



**Anglian Water PR19  
Initial Assessment of Business Plans (IAP)**

**Technical Assurance Executive Summary**

29 March 2019



## AMP6 Independent Third-Party Assurance Provider

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### Document history and status

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# 1. Introduction & Scope

Jacobs is commissioned by Anglian Water Services Limited to provide independent technical assurance on its 2019 Business Plan submission to Ofwat. The objective of our assurance activity is to provide the Company's Board and other stakeholders, with an independent opinion on the robustness of the technical information being submitted to Ofwat and to assist Anglian Water's Board to sign the Board assurance statement for the PR19 business plan.

Following the submission of the Business Plan on 3 September 2018, Ofwat carried out an extensive and detailed review of the plan and provided its formal feedback on 31 January 2019 in the form of the Initial Assessment of Business Plans (IAP). The purpose of the IAP was to:

- Assess the business plan against nine key test areas that reflected Ofwat's PR19 themes
- Assess the business plans against three key characteristics (quality, ambition, and innovation); and
- Categorise the plan into one of four categories (significant scrutiny, slow-track, fast-track, or exceptional).

Ofwat's IAP concluded that the Company's business plan demonstrated a high quality approach, with sufficient and convincing evidence on measures to support the deliverability of the 2020-25 plan given past performance. The Company was assigned the top grade in the test area of customer engagement and participation in shaping the plan. Notwithstanding this, the business plan was categorised as 'slow track' (together with the majority of companies). Anglian was required to respond to Ofwat's detailed actions and re-submit elements of the business plan by 01 April 2019. Anglian Water requested Jacobs provide assurance in the following areas of the re-worked plan:

- To review responses to Ofwat post-submission queries (those resulting in data changes and selected others)
- Changes to data tables – changes in response to Ofwat's feedback, and updates to 2018/19 and 2019/20 forecasts where better information is available
- Review changes to Delivering Outcomes for Customers (data table App1, and two new data tables App1a and App1b published by Ofwat in January 2019)
- Follow-up review of Customer engagement on the IAP changes
- Review of the impact of removing investments for Metaldehyde and Storm Tanks
- Review of the sludge production model

Our assurance work took place in March 2019 and has been reported in detailed Summary Audit Reports (SAR) provided to Anglian Water. This report provides a summary of our findings to assist the Board in its sign off of the plan.

## 2. Assurance Statement

We identified issues to which we have alerted the Company at audit and in our Summary Audit Report (SAR) documents. Key items of note are detailed below, with a summary of the scope of our review for each activity.

### RAG Key:

- No concerns; ● Minor concerns; ● Material concerns; ● Non-material observation or recommendation
- Example of good practice

RAG	Summary assurance statement
	Anglian Water has been consistent in its response to the IAP in that it is defending its September 2018 business plan as the right plan for customers, stakeholders and the region. As such, there are minimal changes to Outcomes in App1. Where changes have been made, these are in response to Ofwat's IAP feedback. App1a and App1b are new tables which have been completed in line with Ofwat's definitions.
	Our review of the Company's responses to Ofwat's queries confirmed them to be appropriate.
	We confirmed the changes to a small number of lines in 17 data tables were traceable to source and had adequate supporting evidence. A small number of errors were identified at audit and were subsequently corrected.
	Anglian has adopted a logical structure to its response to Ofwat's actions. It responds to 'company-wide' actions which are common across the PCs and responds to PC-specific actions to provide additional information/justification. We did not identify any concerns in the responses.
	We consider that the customer engagement on IAP changes is appropriate, following Anglian's industry leading approach to engagement. The results obtained were robust and meaningful.
	We confirmed investment relating to Metaldehyde and storm tanks has been correctly removed from the business plan and there are no risks associated with this action.  Discussions have taken place with the EA regarding delay of some investment related to stormwater flows until AMP8. The EA has confirmed this by letter (29/03/2019) to Anglian with changes to WINEP.
	The sludge production model's input data and alignment with WINEP information was confirmed and the output data was as expected. We found the risk register and model's documented methodology to be satisfactory.

We have set out below under Key Findings the scope of our reviews and key findings with our assessed RAG status. Our SAR reports identify all 'non-green' items for Anglian Water to address them as they consider appropriate.

[REDACTED]  
 Technical Assurance Director for Anglian Water Services Ltd  
 Director – Halcrow Management Sciences Ltd  
 29 March 2019

### 3. Key Findings

Throughout the assurance process, we identified issues to which we alerted the Company at audit and in our Summary Audit Reports (SAR). Key items of note are detailed below, with a summary of the scope of our review for each activity.

**RAG Key:**

- No concerns; ● Minor concerns; ● Material concerns; ● Non-material observation or recommendation
- Example of good practice

Assurance activity/RAG	Summary findings by exception
<b>To review responses to Ofwat post-submission queries (those resulting in data changes and selected others)</b>	<p>The scope of the assurance checks was a ‘sense check’ to ensure Anglian’s responses:</p> <ul style="list-style-type: none"> <li>Are appropriate based on Jacobs’ knowledge of the business plan</li> <li>Have suitable supporting evidence / justification (where appropriate)</li> <li>Have source data that supports data table changes (where appropriate)</li> </ul>
	<p>Anglian Water received 40 queries in the period September 2018 to January 2019. Of these, 20 were assigned to Jacobs for the ‘sense check’ exercise.</p> <p>A number of queries requested sign-posting to relevant sections of the business plan narrative or simple confirmation that data had been compiled in accordance with Ofwat’s requirements. For these query responses we did not carry out further investigation. Where data had been corrected, the sense check confirmed the revised values were correct and consistent with the commentary.</p> <p>Where appropriate we verified that the query responses set out further supporting analysis and why the Company has updated its information. We checked that revised evidence had been presented and that it was suitable. We requested sight of calculations to allow scrutiny of the application of the approach described in the company’s response. Overall, of the queries we were requested to sense check, we considered Anglian’s responses to be appropriate.</p>
<b>Changes to data tables – changes in response to Ofwat’s feedback, and updates to 2018/19 and 2019/20 forecasts where better information is available</b>	<p>The scope was to:</p> <ul style="list-style-type: none"> <li>Comment on the justification for the changes to the data, including feedback and actions from Ofwat.</li> <li>Check that the changes made are in accordance with the justification.</li> <li>Check that changes are in line with Ofwat’s reporting definitions.</li> <li>Check that changes are consistent with supporting information.</li> <li>Provide an opinion on the reliability of supporting information.</li> <li>Test auditee understanding of the potential effects that the changes could have on other parts of the data tables and the process to manage these.</li> </ul>
	<p>Anglian Water has made changes to a small number of lines across 17 data tables (11 Wholesale, 6 Appointee), typically one or two lines per table have changed, with the exception of App4 where a greater number of lines were amended and Ofwat had added new lines.</p> <p>Some changes were made because Anglian has better information (actuals) in order to refine its forecasts for the remainder of AMP6. We confirmed forecasts for calendar year 2018/19 had been updated with actual values, all values are based on updated</p>

	<p>values that will be submitted as part of APR19. We found all changes to be in line with Ofwat's reporting definitions, and consistent with the methodology applied for previous APR submissions for actual years. We found the reliability of the data to be sound.</p> <p>Ofwat has included a small number of additional lines in the revised data tables published in January 2019 as part of the IAP process. We confirmed the data is sourced from other tables and/or processed to fit the definitions for the new lines, with the exception of App4, App5 and App27 detailed below in 'Amber'.</p> <p>The impact on other tables was well understood and there is a process to identify changes to other data tables.</p>
	<p>For the data changes, we traced the information back to source and/or supporting information was provided. A number of errors were identified in some lines in App4, App5 and App27 and inconsistencies with information in the associated commentaries. We confirmed that these were corrected post audit.</p>
	<p>For some lines in App4 the source or reliability of the supporting information was lacking at audit, however this was subsequently provided and considered to be adequate.</p>
<p><b>Review changes to Delivering Outcomes for Customers (data table App1, two new data tables App1a and App1b published by Ofwat in January 2019), review of responses to Ofwat's actions</b></p>	<p>The scope was to:</p> <ul style="list-style-type: none"> <li>• Comment on the justification for the changes to the data, including feedback and actions from Ofwat.</li> <li>• Check that the changes made are in accordance with the justification.</li> <li>• Check that changes are in line with Ofwat's reporting definitions.</li> <li>• Check that changes are consistent with supporting information.</li> <li>• Provide an opinion on the reliability of supporting information.</li> <li>• Comment on Anglian Water's responses to Ofwat's actions (company-wide and PC-specific)</li> </ul>
	<p>There are minimal changes to App1 because Anglian is maintaining its business plan as submitted in September 2018. The changes to Outcomes are:</p> <ul style="list-style-type: none"> <li>• Removal of four sub-measures under the Compliance Risk Index (CRI) following the government's restrictions on Metaldehyde. The ODI for the CRI headline measure has been retained and is now a financial incentive per Ofwat's recommendation.</li> <li>• ODI 14 – Treatment Works Compliance - amended PCL to 100% per Ofwat's instructions. Ofwat also recommended a deadband of 99%, however Anglian is retaining its proposed 98.6% which aligns with its customer research.</li> <li>• Priority Services Register (ODI 22) amended to express the increase in customers on the PSR as a percentage of the current (18/19) household customer base and to account for growth over AMP7. This now complies with Ofwat's definition and Ofwat's PCL (Anglian exceeds this).</li> <li>• Two new ODIs have been added to App1 per Ofwat's instruction.</li> <li>• Anglian has adapted its proposed leakage performance commitment in response to Ofwat's feedback and worse than expected performance in 2018-19 (which affects the three year average at the start of AMP7).</li> <li>• The EA has updated guidance for storm tanks which affects the costings, in turn this increases Anglian's penalty rate for pollutions (in customers interests) with the rate now being within Ofwat's range.</li> </ul>

	<p>App1a and App1b are new tables not previously reported. The purpose is to allow Ofwat to calculate incentive rates and convert companies' PC information on a standard basis to facilitate an industry comparison of common and bespoke PCs.</p> <p>Three ODI measures have been reported using non-standard Ofwat units. These are:</p> <ul style="list-style-type: none"> <li>• I2S – because Ofwat's measure is in h:m:s, whereas Anglian reports as minutes (in decimals)</li> <li>• External sewer flooding – because Ofwat's measure is the number of external SF incidents per 10,000 sewer connections, whereas Anglian expresses the measure as the total number of incidents. The forecast information hasn't changed, only the units to be per 10,000 connections.</li> <li>• Priority Services Register – Anglian has adjusted its figure to incorporate growth over AMP7, whereas the initial estimate by Anglian didn't account for growth.</li> </ul> <p>The 'type of ODI rate' follows Ofwat's guidance to use Ofwat's standard rate formula with minor exceptions. These are where the penalty rate was lower than the reward rate or Anglian has no information. In these cases, Anglian has used other sources of information, specifically customer evidence where the Company had asked customers what bill impact would be acceptable to reflect a financial incentive. This approach has been explained in the commentary.</p>
	<p>Ofwat may challenge the above post 1 April submission, however Anglian is well placed to explain its rationale and we consider the information to be reliable as it is subject to audit as part of PR19 and annual performance reporting.</p>
	<p>Anglian has adopted a logical structure to its response to Ofwat's actions. It responds to 'company-wide' actions which are common across the PCs and responds to PC-specific actions.</p> <p>Anglian's approach to responding to the IAP is that is it not changing its business plan, because it is entirely driven by customers' preferences through Anglian's industry leading customer research, and regulatory drivers, such as WINEP. We are supportive of the Company's position and note the CEF also supports the Company's position.</p> <p>The Company has responded to PC-specific actions which are typically to provide additional information/justification. We did not identify any concerns in the responses.</p>
<p><b>Follow-up review of Customer engagement on the IAP changes</b></p>	<p>The scope was to review customer engagement on:</p> <ul style="list-style-type: none"> <li>• Two new PCs and associated ODIs</li> <li>• The change to the penalty/reward period on the Bathing Waters ODI</li> <li>• Four ODI Deadbands</li> <li>• The WINEP incentive sharing mechanism</li> <li>• The acceptability of revised bill profiles</li> <li>• Executive pay</li> </ul> <p>We were also asked to review completion of PR19 data tables and commentaries associated with changes to PCs.</p>
	<p>For the customer engagement the methodology involved the Company's online community which was used extensively for engagement on the original PR19 business plan submission. We confirmed this latest research methodology was identical to that used before and was conducted on the same basis. We inspected the stimulus material which we consider was appropriate for the purpose and contained the same level of detail used for the engagement on other ODIs undertaken last year. We noted the CEF had reviewed and commented on the stimulus material and had indicated its satisfaction with it.</p> <p>The company has engaged customers on four deadbands associated with Leakage, Sewer Collapses, External Sewage Flooding and Bathing Waters. We challenged why these four had been chosen out of the six deadbands on which Ofwat has raised questions in the IABP. Anglian demonstrated that these four ODIs have the highest</p>



	<p>likely impact on bills by a significant margin over the other two. The engagement can be considered to be proportionate on this basis.</p> <p>The company recognises, and we agree, that the subject of deadbands is not easy for customers to understand. However, from the information presented to us we consider the engagement undertaken on deadbands to be appropriate and the results obtained meaningful.</p> <p>We inspected the stimulus material used for the WINEP incentive engagement and consider it to be appropriate for the purpose.</p> <p>We confirmed with the company that bill profile research followed the same methodology as used last summer and that the results obtained are as robust.</p> <p>Qualitative customer engagement on executive pay, specifically that basing remuneration on performance over profit is a better incentive for executives, has been undertaken via the company's online community using the same methodology as that for the two new ODIs. Participants were provided with information on the proposed changes to the calculation of executive incentives and bonuses and asked whether they agreed with the change that bonuses and incentives will be determined and set based on company performance more directly (rather than profit). We inspected the stimulus material used for the engagement on executive pay and consider it to be appropriate for the purpose. We consider the results obtained to be meaningful on this basis</p>
	<p>We audited data lines and commentaries for the customer metrics lines in tables App 4 (4 lines) and table WS18 (1 line). We traced the data to information sources which were acceptability research carried out by Accent and Anglian's own records of customer engagements. We found the commentaries relating to the data lines to be sufficiently detailed and clear to explain the assumptions used by the company to derive data.</p>
<p><b>Review of the impact of removing investments for Metaldehyde and Storm Tanks</b></p>	<p>The scope was to undertake a review of the processes used to identify and remove Metaldehyde and storm tank investments from the portfolios, evaluate any assumptions made and supporting evidence. We also evaluated the risks associated with these updates and how these have been controlled.</p>
	<p>Removing investment in C55 related to Metaldehyde treatment was straightforward as Anglian had created two versions of each option because they knew a ban was likely and therefore non-ban options were deselected and ban options were selected. There is no change in associated benefit.</p> <p>Removing investment related to stormflows was straightforward because Anglian merely amended the start date of each option in C55 until AMP8.</p>
	<p>Discussions have taken place with the EA regarding delay of some investment related to stormwater flows until AMP8. The EA has confirmed this by letter (29/03/2019) to Anglian with changes to WINEP.</p>
	<p>We are satisfied there are no risks associated with these adjustments because of the manner that options were either deselected or delayed and because the C55 software ties costs and benefits to each option. There is no change to operational costs of Hall WTW which has a process to remove Metaldehyde because this is needed for water abstracted from the Lower Trent and is therefore part of the existing process stream at the treatment works.</p>



<p><b>Review of the sludge production model</b></p>	<p>Ofwat IAP Action ANH.CMI.A1 stated: The Company’s plan does not provide sufficient explanation for the sludge production volume forecasts. The company should provide further evidence around how the sludge volume forecast was calculated, including any assumptions made or adjustments to model outputs.</p> <p>Anglian asked us to review the model build and its outputs to provide additional assurance on this aspect of the business plan.</p>
	<p>The strategic model is a 26-year model, accounting for population growth and WINEP3, modelling the complete bioresources system. We reviewed evidence regarding the input data which provides line of sight from the source WINEP data to the model input.</p>
	<p>We reviewed the risk register which was maintained at time of model development and lists all the risks (for example, outstanding data requests). We found the risk register to be satisfactory.</p>
	<p>We have reviewed documents which provide a description of the model and the methodology used to develop it with appropriate AWS sign-off for the results of the preferred scenario. We found these documents to be adequate.</p>
	<p>Opex cost models are fed directly into the model itself and there are several assumptions (percentages and rates) that are held in these spreadsheets. We reviewed the supplied opex models and the costs and assumptions used within them are what we would expect to see.</p>
	<p>We have checked the output data in the Power BI dashboard against the data in the BIO1 and BIO2 tables. We confirmed that the inter-siting data reported in BIO1 is consistent with the supporting information.</p>
	<p>We noted that the data in BIO1 and BIO2 accounts for the tightening consents resulting in greater volumes of sludge, however the wastewater tables are not representative of the tightening consents.</p> <p>Whilst the costs and assumptions used in the opex models are what we would expect to see, we recommend Anglian reviews the assumptions below which we do not believe will materially impact the model:</p> <ul style="list-style-type: none"> <li>• Price for polymer (£1.12-£1.90), we think this is likely to be closer to £2.30-£2.50 based on the 2018 prices.</li> <li>• Polymer dose: There appear to be low numbers for post THP-AD sludge. Anglian has used figures applicable to best site conditions whereas in practice sites average a higher total dissolved solids figure.</li> </ul>

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