement 2

*The board should provide an assurance statement that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan; and set out the steps it has taken to enable it to make that statement, the factors it has taken account of, and the suite of financial metrics used to ensure the company is financially resilient. We expect the plan to demonstrate the basis on which the assessment has been carried out, including how the base case and downside scenarios have been established and assessed*

**The Board confirms that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan. The basis of the assessment and details of the base case and downside scenarios are set out within the business plan within section 13.2, and in the supporting document on Financing and Financeability [WSH31].**

#### **Steps taken by the Board**

An integral part of the Board's oversight of the development of the PR24 Business Plan has been regular reviews of the financial implications of that plan for:

- the financial metrics used by the credit rating agencies to determine their credit ratings for the company and its publicly listed bonds.
- Covenants set out in its Common Terms Agreement with debt investors, which governs its whole business securitisation structure.
- The credit rating implied by Ring Fencing Licence Condition P

Additionally, the Board:

- Reviewed stressed financial scenarios for the 10-year period 2025 to 2035 which concluded that credit ratings would remain above investment grade in all scenarios.
- Sought and received confirmation from Rothschild, who advise the company on its interaction and engagement with debt markets, and the company's Treasurer that the PR24 Business Plan base case will not adversely impact its current credit ratings.

### **Suite of financial metrics**

The Board views the primary measure of financial resilience to be the credit ratings issued by the three major credit rating agencies i.e. Moody's Investor Services, Standard & Poor's and Fitch Ratings. It is credit ratings that will determine the company's ability to access markets to refinance existing debt as it falls for repayment and raise new finance to fund the company's investment programme. The credit ratings will also determine the cost of debt raised.

The financial metrics used by the credit rating agencies include:

- Regulatory gearing (net debt/RCV)
- Moody's adjusted interest cover ratio
- S&P's FFO (funds from operations)/net debt
- Fitch's post maintenance interest cover ratio.

### **Other factors considered**

Looking beyond AMP8, actual financial resilience will depend on the outcome of future price controls. However, the Board minimises future resilience risks by adopting prudent financial policies at all times. These include maintaining gearing and other credit metrics at levels consistent with very solid investment grade credit ratings; ensuring a wide maturity spread of debt so that no more than 20% of debt is due for repayment in any two-year period and hedging policies to mitigate inflationary pressures and cost pressures on key inputs e.g. energy.

## 8. Customer Engagement

### Ofwat assurance requirement

*The board should provide assurance that the company's customer engagement and research meets the standards for high-quality research and any other relevant statements of best practice and has been used to inform its business plan and long-term delivery strategy.*

The Board confirms that customer engagement and research meets the standard for high-quality research and has been used to inform the business plan and long-term delivery strategy.

A detailed assurance programme has supported our three-stage customer research programme, including peer reviews between providers and independent expert reviews of our research methodologies provided by Traverse and Blue Marble Research. Blue Marble's assurance report on our approach to acceptability and affordability testing is attached as an appendix to this document.

Our approach and findings have been subject to oversight from the ICG, and the Chair of the ICG has attended Board to discuss findings of customer research.

The Company has taken an active role in supporting the design and review of the results of customer research undertaken collaboratively in the industry, facilitated by Ofwat.

The company's decisions and the PR24 plan are informed by an ongoing, thorough and wide-ranging programme of customer engagement. A comprehensive programme of customer research and engagement has been carried out specifically for PR24, which was reviewed and approved in advance by the Board. The Board has itself provided oversight of the customer engagement programme and has been involved directly through an "immersion session" where it interacted with customers.

The Board has itself reviewed the outcomes of each of the three phases of customer research and overseen the further development of the plan in light of those results.

The Board agreed increases to the level of stretch in long term performance targets for key measures on water supply interruptions, acceptability of water, pollution incidents and internal sewer flooding, in response to customer views that we should be more ambitious in those areas.

The Board and its representatives have engaged regularly and directly with key stakeholders to understand customers' views.

We held a "Your Water Your Say" session on 6th April<sup>4</sup>. The session was attended by 71 participants, including the company's five representatives. The session was chaired by Kevin Johnson, an independent representative appointed by the Consumer Council for Water and Ofwat.

In addition, specific workshops have been held on PR24 for the independent Members of Glas Cymru<sup>5</sup>, who provided views on key aspects of the plan as it has been developed.

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<sup>4</sup> <https://corporate.dwrcymru.com/-/media/Project/Files/Page-Documents/Corporate/Library/PR24-Reports/Your-Water-Your-Say/Your-Water-Your-Say---Event-Report-V4.ashx>

<sup>5</sup> As a Group owned by a company limited by guarantee, we counterbalance the fact that we do not have shareholders by having an independent Membership which carries out an analogous governance role to that fulfilled by shareholders in a listed company. Members are drawn from a wide variety of backgrounds and geographic areas, their responding to an open invitation to apply for appointment by the independent Members Selection Panel, chaired by Sir Paul Silk. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.

## Appendix 1 – List of Board Meetings and PR24 Agenda Items

Date of Board Meeting	PR24 Items Discussed and Challenged
July 2021	<ul style="list-style-type: none"> <li>• Ofwat initial consultation (PR24 and beyond: Creating tomorrow, together)</li> <li>• Approach to customer engagement</li> </ul>
November 2021	<p>Annual Strategy Day:</p> <ul style="list-style-type: none"> <li>• Welsh Water 2050 update</li> <li>• PR24 in a long-term context – guest speaker</li> <li>• PR24 challenges and opportunities for Welsh water – guest speakers</li> <li>• Welsh Government Strategic Policies and Objectives Statement to Ofwat.</li> <li>• PR24 bills, investment and financeability trade-offs</li> <li>• Customer research: phase 1 findings and plans for PR24</li> <li>• Investment priorities and asset planning update</li> <li>• Approach to performance commitments and outline of PR24 package</li> <li>• PR24 timetable</li> </ul>
February 2022	<ul style="list-style-type: none"> <li>• Welsh Water 2050 update</li> <li>• AMP8 Investment Plan</li> <li>• Review of proposed PCs for AMP8</li> </ul>
March 2022	<ul style="list-style-type: none"> <li>• Long Term Strategy for PR24</li> <li>• Welsh Water 2050 Update</li> </ul>
May 2022	<ul style="list-style-type: none"> <li>• Multi capital accounting to support the PR24 investment plan</li> <li>• Long-term delivery strategies - outcomes</li> </ul>
June 2022	<ul style="list-style-type: none"> <li>• Adaptive Planning as part of the LTDS</li> <li>• PR24 Forum update</li> <li>• Water Resource Management Plan</li> <li>• Drainage and Wastewater Management Plan</li> </ul>
July 2022	<ul style="list-style-type: none"> <li>• Drainage and Wastewater Management Plan</li> <li>• Long term outcomes and investment plan update</li> <li>• Assurance Process</li> <li>• Long Term Tariff Strategy</li> </ul>
September 2022	<ul style="list-style-type: none"> <li>• PR24 key messages</li> <li>• Investment Plan and Multi-capital accounting</li> </ul>
November 2022	<ul style="list-style-type: none"> <li>• PR24 challenges and opportunities – guest speakers</li> <li>• Customer insight</li> <li>• AMP8 cost efficiency plans</li> <li>• Water and wastewater investment plans, Performance measures and targets</li> <li>• Retail business plan</li> <li>• Financial plan, bill, affordability and financeability</li> </ul>
December 2022	<ul style="list-style-type: none"> <li>• Drainage and Wastewater Management Plan</li> <li>• Investment plan and performance targets</li> <li>• Draft financial plan</li> </ul>
February 2023	<ul style="list-style-type: none"> <li>• Investment Plan and performance update</li> <li>• 2023-2030 Outline financial plan</li> </ul>
March 2023	<ul style="list-style-type: none"> <li>• LTDS, core pathway &amp; scenario testing</li> <li>• Performance Commitments</li> <li>• Investment Plan update</li> <li>• Financial plan update</li> <li>• Assurance Plan</li> </ul>

Date of Board Meeting	PR24 Items Discussed and Challenged
	<ul style="list-style-type: none"> <li>• AMP8 Delivery Strategy</li> </ul>
April 2023	<ul style="list-style-type: none"> <li>• Multi-capitals approach to investment planning</li> </ul>
May 2023	<ul style="list-style-type: none"> <li>• LTDS update</li> <li>• Stakeholder update</li> <li>• Performance Commitments</li> <li>• Investment plan update</li> <li>• Financial Plan update</li> <li>• Drainage and Wastewater Management Plan</li> </ul>
June 2023	<ul style="list-style-type: none"> <li>• Customer engagement update</li> <li>• Base expenditure and comparative efficiency</li> <li>• Performance Commitments</li> <li>• Stakeholder update</li> <li>• Investment Plan update</li> <li>• Financial Plan update</li> <li>• Business plan executive summary</li> <li>• LTDS preface</li> </ul>
July 2023 (1)	<ul style="list-style-type: none"> <li>• Performance Commitments update</li> <li>• ODI rates</li> <li>• LTDS update</li> <li>• Financial Plan</li> <li>• Business Plan Executive Summary</li> <li>• Assurance update</li> </ul>
July 2023 (2)	<ul style="list-style-type: none"> <li>• Performance Commitments update</li> <li>• Price Control Deliverables</li> <li>• Financial Plan and financeability assessment</li> </ul>
September 2023	<ul style="list-style-type: none"> <li>• Final Board assurance sign-off</li> <li>• Agree delegated signoffs</li> </ul>

## Appendix 2 – List of supporting documents

The Board placed reliance on the following assurance reports in its approval of this statement:

Document	Board Assurance Statement(s) supported
Jacobs data table audit report	Section 3.2
Deloitte Agreed Upon Procedures report	Section 3.2
Jacobs Investment Case Assurance report	Section 6
Jacobs Deliverability Assurance report	Section 6.5
Jacobs Assurance on CSO Measure	Section 6.1
Jacobs Assurance of LTDS Financial Model	Sections 4, 5.2
Economic Insight Assurance on Cost Benefit Valuation	Section 6.4
Customer Research Assurance (Phases 1, 2 and 3)	Sections 4, 5, 6.7, 6.8, 8
PR24 Forum Steers	Section 3.7
ICG Report	Section 8





# PR24 Assurance – Phase 3

Prepared for Dŵr Cymru Welsh Water

Nadia Chan & Olivier Boelman

Date: September 2023

Photo by Christin Hume on  
Unsplash



BLUE MARBLE

## 1. Introduction

For the PR24 price review, Ofwat's guidance paper, *PR24 and beyond: customer engagement policy – a position paper*<sup>1</sup>, asks companies to seek independent assurance, assessing the quality of customer engagement and that customers' views have been taken account of in business plans and long-term delivery strategies.

For PR24, Dŵr Cymru Welsh Water's (DCWW) Independent Challenge Group (ICG) only reviewed the outputs of research, reflecting on how these were being used to drive PR24 business planning. This differs from PR19 arrangements as DCWW's ICG no longer reviews the details of research methodologies.

Alongside the ICG's revised role in the assurance of DCWW's PR24 business plan development, other organisations provided assurance across the two following areas:

- **The quality of engagement with customers and stakeholders.** This was completed by agencies on DCWW's research framework, who provided peer review on each other's work as industry experts.
- **The extent to which customers' and stakeholders' views have informed business plans and long-term delivery strategies.** For Phase 1 and 2 of DCWW's research and business plan development process, this has been completed by Jacobs and Traverse.

### 1.1 About Blue Marble

Blue Marble Research Ltd was established in 2007. We conduct market research that has a strong emphasis on providing clear direction to our clients. After all, it is the solutions, opportunities and planning implications that make well-designed research commercially and strategically valuable. We are multidisciplinary, using the full suite of research methodologies, some of which are outlined below.

Blue Marble prepared this report as part of a review of documents from DCWW's PR24 Phase 3 research programme. Based on the content of the documents we evaluated the extent to which customers' and stakeholders' views have informed the DCWW business plan and long-term delivery strategies.

### 1.2 How to read this document

Blue Marble and DCWW agreed that the following questions would be used to understand how much customers' and stakeholders' views have informed the business plans and long-term delivery strategies:

1. Did the activities/output achieve what was set out in the intent/purpose in the framework?
2. To what extent have DCWW's four key questions been answered?
  - a. What outcomes do customers expect us to deliver over the short and long-term?

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<sup>1</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2022/02/PR24-customer-engagement-policy.pdf>



- b. What do customers think are the biggest priorities over and above any statutory requirements?
  - c. How quickly do they want DCWW to deliver their priorities?
  - d. What do customers think would be an acceptable/tolerable level of bill increases over 2025-30 and the longer term?
3. Have DCWW put the right outcomes and proposals to customers?
4. Does this provide the evidence for decision-making advised by Ofwat's draft methodology (Chapter 4.3.2)?
5. Is there a clear line of sight between engagement/research and the business plan?

This report has been structured around these questions. Each of the 'findings sections' review how well the question has been answered and identify any potential gaps or risks for DCWW to address.

Throughout the report, questions 2.a, 2.b, 2.c, and 2.d are referred to as DCWW's four key questions.

Specific reports are referenced by title and, where relevant, the author and/or the date.

The end of each chapter contains a list of potential gaps or risks for DCWW (in the format indicated below). As this is a key part of the chapter, which examines whether there is a clear line of sight between the research and the business plan, this has been expanded to look at the gaps and risks in more detail.

#### **Snapshot of potential gaps/risks**

*This is an example*



## 2. Methodology

Blue Marble carried out a desk-based evidence review of the documents listed below, using an analysis grid to capture how well each document answered the questions set out in the introduction section of this report. The grid was then used as the core planning document to draft this report.

The following research and engagement reports, and materials, were reviewed:

- Acceptability & Affordability Testing – Qualitative Research, May 2023, Accent, including stimulus materials.
- Acceptability & Affordability Testing – Quantitative Research, September 2023, Accent, including the survey questionnaire and stimulus materials.
  - We did not review the final report but, instead, based out analysis on the available peer review reports.

To understand the full context, Blue Marble also considered:

- Insight Framework
- Customer Insight Update Board, May 2023
- Guidance for water companies: testing customers' views of the acceptability and affordability of PR24 business plans, Ofwat & CCW, March 2023. Updated versions have also been released since then.
- ICG PR24 Report
- Draft Business Plan Executive Summary for ICG
- Business Plan at a Glance

In addition to the above we have also included feedback from the ICG, obtained through a conversation with the Chair and subsequent communications by email. Finally, we also used the draft ICG report.



### 3. Findings

This chapter discusses the findings of our review. Each section within this chapter addresses one of the four questions used to understand how much customers' and stakeholders' views have informed the business plans and long-term delivery strategies.

#### 3.1 Did the activities/outputs achieve what was set out in the intent/purpose in the Insight Framework?

**SUMMARY:** The intent/purpose of the documents was cross-checked against the 'Insight Framework' document. The documents did achieve what was set out in the framework.

##### 3.1.1 Acceptability and Affordability Testing - Qualitative Research

This report supports delivery of PR24 and long-term delivery outcomes, as set out in the Insight Framework. Respondents were shown two alternative Business Plans for the 2025-2030 period (a 'Proposed Plan' and a 'Must-do' plan).

The stimulus appears to have been in line with the guidance at the time. Several updates were made to the guidance since.

The pre-read materials did not, as standard, include an audio recording. Due to the cost and time involved it was decided to only provide this if it had been requested by customers. In practice, none of the vulnerable customers recruited for the research requested this version of materials. In our view, this approach was within the guidance set out by Ofwat.

The pre-read materials offered to vulnerable customers were tailored. There were, however, no specific materials relating to what the business plan offered specifically for this group of customers. Additional materials included a slide showing the support currently available for vulnerable customers and how this service would continue.

##### 3.1.2 Acceptability and Affordability Testing - Quantitative Research

###### 3.1.2.1 Survey questionnaire

Overall, the survey questionnaire follows the guidance set out by Ofwat. There are, however, a few areas where the guidance has not (strictly) been followed or where a different approach was chosen.

###### *Questionnaire*

After the initial section on affordability, additional questions have been included around awareness of DCWW. This is not fully aligned with the Ofwat guidance which states: *Companies may insert additional questions at the end of the survey for the purpose of aligning customer segmentation analyses with other research they may be undertaking.* We note that, in the peer review document, ICS state that this is an expected part of the AAT study. Whilst we agree that this would be a natural part of an AAT study, it does constitute a discrepancy against the Ofwat guidance.



Additional questions have also been added at the end of the main survey but before the demographic section, questioning respondents about their reasons for saying don't know to the questions about affordability and acceptability. Considering the position of these questions, ie at the end of the main survey, we do not see any issues with them in relation to the guidance from Ofwat.

#### *Incentives*

The incentive offered was £10. Ofwat suggested in its guidance document to 'offer £5 as an incentive initially and increasing this to £10 in a reminder'. In our view, however, this is not binding in the sense that a higher incentive was not allowed within the guidance.

#### **Snapshot of potential gaps/risks**

We did not identify any areas where the research did not achieve what was set out in the framework. We have not assessed the Appendix in which all areas where research deviated from the guidance were outlined. We have assumed this refers to the final, overall report and, as such, we can assess this at the end of the full project.

### **3.2 To what extent have DCWW's four key questions been answered?**

This section evaluates the extent to which the research program has answered the four key questions on the delivery timeframe, priority rating, pace of delivery, and bill affordability/increase.

To evaluate each topic, we reviewed all reports individually and noted the findings in a grid. We then compared the results from all reports against each topic and wrote the summary against each question below. Where we considered that the questions were not answered or partially answered we have indicated it as gaps or risks.

**SUMMARY:** Overall, the four key questions have been answered. The AAT stage of the process is not designed to delve into all of the questions in great detail, but where possible within this framework we feel the four key questions have been addressed and answered.

#### **3.2.1 What outcomes do customers expect us to deliver over the short and long-term?**

##### **3.2.1.1 Acceptability and Affordability Testing - Qualitative Research**

The research answered this question as customers were shown the short and long-term outcomes at the outset of research. Customers deemed all outcomes important areas of focus and responsibility for DCWW. It should be noted that, technically, the aim of this research was not the develop a set of outcomes that customers expect DCWW to deliver. Rather, the aim of this stage is to test whether the developed outcomes for the short and long term are deemed acceptable and affordable by the customer base. This objective was met by the research.



Customers were shown outcomes to be delivered between 2025 – 2030 (short term plans) and long-term goals (2030 to 2050). Details on how to achieve these plans and the investment needed were provided.

### 3.2.1.2 Acceptability and Affordability Testing - Quantitative Research

Within the prescribed survey questionnaire, after each block of three business plan elements customers were asked which part was the most important to them. Like the qualitative stage, however, the aim of this research was not the develop a set of outcomes that customers expect DCWW to deliver.

#### **Snapshot of potential gaps/risks**

No gaps identified.

## **3.2.2 What do customers think are the biggest priorities over and above any statutory requirements?**

### 3.2.2.1 Acceptability and Affordability Testing - Qualitative Research

Research examined the importance customers gave to different priorities and concluded that environmental issues were deemed more critical than others. However, there was no definitive ranking of priorities by customers and customers did not explore trade-offs between different priorities.

Customers did not 'swap out' one priority for another but did discuss all areas of concern Welsh Water should address.

### 3.2.2.2 Acceptability and Affordability Testing - Quantitative Research

As prescribed by the Ofwat guidance, the 12 priorities were presented in four categories (water supply/sewerage & common performance commitments/key investment areas). Customers were asked to choose what component they thought was the most important within each category. But, like in the qualitative research, the aim of the research was not to achieve a definitive ranking of priorities by customers.

#### **Snapshot of potential gaps/risks**

Although customers were shown all the core long term challenges and performance targets for 2030 to 2050, it is not clear from the research which of the non-compulsory targets were identified as customer priorities. This is addressed in the quantitative research, where lists of priorities were obtained separately for performance commitments and additional plan components.

## **3.2.3 How quickly do they want DCWW to deliver their priorities?**

### 3.2.3.1 Acceptability and Affordability Testing - Qualitative Research

The evidence for this comes from the sections on:

1. Level of perceived ambition of the plans put to customers



Overall, as a headline set of feedback the short-term plans customers were shown (DCWW's ambition for 2025-2030) were deemed not to be ambitious enough. Despite no preferred timelines being put forward, customers discussed the need for more urgent action than was shown to be achievable by 2030. For specific commitments, customers had specific comments and views on the targets. For internal and external sewer flooding, customers felt the short-term targets were not ambitious enough, but were happy with the longer-term targets. Response to plans around leakage was similar. The short-term target was seen as insufficient, but customers were more positive about the long term target. For pollution incidents, finally, the feedback showed that, again, customers felt that DCWW's targets were not ambitious enough for the short term, but there was positivity over the long-term targets. In summary, then, customers were happy with the direction of travel for DCWW's long-term plans but keen to see elements implemented sooner.

## 2. Intergenerational fairness

On intergenerational fairness, customer views on phasing of investments were tested throughout the commitments this was applicable for. In addition, customers were, it appears, invited to express views not only on phasing of investments but also redistributing them. For instance, the Proposed Plan Service Enhancements for Safety and Quality of Drinking Water did not feel like a critical investment area for customers, and they were happy to phase and lower investment in this area. It was also stated, however, that this was not about reducing the 2025-2030 bill impact, but to spend the £1.40 for more important projects.

### 3.2.3.2 Acceptability and Affordability Testing - Quantitative Research

As prescribed by the Ofwat guidance, customers were asked whether they would prefer the bill increases to be more front loaded, so that the bill increases would be shared across generations or whether they would prefer for bill increases to be implemented as soon as possible, spreading increases across different generations of bill-payers, or at a later stage later, putting more of the increases onto younger and future bill-payers.

#### **Snapshot of potential gaps/risks**

No gaps identified.

## **3.2.4 What do customers think would be an acceptable/tolerable level of bill increases over 2025-30 and the longer term?**

### 3.2.4.1 Acceptability and Affordability Testing - Qualitative Research

This report provided insight on affordability and acceptability of the proposed and must do bill increases from 2025-2030. The bill amount was personalised based on customers' annualised bill, therefore strengthening the ecological validity of this study. Customers were able to comment on acceptability and affordability of the bill impact at a categorical level, however, this does not answer what the threshold of tolerance is.

The difference between the must do and proposed plan was deemed negligible, however, insight cannot be drawn on the level of tolerance for each plan. The



respondents were shown each of the investment areas and cost associated, but the report did not show what the full impact of the combined bill would be. This may impact customers' acceptability of that section.

Some household customers find themselves struggling to pay the bills at the current time, which points towards a risk of this subgroup finding the increase in bills intolerable. Though for most, the water bills are the least of their concerns because water bills remain relatively lower than others.

### 3.2.4.2 Acceptability and Affordability Testing - Quantitative Research

Like the qualitative phrase, the quantitative survey presented a personalised projection of how bills will increase up to 2029/2030 based on customers' annualised current bill.

Customers were then asked to rate how easy they thought it would be to afford the water bill presented to them. Whilst it does not directly answer the question of acceptability or measure customers' tolerance of the bill increases, this does give a clear steer as to what levels would and would not be acceptable. It should be noted, however, that this was not the aim of the research.

The research also provides insight into customers' likely mitigation strategy for bill rises and what makes proposals unacceptable.

## 3.3 Have DCWW put the right outcomes and proposals to customers?

**SUMMARY:** The documents reviewed have continued to explore and bring together what was learned in earlier phases. DCWW have put the right outcomes and proposals to customers.

### 3.3.1 Acceptability and Affordability Testing - Qualitative Research

The research builds on engagement themes that have been identified in phases 1 and 2. Recommendations from previous assessments have been considered. The research covers a further exploration of short and long-term outcomes, the difference between statutory requirements and discretionary commitment (which reflect priorities over and above statutory requirements).

### 3.3.2 Acceptability and Affordability Testing - Quantitative Research

Overall, the quantitative research reflected the findings of previous stages. It also reflects feedback from the qualitative stage for most elements of the business plan. From the information provided to us it was, however, difficult to assess what, if any, changes were made to the following elements (which were all highlighted in the qualitative stage as less acceptable or not seen as critical).

For 'leakage', stimulus material shows a different measure for the qualitative stage (megalitres lost a day) compared to the quantitative stage (litres per property lost per day).



For some other elements the targets appear to have remained unchanged between the two stages (sewer flooding in/out, pollution in rivers, wider environment, and water quality).

### Snapshot of potential gaps/risks

Overall, no gaps identified. But some clarification needed around the elements mentioned above.

### 3.4 Does this provide the evidence for decision-making advised by Ofwat's draft methodology (Chapter 4.3.2)?

Chapter 4.3.2 of Ofwat's 'Consulting on our methodology for PR24' references the need to provide the following evidence for decision making:

- Company-specific outcomes involving investment proposals / schemes.
- Any bespoke performance commitments and related ODI rates
- Long-term delivery strategies
- Where companies seek to deliver wider environmental and social benefits beyond their minimum statutory requirements and at a greater cost to customers
- Company-specific adjustments to the allowed cost of debt (if applicable)

**SUMMARY:** There are no explicit references to bespoke performance commitments and related ODI rates, nor company-specific adjustments to the allowed cost of debt. The initial plan did not include bespoke performance commitments and or company-specific adjustments to the allowed debt. In the final version, however, DCWW have included a commitment around CSO harm, which was included in a separate piece of research earlier this year.

#### 3.4.1 Acceptability and Affordability Testing - Qualitative Research

The qualitative research covers, where applicable, all the above elements from Ofwat's methodology. Like in previous phases, there are no explicit references to bespoke performance commitments and related ODI rates, nor company-specific adjustments to the allowed cost of debt. The reason for this is that the plan did, at that point, not contain bespoke performance commitments and there are no company-specific adjustments to the allowed debt.

Overall, the research is very comprehensive, and it is clear where commitments shown aim to deliver a wider environmental or social benefit beyond statutory requirements.

#### 3.4.2 Acceptability and Affordability Testing - Quantitative Research

Following on from the qualitative research, the quantitative research also covered, where applicable, all the above elements from Ofwat's methodology. Overall, the quantitative stage of the research was also very comprehensive, and it is clear



where commitments shown aim to deliver a wider environmental or social benefit beyond statutory requirements.

NOTE: DCWW has, however, now included a commitment (around CSO harm as opposed to CSO impact) which was initially rejected by Ofwat. A limited amount of research has been done on this as part of a larger piece on CSOs (Customer Views on CSOs: 2023 Update). The research, both qualitative and quantitative, provides customers with comprehensive information about CSOs generally and gather feedback on some specific proposed measures around environmental harm from CSOs.

#### **Snapshot of potential gaps/risks**

No gaps identified.

### **3.5 Is there a clear line of sight between engagement/research and the business plan?**

**SUMMARY:** From the documents we have reviewed, it is evident that there is a clear line of sight between the engagement / research and the business plan.

#### **3.5.1 The extent to which customers' and stakeholders' views have informed business plans**

This section looks at how the findings of customer research have informed the business plan and the long-term delivery strategy. To investigate this, we compared the business plans (proposed and must do) as presented with previous reports for Phases 1 and 2. In our view, there is a clear line of sight between the research that has carried out and what has emerged in the business plan.

#### **Potential gaps between the outcomes from the engagement and the emerging business plan**

No gaps identified.



#### 4. The view from the ICG

As part of this process, we spoke to the Chair of the ICG, to get their view on the Acceptability & Affordability Testing programme to this point. We also received the ICG's PR24 report, which has fed into this report.

In summary, the ICG is positive about the qualitative stage of the research. ICG members observed some of the sessions, some of their suggestions were incorporated and they felt that specific comments were considered and responded to in timely fashion by the team at DCWW. Whilst recognising that the ICG as a group has limited expertise in market research, they are very confident in nature of the process and have been satisfied with the constant engagement with the team at DCWW.

The decision to keep the ICG involved after PR19 also offered several benefits for the PR24 process. The main benefit, from the ICG's point of view, was that it allows the ICG to ensure that the lessons learned from PR19 were applied and that DCWW built on the extensive customer evidence base gathered in PR19.

Key recommendations from the ICG were taken on board and offered real value for the PR24 programme. These included the development of an Insight Framework, the establishment of a longitudinal panel of customers (meetings for which the ICG participated in as an observer), and the strengthening of the assurance of the customer engagement process through peer review and commissioning of independent overview of the research process. The latter element, in combination with the centralised nature of some of the substantial elements of PR24 programmes, allowed the ICG more time to look at the actual processes and to be more strategic with the detail of assurance of the evidence base being undertaken by independent experts.

In phase 3, the Acceptability & Affordability Testing phase, the main concerns expressed by the ICG was focussed on the guidance from Ofwat. The ICG fully understands the importance of comparability of results but feels that it has limited the research potential. Companies did not present the full business plan to customers and in some sessions, observed by the ICG, customers commented on this. Customers said they understood that what was shown to them was prescribed by the regulator but that they wanted to see more. Some customers also went into areas that were not included (touching on things like procurement and value for money).

Observers noted there was a slight variation how the groups were managed, and that some discussions were dominated by a specific person in the group, but, overall, there are no concerns about quality of facilitation and the insight gathered.

The ICG was satisfied with the amount of input offered and the timely fashion in which they were notified of the requirement to provide input.

The ICG was satisfied that the four key evaluation questions, that have been set out for the PR24 research and engagement programme, were covered in the qualitative stage. The noted that Accent were very strict in following the guidance,



framework, and responses to questions. The ICG was very happy with this approach and keen to ensure the guidance was implemented strictly.

The ICG carried out a review into evidence of linkage between research findings and the business plan, the golden thread. It has concluded that it is difficult to pin down specific evidence. The development of the business plan has been an iterative process through the 3 phases. On balance, the ICG are happy with the process and that the business plan being tested in the AAT phase is reflective of customer views. The ICG feels this is made more difficult by the fact that some of the regulators (in this case DWI) prioritise certain areas which are not priorities for customers, but which need to be reflected in the golden thread.

The ICG felt, overall, that DCWW put the right outcomes and proposals to customers. While the context was clear (cost of living crisis, energy prices, inflation etc) the need to increase investment was made clear and the right areas were highlighted. Customers were very interested in engaging with this. They are still recognising need for investment over and above cost of living issue.



## 5. Next steps/recommendations

While no further recommendations are required for the remainder of the PR24 business plan submission, there are some things worth considering going forward:

### 1. Review of PR24 engagement process

There will be an Ofwat guided review of the process, through the survey questionnaires about experiences of using the guidance for A & A business plan testing. It is also important that DCWW carry out a thorough review session with its providers to ensure that any lessons learnt are considered when developing BAU for the PR24 period and, thinking ahead, when preparations start for PR29 work.

### 2. Development of an engagement plan for BAU

The development of an engagement plan akin to the one developed for PR24 would ensure that any unresolved issues and priorities expressed by customers are addressed in the period from 2024 onwards. It also ensures consistency of approach to engagement as well as forming the cornerstone of continued, meaningful engagement with DCWW's customer base.

