



Regulation VFM  
National Audit Office  
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Victoria  
London SW1W 9SP

**Re: Customer preferences in the Anglian Water region**

To Whom it may concern,

Thank you for the opportunity to share the perspective of Anglian Water's Independent Challenge Group in relation to the two questions below:

1. Please share any specific examples of where Ofwat overrode expressed customer preferences, particularly if this had the impact of reducing costs or delaying investment
2. If you have any research you can share that shows customers were willing to accept increased bills in return for increased spending/activity to support outcomes?

We have gathered evidence from both PR24 and PR19, and have presented this below:

**Evidence from PR24 plans**

**In our ICG report that was submitted to Ofwat alongside Anglian Water's Business Plan in October 2023, we noted Anglian Water customers' strong support for delivering environmental improvements:<sup>1</sup>**

"There is plenty of evidence that there are high levels of customer support for the overall approach adopted by Anglian Water for this Business Plan. Anglian Water's customers have long demonstrated strong support for investment to deliver a resilient water supply, to deliver environmental improvements, and to support vulnerable customers across the region. This has broadly continued to be the case, despite the 'cost of living' crisis, although customers are understandably keen for this to be done as efficiently and effectively as possible by the company." (see ICG report, October 2023, [page 4](#))

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<sup>1</sup> <https://www.anglianwater.co.uk/SysSiteAssets/household/about-us/our-strategies-and-plans/anh88-icg-report-september-2023.pdf>



**This was particularly evident when we looked at customer engagement around the Long-Term Delivery Strategy (LTDS):**

“Anglian Water’s LTDS was widely welcomed by customers in these focus groups although, against the backdrop of concerns, all generations wanted to see faster delivery of at least some areas. While there was agreement on the need for a long-term view, there was also a shared sentiment across generations that these ambitions should be realised more urgently. This included a call for accelerated timelines, even if it meant making sacrifices elsewhere.

The concept of cross collaboration was universally acknowledged as necessary, especially for tackling issues like drought resilience and environmental conservation. Charges and affordability were deemed important across the board, but this was especially highlighted by younger generations. All generations emphasised that working to improve ecological quality was essential.” (see ICG report, October 2023, [page 31](#))

**We were therefore disappointed, as an ICG, to see that some aspects of the LTDS had been neglected in Ofwat’s Draft Determination, as evidenced in Anglian Water’s submission to Ofwat in response to the Draft Determination:<sup>2</sup>**

**“10.3.1 Customer Engagement Feedback within Anglian Water's Long Term Delivery Strategy**

Our customer engagement research informed the development of our Long Term Delivery Strategy, which sets out its vision and goals for the next 25 years. The strategy is aligned with the United Nations Sustainable Development Goals and reflects the needs and expectations of its current and future customers, as well as the challenges and opportunities of its operating environment. It received overwhelming support from customers, with 86% of customers finding it acceptable and 82% finding it affordable. However, we feel that some aspects of the long term delivery plan have been neglected by Ofwat. Since publication of the Draft Determination, we have met with our Independent Challenge Group twice to discuss the implications of the Draft Determination and our Representations. Having worked closely with our Independent Challenge Group to develop and scrutinize our Long Term Delivery Plan, they are in support of a business plan that works in context with long term goals.” (see page 72 of Anglian Water’s [DD representation](#))

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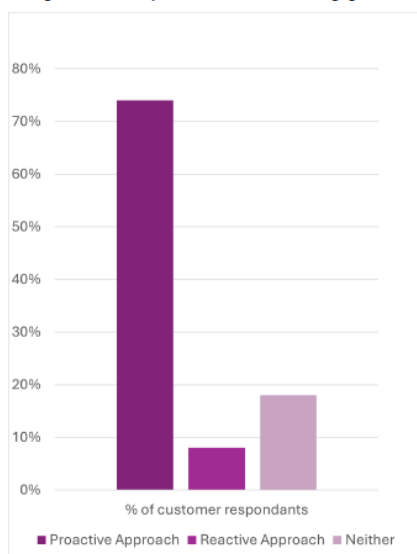
<sup>2</sup> [https://www.anglianwater.co.uk/siteassets/household/about-us/pr24/dd/anh\\_dd\\_001-our-representations.pdf](https://www.anglianwater.co.uk/siteassets/household/about-us/pr24/dd/anh_dd_001-our-representations.pdf)



**More evidence is shared on page 71 of Anglian Water’s PR24 Draft Determination Representations:**

“As outlined in our business plan, we believe a proactive approach long term planning to mitigate the impacts of climate change is in the best interest of our communities and the environment. The delivery of many of our proposed schemes are core to this proactive approach and should be reconsidered within Ofwat’s assessment of our business plan. To ensure our plan is aligned to customer expectations, we reengaged with our Online Community panel in August 2024 (ref: ANH\_DD\_057). The engagement material was developed in collaboration with our Independent Challenge Group who provided a level of impartial scrutiny that we were able to act on. With over 150 respondents the panel overwhelming opted for a proactive approach 74% with only 8% seeing a more reactive approach to be more favourable.

Figure 17 Summary of results of customer engagement



Although balancing affordability and customer bills is key to ensuring we’re delivering value for money, customers on the panel opted for a plan that would involve slightly higher bills but delivering more to manage the impacts of climate change. Based on our customer engagement research we believe that our business plan delivers against the wants and needs of those we serve. The majority of those customers asked (55%) believed that a small increase in cost was justified by the significant improvements and long term benefits and represented value for money.



#### **Quotes from online community panel**

"For the sake of a couple of pounds extra, the extra benefit is worth the extra cost"

"We need to do as much as possible in the shortest amount of time to balance our communities and planet."

"That extra money spend now "could" save pounds in the future". (page 71 of Anglian Water's [DD representation](#))

**We also wanted to provide evidence relating to customer preference and performance commitments from relevant sections from Anglian Water Draft Determination representation (see page 70):**

"Having met Ofwat's expectations in all categories for customer engagement, we believe the performance challenges imposed are not always aligned with the high-quality customer insight we provided.

#### **10.2 Customers' views in the Draft Determination**

We believe Ofwat's Draft Determination does not fully reflect the preferences and priorities of our customers, as revealed by our extensive customer engagement research. A one-size-fits-all approach to setting efficiency and performance targets has been applied, without taking into account the regional and local circumstances and challenges that Anglian Water and its customers face. We developed comprehensive research to inform our performance commitments and have truly focused on embedding our customers' voice at the heart of our business plan.

An example of this is in the setting of incentives to drive performance. We have a proud history of engaging with and understanding our customers valuation of the service we offer. This was identified as sector leading by Ofwat at PR19. We maintained this body of evidence at PR24. We have compared the values resulting from our customer valuations with the incentive rates in the DD, shown in the table below. On the whole it appears the DD significantly overvalue service compared to the views of our customers. This could incentivise us to improve service and incur costs beyond the value that customers place on that aspect of performance." (see page 70 of Anglian Water's [DD representation](#), also including table below)



Table 10 Incentive rate comparison

PC	DD rate £m	AW Societal valuation rate £m	% difference AWS to DD
Water supply interruptions	0.982	2.811	-65%
Customer contacts about water quality	32.755	1.817	1703%
Internal sewer flooding	18.267	23.295	-22%
External sewer flooding	6.785	1.658	309%
Leakage	0.909	0.142	540%
Per capita consumption	0.962	0.382	152%
Business demand	0.254	0.142	79%
Total pollutions incidents	2.798	0.595	370%
Bathing water (per bathing water)	2.2176	2.063	7%

**There were similar issues raised in CCW’s review of Anglian Water’s Draft Determination for PR24, dated 28 August 2024:<sup>3</sup>**

“The Draft Determination proposes an increase of £66 (13%) from 2024-2025 to 2029-3010. This increases to 23% over 2025-30 when forecast inflation is taken into account.

This is lower than the £80 (16%) (before inflation) increase proposed by Anglian in its revised Business Plan from spring 2024. While this places Anglian in the lower end of price increases in percentage terms, their customers will still have the fourth highest average bill across the industry.

### **Customer influence**

Outside of the brief mention within the quality assessment summary there is little explanation of the extent to which Ofwat has assessed the level of customer engagement and challenge of the business plan, or how it may have influenced its Draft Determinations. Ofwat’s comments on Anglian’s specific engagement is limited to four lines, stating that it is “in line with our minimum expectations” but commenting that while research materials were published, some could be more accessible for customers.

In the main ‘*Delivering Outcomes for Customers and the Environment*’ document, the only mention of customer engagement having any influence is where it states that customer support may be used in support of a bespoke performance commitment.

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<sup>3</sup> <https://www.ccw.org.uk/app/uploads/2024/08/PR24-Draft-Determination-response-Anglian-Water.pdf>



There is also a line in the 'Your Water Your Say' report that suggests a larger suite of evidence has been considered:

*"Evidence from 'Your water, your say' surveys forms part of the suite of evidence of customers' and stakeholders' views that we have considered for our Draft Determination".*

However, we cannot find the larger suite of evidence in the supporting published documents.

Given the scale of research and engagement that took place to inform the business plan, including the work of the Independent Challenge Group (ICG) in pushing the company to go further, summarising this effort in a few lines sends a signal that customers' views have not been adequately considered by Ofwat.

This is particularly disappointing considering the requirements placed on companies in relation to transparency about the use, or otherwise, of evidence from customer engagement in its decision making. In its 2022 position paper *"PR24 and beyond: Customer engagement policy"* Ofwat stated in its section on board assurance of customer engagement under the Transparent heading that *"companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case."*<sup>28</sup>

Ofwat has not followed its own guidance in its Draft Determinations. It is not clear to what extent customer engagement evidence has impacted on its decision making. We continue to believe that meaningful customer research and engagement must be a key part of decision making for future investment. However, the lack of information about how Ofwat has considered this evidence could lead companies to question whether the extensive engagement they carried out was worthwhile.

### **Environment programme**

We recognise that the environment and drinking water quality programmes are driven by legislation, but we have seen from Anglian's customer engagement and the research to test the business plan that customers broadly want to see the improvements these programmes should deliver.

Given Anglian's poor environmental performance – an area where customers have clearly shown they expect better performance – it is encouraging to see that there has been no reduction in targets set by Ofwat.



The environmental issues the Water Industry National Environmental Programme (WINEP) will address are in good alignment with what customers want and we support Anglian's focus on using environmentally friendly, sustainable solutions.

We recognise that Anglian's Draft Determination includes 'advanced' WINEP schemes, which should see them go above and beyond basic statutory requirements. Given the customer support for the programme, and the use of more sustainable solutions to deliver parts of it, we support this added benefit as it may help to mitigate costs at future price reviews.

However, under the totex allowance it is unclear what costs are allowed for statutory and discretionary investment and this needs to be clearer in the Final Determination." (from [CCW's response to Ofwat's 2025-30 Draft Price Determination for Anglian Water](#), August 2024)

## **Evidence from PR19 plans**

**Report from the Sustainability and Resilience Panel, which reported to the Customer Engagement Forum, submitted to Ofwat alongside Anglian Water's PR19 Business Plan in August 2018:<sup>4</sup>**

"What emerged from this extensive programme of customer engagement was very clear: customers did not want to delay investment in making the Anglian Water region more resilient. They wanted to see investments happening as soon as possible. For example, 74% of customers voted for high investment in protecting the environment (through the company's Be the Boss digital outreach – for more details see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*).

In the customer engagement around the outline Business Plan, customers were presented with three potential bill profiles over the five-year period (flat, +2.5% and +5%). They were asked about investing to mitigate the risk of climate change now or later (WRMP driven investment), and whether we should make high or low investment in protecting the environment (as a proxy for asking about the WINEP).

We were pleased to note that more than 80% of customers were happy with accepting at least some level of bill increase in order to invest in future resilience.

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<sup>4</sup> <https://www.anglianwater.co.uk/SysSiteAssets/household/about-us/cef-annex-10-report-by-sustainability-and-resilience-panel.pdf>



The Panel was delighted – and somewhat surprised – by this enthusiastic customer response (see section below on Bill profiles for more detail on this).

The Panel was also pleased to note that the company reflected their customers' views and priorities, as required by Ofwat,<sup>5</sup> by developing a Business Plan that has resilience and sustainability at its very heart. Panel members welcomed the company's proposed twin-track investment in demand management and supply side enhancement on a significant scale that will help increase the region's resilience to drought and flood in future." (page 6, [Sustainability and Resilience Panel Report, August 2018](#))

### **Bill profiles**

"These investments in resilience do not come without a cost to customers, however. As mentioned above, more than 80% of customers who were engaged through four separate channels said they were happy with accepting at least some bill increase in order to address the serious water supply resilience challenges in the region and the large programme of work needed to meet the company's environmental obligations, as set out in WINEP.

Customer engagement with 5,000 customers through the Be the Boss digital platform during the Business Plan consultation showed that 34% of customers considered a 2.5% increase in bills was acceptable and affordable while 48% were happy with a 5% bill increase over AMP7 to protect against the risk of climate change and protect the environment now rather than in future (for more detail, see Anglian Water PR19 Business Plan Annex 12c: *Customer Research & Engagement Synthesis*).

The Panel noted this strong customer support for a bill increase of at least 2.5% and questioned why the company was proposing a bill increase in the order of 1% over the next five years. They sought assurance from the company that this lower level of increase was not at the expense of progressing important investment in resilience or the delivery of environmental obligations. The company provided this assurance verbally at the CEF meeting on 13 August 2018, explaining the reduction is due to holding back on RCV run off areas and delivering all the investments under WINEP and WRMP for a lower cost than originally proposed. We were reassured by the company's explanation, but this was highlighted as an area for future scrutiny.

We also noted that the company had originally intended to propose a bill decrease to customers but had to revise bills upward to respond to increased levels of environmental investment required under WINEP3 that the company had

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<sup>5</sup> [Delivering Water 2020: Our final methodology for the 2019 price review](#), Ofwat, December 2017.





underestimated the scale of its environmental obligations – something that surprised some members of the Panel.” (page 8, [Sustainability and Resilience Panel report](#), August 2018).

**There is further evidence of the issue at hand in a letter from the Customer Engagement Forum’s<sup>6</sup> Chair Jeff Halliwell to the CMA on 29 May 2020:<sup>7</sup>**

“To simplify the overarching findings of Anglian Water’s extensive customer engagement: it is vital that the needs of the 20% of customers who find payment difficult, or find themselves in vulnerable circumstances are addressed. Engagement showed that the company’s proposals were broadly acceptable in this respect, and this area is not one of dispute between the company and Ofwat. As long as those 20% of customers are looked after, 80% of customers are prepared to pay a modest increase in bills, in return for service enhancements (including environmental and resilience improvements), which they value.

Of course, and as Ofwat correctly points out, customers would be happier still if these enhancements could be delivered alongside a bill reduction. However, it is clear from the customer engagement that customers’ priorities were for service enhancements ahead of bill reductions.

The company provided to the CEF a list of examples of enhancements, which it claimed would be unaffordable under the terms of the Final Determination. We were assured by Ofwat, on the other hand, in our meeting with them, that there were no proposed enhancements in the FD that would be so precluded. As one example, we highlighted to Ofwat our concern that leakage and water efficiency outcomes supported by customers might be negatively impacted if the company were to reduce its smart metering programme by 30% in response to the FD, as the company has indicated it would.” (Jeff Halliwell [letter to CMA](#), 29 May 2020)

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<sup>6</sup> The Customer Engagement Forum was renamed as the Independent Challenge Group in 2022.

<sup>7</sup> <https://www.anglianwater.co.uk/SysSiteAssets/household/about-us/aw-cef--to-cma-29-may-20.pdf>



You can find all of the previous reports and minutes from both the Customer Engagement Forum and Independent Challenge Group at the following links:

- Independent Challenge Group [here](#)
- Reports and representations for PR19 [here](#)
- Report from PR24 [here](#)

Please don't hesitate to contact me if you would like any further details.

Yours sincerely,

Craig Bennett  
Chair, Anglian Water Independent Challenge Group

**Please note:** The ICG consists of members who have widespread relevant expertise and experience but sit on the panel in their personal capacity, as Anglian Water customers. The ICG also has members drawn from a number of organisations, including statutory bodies and regulatory agencies. These members help inform and shape the views and understanding of the ICG, but ICG statements and recommendations represent the broad views of the group as a whole, and should not be taken to represent the views of any individual member(s) or organisation(s).