Planning for the long term: summary of insights

Objectives:

- Provide insights that will inform Anglian Water's decision-making and strategic planning for Ofwat - PR24, specifically including:
    - Understanding customer preferences between two approaches to infrastructure management: a proactive approach (Approach B) and a reactive approach (Approach A).
    - Determining which of the two proposed investment options (Option 1 or Option 2) customers prefer, considering factors such as cost, value for money, environmental protection, and long-term benefits.
    - Identify customer preferences for different methods of cost distribution, including smoothed out, front-loaded, back-loaded, or rejecting these options altogether.

Fieldwork dates: Friday 9th August - Friday 16th August

Sample overview: n=154 participants responded to all research questions

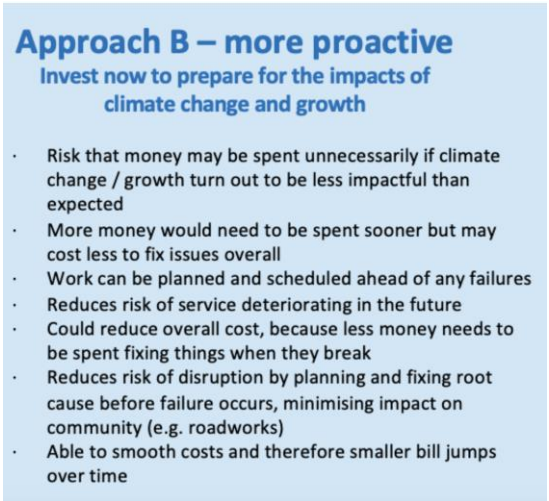
Customers were shown some introductory slides from Anglian Water to introduce them to the topic and provide background information.

Opinions on Approach A vs Approach B

Then, customers were asked to share their thoughts on the two broad approaches Anglian Water could take to deal with future uncertainty (Approach A and Approach B).

74 %

Prefer Approach B



Due to:

- **Future Planning and Mitigation:** Many believe that planning for the future, even with uncertainties, allows for better mitigation of potential risks and crises. By addressing issues now or maintaining infrastructure, it can prevent more severe problems later on.
- **Cost Efficiency:** Customers recognise that proactive investment might be more costly upfront but believe it will save money in the long term by avoiding the higher costs associated with emergency responses or fixing problems after they arise.
- **Long-Term Benefits:** Many see Approach B as offering long-term benefits, not just in terms of cost but also in sustainability and reliability of services. They believe that a proactive approach will result in a stronger and more resilient infrastructure.
- **Avoiding Reactive Costs:** There's a strong sentiment against waiting for problems to arise, as this could lead to "knee-jerk" reactions that are more costly and less effective. Planning ahead allows for a phased and controlled approach, minimising disruption.

18 % Don’t like either approach

Due to a Desire for a Balanced Approach: They feel both proactive and reactive measures are necessary and believe a blended strategy would be more effective.

8 %

Prefer Approach A

Approach A - more reactive

Delay investment to see how climate change and growth develop before investing

- Less risk that money is spent on solutions that turn out to be not needed
- Less money would need to be spent sooner but may cost more to fix issues overall
- Work will be delivered reactively when an issue occurs
- More risk of service deteriorating in the future
- Spend more money fixing things rather getting to the root cause of the problem
- Increases risk of multiple failures before root cause is fixed resulting in increased impact on community (e.g. roadworks)
- Unplanned works could lead to higher costs and therefore higher bill jumps

Due to:

- **Cost Concerns:** Proactive planning could lead to increased costs for customers, which many find burdensome given the current economic challenges.
- **Uncertainty of Future Risks:** The future is uncertain, and it's difficult to effectively plan for unknown risks. A few customers believe that it’s wasteful to spend on solutions for problems that may not occur.
- **Scepticism about Climate Change:** A few customers are doubtful that local water issues, like leakage, are directly tied to climate change, making them wary of spending on proactive measures related to it.

Opinions on Option 1 vs Option 2

Customers were then shown two different options on how Anglian Water can make sure bill increases are affordable.

55 %

Prefer Option 1

Due to:

- **Comprehensive Approach:** Many appreciate that Option 1 tackles a broader range of issues, such as upgrading infrastructure, preventing pollution, and maintaining water supply, which are seen as necessary and urgent.

Option 1

Protecting our assets from flooding	£
Reducing the risk of sudden interruptions to water supply	£
Increase sewer capacity to reduce the risk of raw sewage coming out of our system during heavy rain	£££
Renew vulnerable water mains to reduce the risk of pipes bursting	£££
Reduce carbon emissions	££

Average monthly bill = £48.5

- **Value for Money:** The small increase in cost is justified by the significant improvements and long-term benefits. Customers believe that paying a bit more now could prevent higher costs and problems in the future.
- **Environmental Protection:** Protecting the environment, especially from sewage pollution, is a priority for many. They are willing to pay more to ensure that necessary investments are made.

20 %

Prefer Option 2

Option 2

Protecting our assets from flooding	£
Reducing the risk of sudden interruptions to water supply	0
Increase sewer capacity to reduce the risk of raw sewage coming out of our system during heavy rain	££
Renew vulnerable water mains to reduce the risk of pipes bursting	0
Reduce carbon emissions	£

Average monthly bill = £45

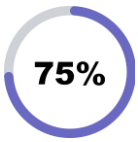
- **Future Savings:** There is a belief that early investment will save money in the long run by avoiding more expensive repairs or crises later.

Due to a Desire for a third option: These customers suggest that neither option fully addresses their concerns. They propose a middle ground (Option 3) that involves reducing shareholder dividends and reinvesting more profits into necessary infrastructure improvements, instead of increasing customer bills.

Due to:

- **Perceived Value:** Some believe that Option 2 offers the same benefits as Option 1, but at a lower cost. This makes it a more attractive option, as they feel they are getting similar outcomes without the extra expense.
- **Long-Term Concerns:** While a few respondents recognize that investing in infrastructure (as might be suggested by Option 1) could have long-term benefits, they still opt for the cheaper choice due to immediate financial considerations. They express a desire for companies to absorb more of the costs rather than passing them on to consumers.

Preferred Costing Methods



Smoothed Out

Fairness and Equity: Many believe that spreading the costs evenly over time is the fairest approach for all customers, as it avoids burdening any particular generation or group of customers with disproportionately high costs.

Predictability and Manageability: The smoothed-out approach allows customers to anticipate and plan for gradual increases in their bills, rather than facing sudden, sharp increases. This predictability is

None of the above

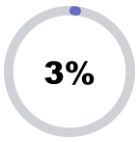
Distrust in Management and Priorities: Some are frustrated with the company's financial management, especially the distribution of profits to shareholders and executive bonuses. They believe past actions, like insufficient infrastructure investment, have caused the current issues and think the company should bear the financial burden rather than passing it onto customers.

Lack of Transparency: Some feel that there isn't enough detailed information provided about the options, such

Front loaded

Immediate Action and Investment: Some believe that if critical infrastructure improvements are necessary, they should be addressed as soon as possible rather than delayed. Front-loading the costs allows for immediate action, which they see as essential for addressing urgent needs.

Long-Term Cost Efficiency: Some understand that addressing issues now, even at a higher initial cost, may be cheaper in the long run due to inflation. They prefer to



Back Loaded

Immediate Financial Relief: Few prefer back-loaded costs because it allows them to pay less now, which can be crucial given current financial constraints, particularly during challenging economic times. This option provides immediate financial relief, which is appealing to those struggling with current expenses.

Hope for Future Changes: These customers believe that circumstances might improve in the future, such as changes in

important for budgeting, especially during times of economic uncertainty.	as the exact costs and how the money will be used. They are hesitant to support any of the options without a clearer understanding of what they are paying for and how the funds will be managed.	invest now rather than risk higher costs in the future.	government policy, public ownership of water utilities, or other economic factors that could alleviate the burden of these costs.

After viewing information surrounding Anglian Waters commitment to supporting those struggling to pay their bills, **82%** of people's opinions on their preferred Option doesn't change, and only **3%** would change their opinion. **14%** are unsure as they feel a 3rd Option is needed to make an informed decision.

Recommendations:

1. **Adopt a Proactive Approach (Approach B):** Given the preference for long-term benefits and cost efficiency, a proactive approach to infrastructure investment is recommended, with clear communication on how this strategy will prevent future crises and save costs in the long run.

   OR

   Consider a Blended Strategy: A balanced approach that combines proactive and reactive measures could address the concerns of those who find the polarised options lacking. This strategy should incorporate elements of flexibility and responsiveness while maintaining a long-term vision

2. **Enhance Transparency:** Improve communication around cost allocation, infrastructure investments, and the expected outcomes. Providing detailed information will help build trust and ensure customers feel confident in the company's plans.

Adopt the Smoothed Out Costing Method: Given its perception as the fairest and most predictable option, adopting the smoothed out costing method is recommended. This approach spreads costs evenly over time, helping customers manage their budgets without sudden financial burdens, especially during economic uncertainty.

OR

Tailor Costing Methods: Given the mixed preferences, consider offering flexible payment options, such as a combination of smoothed out, front-loaded, and back-loaded methods, to accommodate different financial situations and customer preferences.

Planning for the Long-Term

Final materials for online community

August 2024

Today’s Objectives

Long-term challenges are affecting our region and company now and are likely to be more extreme in the future. We need to adapt to a changing world.

There are two broad approaches we could take when developing our plans as a company. We would like to discuss these approaches with you and understand your views, so that you can help us to find the right approach.

Introduction

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Long-term challenges

Our biggest challenges are climate change, expanding services for growth and poor environmental health

Climate change
Higher temperatures, changing rainfall patterns, increasing risk of drought and flood

One of the fastest growing regions, this means that by 2043 there will be 700,000 more people and nearly half a million new houses in our region

28% of land is below sea level, putting us at risk of flooding whilst hotter than average temperatures make us prone to drought

We must protect and enhance the environment, and this will require investment

Long-term challenges are already starting to affect us

The UK Climate Change Risk Assessment: **‘Climate change is happening now. It is one of the biggest challenges of our generation ... we must … ensure the UK is resilient to the challenges of a warming world.’**

ONS data: **Since the 2011 census, the East of England has experienced a population growth of 8.3%.** This is equivalent to an increase of approximately 488,000 additional residents.

Ofwat: **'Climate change is one of the biggest challenges of our time. It will have a significant and permanent impact on the water cycle. … We expect the companies to adapt in a phased, responsible and appropriate manner.'**

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What does this mean for our customers?

Unless we take action to adapt to our changing world, the risk to our infrastructure increases and our ability to provide drinking water and treat sewerage may be affected. This includes:

- Restrictions on water use – like temporary use bans (hosepipe bans)
- Burst pipes and leaks – water lost and more disturbance like roadworks to fix them
- Flooding from sewers – potentially damaging customer property and causing emotional distress
- Pollution incidents – treatment processes overwhelmed and sewage escaping into the environment

But the future is uncertain, and although we can see the impact of growth and climate change now, nobody knows exactly how extreme the problem will be or when it will happen.

Proactive vs Reactive investment?

There are two broad approaches we can take to deal with this future uncertainty...

Approach A - more reactive

Delay investment to see how climate change and growth develop before investing

- Less risk that money is spent on solutions that turn out to be not needed
- Less money would need to be spent sooner but may cost more to fix issues overall
- Work will be delivered reactively when an issue occurs
- More risk of service deteriorating in the future
- Spend more money fixing things rather getting to the root cause of the problem
- Increases risk of multiple failures before root cause is fixed resulting in increased impact on community (e.g. roadworks)
- Unplanned works could lead to higher costs and therefore higher bill jumps

Approach B – more proactive

Invest now to prepare for the impacts of climate change and growth

- Risk that money may be spent unnecessarily if climate change / growth turn out to be less impactful than expected
- More money would need to be spent sooner but may cost less to fix issues overall
- Work can be planned and scheduled ahead of any failures
- Reduces risk of service deteriorating in the future
- Could reduce overall cost, because less money needs to be spent fixing things when they break
- Reduces risk of disruption by planning and fixing root cause before failure occurs, minimising impact on community (e.g. roadworks)
- Able to smooth costs and therefore smaller bill jumps over time

What do you prefer?

Do you prefer ’Approach A - more reactive’ or ‘Approach B – more proactive’?

Why?

What's the right balance?

We need to adapt to our changing world. But at a time when many are struggling with the cost of living, we need to make sure bill increases are affordable.

We need to find the right balance. To help us do this, we want to understand your views.

There are two alternative options. Both options include the same investment to build new reservoirs, reduce leakage, enhance the environment and reduce sewage spills.

The differences between the options are explained in the boxes below.

Option 1

Protecting our assets from flooding	£
Reducing the risk of sudden interruptions to water supply	£
Increase sewer capacity to reduce the risk of raw sewage coming out of our system during heavy rain	£££
Renew vulnerable water mains to reduce the risk of pipes bursting	£££
Reduce carbon emissions	££

Average monthly bill = £48.5

Option 2

Protecting our assets from flooding	£
Reducing the risk of sudden interruptions to water supply	0
Increase sewer capacity to reduce the risk of raw sewage coming out of our system during heavy rain	££
Renew vulnerable water mains to reduce the risk of pipes bursting	0
Reduce carbon emissions	£

Average monthly bill = £45

What do you prefer?

Now that you know a bit more about what each plan includes and the impact on customer bills, do you prefer Option 1 or Option 2?

Why?

Paying for the investment (over 25 years)

There are a few different ways that this investment could be repaid.

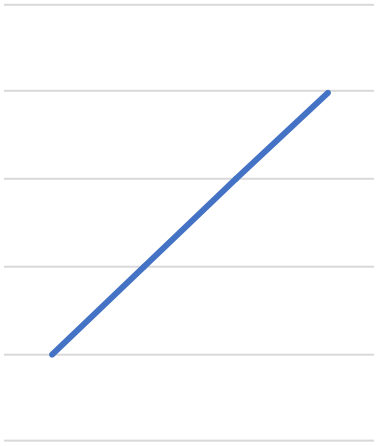
We've outlined three hypothetical investment profiles (right) that cover a 25-year period. This is to help us understand the profile customers prefer in principle.

Each of these investment profiles would impact customer.

1. Front loaded

Current bill payers pay more in the next few years

2. Smoothed out



Steady, predictable and shared across generations

3. Back loaded

Bill payers and future bill payers would see the biggest increases in a decade or more

What do you prefer?

Which investment profile do you prefer 1. Front Loaded, 2. Smoothed Out, 3. Back Loaded?

Why?

Affordable services

Money can be a difficult and sensitive topic for those who are struggling to pay their bills and it's vital we balance investment with customer affordability

Balancing ambition and cost:

"We do not believe our ambition should be achieved at any cost. Ensuring bills are affordable, and the most vulnerable are protected, is just as important as our other ambitions.

We will need to run our company efficiently, work with others and find new ways of doing things to achieve our objectives in an affordable manner."

Did you know?

We already provide industry-leading support to customers in vulnerable circumstances. We have committed to extend this support from 2025.

- By doubling the financial support available for eligible customers in 2025, we will have the capacity to support all customers at risk of water poverty.
- Our owners will fund a new Medical Needs Discount starting in 2025.

What do you prefer?

Knowing that Anglian Water is committed to supporting those struggling to pay their bills – does this impact which plan you prefer, Option 1 or Option 2?

Why?