

Natural England's Executive Overview of Water Company Final Business Plans 2009

1.0 Background and Natural England's objectives

- 1.1 The 2009 Periodic Review of Water Company Prices (2009) will address the spending period 2010-2015. Companies published their draft business plans on 11 August 2008 and their final business plans on 7 April 2009.
- 1.2 Natural England's key objectives for PR09 are to ensure that water companies deliver their statutory obligations for Natura 2000 sites, SSSIs and Biodiversity Action Plan (BAP). Natural England also has an objective to promote more sustainable methods for tackling water quality and water resource problems at source through catchment based approaches that deliver multiple objectives for the natural environment, including climate change mitigation and adaptation and access and recreation.
- 1.3 During the PR09 period Natural England has also developed its position on the importance of water efficiency measures for improving demand management. There are a number of unsustainable levels of abstraction currently having an impact on the environment. We believe that a healthy water environment brings wider benefits to the health and well-being of people and local communities and enables people to enjoy a range of activities such as walking and sports activities. In the face of increasing pressure from climate change, population growth and development, we support proposals that will help to improve information provided to consumers, manage demand and improve water efficiency.
- 1.4 Natural England has engaged in the development of final business plans by providing initial feedback on company Strategic Direction Statements, by responding to each draft business plan and engaging directly with companies through the quadripartite meeting process and separate bilateral meetings. These have focused on the schemes and investigations needed to deliver Natural England's objectives
- 1.5 Natural England's overview of the draft business plans can be found on our website http://www.naturalengland.org.uk/Images/draft_business_plan_tcm6-9623.pdf

2.0 Natural England's assessment of final business plans

- 2.1 Natural England has assessed the following, where relevant to our objectives:
 - The list of schemes and investigations from the National Environment Programme (NEP) we expect to deliver our objectives
 - Additional work to deliver benefits for biodiversity, access and recreation.
 - Issues with cost benefit analysis
 - Catchment management proposals
 - The scope of work around water efficiency and carbon management
- 2.2 Natural England has also assessed each Part A: The Company Strategy, against the following key areas:
 - Key changes since draft business plan
 - Consistency with Strategic Direction Statements
 - Clarity on customer priorities
 - Top issues for Natural England

2.3 The summary at Annex 1 presents a broad overview of our assessment of the final business plans against Natural England's objectives for PR09 and provides a broad indication of changes between the draft to final plan. Natural England has also produced a detailed company by company analysis of each final business plan.

3.0 High level messages from the final business plans

3.1 Inclusion of the National Environment Programme and wider objectives

3.1.1. We believe the National Environment Programme (NEP) has been included in full in all the Final Business Plans, apart from the water resource sustainability reductions that may be required on the River Wye (subject to the outcome of the Review of Consents project).

3.1.2 We have developed a robust, well-evidenced NEP jointly with the Environment Agency, based upon our SSSI remedies database, outcomes of investigations from previous AMP rounds and the outcomes of the Review of Consents project.

3.1.3 We are also aware that there are still concerns over sustainability reductions for Essex and Suffolk Water which have not yet been confirmed by the Environment Agency.

3.1.4 Nine company plans include clear proposals for wider work focusing on a range of objectives including:

- biodiversity and SSSI management on their own land
- contributions to biodiversity partnerships
- first time rural sewerage schemes
- access, recreation, interpretation and education on their land holdings

3.1.5 Some companies are not making their proposals for the natural environment clear in Part A of their plan despite a number of proposals being included in the detailed content of the final business plan, this includes Anglian and Yorkshire.

3.1.6 Other companies have made their proposals for the environment very clear and responded well to our comments on the draft business plan. These include: Northumbrian (Essex & Suffolk), Severn Trent, Southern and South West.

3.1.7 Others appear to still be missing opportunities and could make a better contribution to the natural environment, including Bournemouth and West Hampshire, Dee Valley, Cambridge and Tendring Hundred.

3.1.8 Bristol state their intention to carry out biodiversity and access projects in Part A, but no specific proposals have been found in the plan.

3.1.9 We expect Ofwat to support the inclusion of the NEP in full in the draft determinations. Ofwat need to be aware that there are outstanding sustainability reductions that may need to be delivered during the AMP5 period through either logging up or an interim determination.

3.1.10 We expect Ofwat to support the delivery of wider environmental proposals in the draft determinations.

3.2 Cost Benefit Analysis (CBA)

3.2.1 Natural England has not assessed the cost benefit analysis as it is difficult to interrogate the results. Therefore we have not made an objective assessment of CBA but we are able to highlight the following concerns:

- Severn Trent – one N2K scheme appears to have negative CBA results.
- South West – one SSSI scheme appears to have negative CBA results.
- Southern - eight water quality schemes and investigations appear to have negative CBA results.
- Three Valleys – all the NEP appears to have negative CBA results.
- Yorkshire – all the catchment proposals appears to have negative CBA results, plus one N2K scheme

3.2.2 We are unclear about the outcomes of the CBA for: Anglian, Cambridge, United Utilities, Welsh and Wessex.

3.2.3 We have raised our concerns about Ofwat's approach to CBA in every step of the PR09 process. Ofwat's guidance gave water companies scope to adopt different approaches for valuing the benefits of schemes and for conducting the CBA. We have not been able to assess in either the draft business plans or the final business plans whether the values used adequately reflect the benefits of the schemes and whether the CBA has been conducted correctly.

3.2.4 We continue to reiterate our concerns about whether Ofwat will have access to sufficient information to correctly identify the schemes that need to be challenged; to adequately assess the validity of the CBA results and to compare CBA results for comparable schemes proposed by different companies. In our view, this process poses a major risk to achieving outcomes that are in the best interests of consumers and to the environment.

3.2.5 Natural England supports the need to ensure that proposals deliver value for money and expects companies to be able to deliver all the statutory outcomes we require for the environment in the most cost effective way in their final business plan.

3.2.6 In the future we expect Ofwat to address the concerns we have raised throughout the PR09 process. Ofwat needs to develop a common method for the valuation of benefits and a process that provides a transparent and consistent approach to analysis. We would like to work with Ofwat to ensure such an approach is developed for the next Periodic Review.

3.3 Catchment Management Proposals

3.3.1 Natural England has a key objective for catchment management proposals in PR09. Thirteen companies proposed forty schemes in the draft business plans, and as a result of ongoing engagement with the companies we are expecting over 100 proposals in the final business plans. These proposals are split between the National Environment Programme, the Drinking Water Programme and operating costs.

3.3.2 We will produce a separate detailed summary of all the catchment proposals with the Drinking Water Inspectorate, the Environment Agency and Ofwat in due course.

3.3.3 Currently we have been able to establish that the final business plans are broadly in line with our initial expectations, but we are not able to confirm the exact number of proposals as they are spread across the drinking water programme, the National Environment Programme and operating costs and not all plans make the proposals clear. We are able to confirm that fifteen¹ companies have included catchment proposals in their final business plans.

¹ Northumbrian and Essex & Suffolk are counted as one company here but have a catchment proposal in both areas

3.3.4 Three companies have highlighted issues that should be addressed through catchment management, but have not put forward proposals, these are: Southern, Bournemouth and West Hampshire and Three Valleys.

3.3.5 We welcome the support Ofwat has provided in the development of catchment proposals since draft business plans. We would like Ofwat to support these proposals in the draft determinations where they will deliver more sustainable approaches to addressing water quality and water resource issues at source.

3.4 Consistency with Strategic Direction Statements

3.4.1 We believe that 14 final business plans are consistent with the company Strategic Direction Statement (SDS). We would particularly note the following:

- Southern – continues to have a reduced ambition for addressing pollution and sewer flooding incidents.
- Thames – continues to not follow up on its references in the SDS for additional community and environmental benefits of BAP work, access and recreation and have weakened their proposals for demand management.
- Portsmouth – have dropped their metering proposals which has significantly weakened their approach to demand management than set out in the SDS and draft business plan, and is not consistent with other companies in the South East region
- South East – have improved their proposals for metering, but continue with reduced action on demand management which is not consistent with the emphasis in the SDS.
- South Staffordshire – continues to have a reduced meter penetration than set out in the SDS.
- Sutton and East Surrey – continues to have weaker delivery against water efficiency than set out in the SDS.
- Three Valleys – has strengthened their leakage delivery from the draft business plan, but now has weaker delivery against water efficiency and metering, which is not consistent with the SDS.
- South West has included much more prominence around the company's role in delivering biodiversity in the final business plan.

3.4.2 We believe it is essential that SDSs are used to help raise consumer understanding of the work the companies deliver for the natural environment and we expect Ofwat to challenge companies to review their Strategic Direction Statements at the start of the AMP5 delivery period.

3.5 Water efficiency and carbon management

3.5.1 Some companies final business plans continue to provide a very clear focus and strong leadership on water efficiency, particularly Southern and Folkestone and Dover. Good information on water efficiency proposals is clear in the final business plans for Severn Trent, Bournemouth and West Hampshire and United Utilities. Portsmouth has revised their service standards for hosepipe bans so they are more appropriate for a water stressed area.

3.5.2 Some companies have weakened their water efficiency and demand management proposals, many of these have cited the reduced demand for water which has meant their original proposals in the draft business plans were no longer cost beneficial. This is of concern to Natural England if planning the next five years of investment is based on the current low demand for water. We are particularly concerned about the risks of increasing demand during the AMP5 delivery period from population growth and development in the South East. We are also concerned about final business plan metering proposals in the water stressed southern areas, particularly: Essex and Suffolk, Thames, Three Valleys, Portsmouth and also Bristol. There is a lack of detailed information on

water efficiency for South East and Sutton and East Surrey although both companies appear to have good proposals for rolling out longer term metering.

- 3.5.3 **Ofwat need to be aware of the potential risks with these shorter term proposals for managing water resources based on current reductions in demand. These may increase costs to consumers as well as the environment during the AMP5 delivery period, but also in the longer term.**
- 3.5.4 Carbon reduction commitments feature strongly in a number of final business plans, particularly: Anglian, Northumbrian, Severn Trent, Southern, United Utilities, Welsh, Folkestone and Dover, South Staffordshire and Three Valleys.
- 3.5.5 The profile given to carbon management has weakened from draft to final business plans for Thames and Yorkshire. Bournemouth and West Hampshire have made stronger reference to climate change adaptation, but there are no clear figures for carbon reduction in Part A.
- 3.5.6 **We expect Ofwat to challenge the content of the final business plans to ensure that all companies carbon management proposals are clear.**

Natural England
1 June 2009

Annex 1 - Broad overview analysis of the company proposals from draft business plans

😊	Appears to be good
😐	OK but only partially delivering
😞	Not so good or no inclusion
👍 👎 🖱️	Change from draft business plan to final business plan (better, worse, similar)
?	Information is not clear
	Not relevant for the company

Water and Sewerage Companies (WaSC)

Water Company	Inclusion of NEP in full for NE objectives	Inclusion of wider objectives for BAP, access & recreation	Outcome of CBA for NE objectives	Inclusion of Catchment Management Proposals	Consistency with SDS	Overall view of FBP in relation to Natural England's objectives
Anglian & Hartlepool	😊🖱️	😊🖱️	?	😊👍	😊🖱️	😊
Northumbrian & Essex & Suffolk	😊🖱️	😊🖱️	😊🖱️	😊🖱️	😊🖱️	😊
Severn Trent	😊🖱️	😊👍	😞🖱️	😊👍	😊🖱️	😊
Southern	😐👍	😞🖱️	😞🖱️	😞🖱️	😊🖱️	😊
South West	😊🖱️	😊👍	😞🖱️	😊👍	😊👍	😊
Thames	😊🖱️	😊🖱️	😊🖱️	😊🖱️	😊🖱️	😊
United Utilities	😊🖱️	😊🖱️	😐	😊🖱️	😊🖱️	😊
Welsh Water	😐🖱️	😞🖱️	?	😊🖱️	😊🖱️	😐
Wessex	😊👍	😊🖱️	?	😊👍	😊🖱️	😊
Yorkshire	😊🖱️	😊👍	😞🖱️	😊👍	😊🖱️	😊

Water Only Companies (WoC)

Water Company	Inclusion of NEP in full for NE objectives	Delivery of wider objectives for BAP, access & recreation	Results of CBA	Inclusion of Catchment Management Proposals	Consistency with SDS	Overall view of DBP in relation to Natural England's objectives
Bournemouth & West Hants		☹️👉		☹️👉	😊👉	☹️
Bristol		😊👉		😊👉	😊👉	😊
Dee Valley		☹️👉		☹️👉	😊👉	😊
Cambridge	😊👉	☹️👉	?	😊👉	😊👉	😊
Cholderton		😊👉		😐👉	😊👉	😊
Folkestone & Dover	😊👉	☹️👉	😊👉	☹️👉	😊👉	😊
Portsmouth	😊👉	☹️👉	😊👉	😊👉	😐👉	😊
South East	😊👉	☹️👉	😊👉	?	😐👉	😊
South Staffs		☹️👉		😊👍	😊👉	😊
Sutton & East Surrey	😊👉	☹️👉	😊👉	😊👍	😐👉	😊
Tendring Hundred		☹️👉		😊👍	😊👉	😊
Three Valleys	😊👉	😊👉	😐👉	☹️👉	😐👉	😊