

From the Chief Executive

The Rt Hon Ranil Jayawardena MP
Secretary of State for Environment
House of Commons
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Dear Secretary of State

Thank you for taking the time to meet with me and other company CEOs on your first day in office. It is very welcome that the sector, and its role in delivering sustainable growth and protecting the environment, is high on your list of priorities.

I would also like to congratulate you on your appointment as Secretary of State for the Environment. I look forward to working closely with you over the coming months and years to ensure water companies deliver social and environmental prosperity across the regions they serve.

Anglian Water is the first water company in the UK to enshrine social and environmental purpose in our Articles of Association. In so doing, we are placing people and planet at the very heart of our business and demonstrating that our Board and shareholders want, and expect, to be held accountable for the delivery of our stated company purpose; to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

The UK water sector is facing some of its greatest ever challenges. As we have already seen this year, the dual pressures of drought and flooding are increasing in their frequency and intensity, highlighting the need for significant and timely investment in long-term resilience. We are also seeing an ever sharper focus on environmental protection and improvement, which highlights the balance companies and regulators must strike between delivering investment and ensuring bills remain affordable, particularly given the current cost of living crisis.

The increased focus on the sector and the wider water environment is, I believe, helpful to enabling a better public debate on a range of critical issues, such as leakage reduction, long-term water resilience, abstraction reform, and nature-based solutions. It is fair to say the sector has historically struggled to capture the interest of policymakers and the public on these matters, but now there is real opportunity to harness this public attention and use it to drive real and meaningful change.

When we met, I was pleased to hear you express an understanding of some of the work the sector has been undertaking to improve water quality and to respond to the recent drought. The five key challenges you outlined are all areas where more work is needed. I am pleased to be able to provide, as requested, an update on these in the following pages of this letter. For each challenge, I have set out the context, what we are doing to meet the challenge, and changes that are needed to help address the issues for the future.

Challenge One: Environmental Performance

Context

The Environment Act is an important and very welcome piece of legislation. We are incredibly supportive of the Government's aim to protect and restore the UK's nature and biodiversity and see a key part of our role being to act as stewards of the water environment, to facilitate the natural water cycle, to mitigate our own climate impact and to adapt to the climate changes we are already experiencing, and to enhance and restore nature in our region.

Government, regulators and the public increasingly expect water companies to deliver significant environmental improvements, and rightly so. It has long been our strong belief that the best and only way to achieve this efficiently is to adopt Outcomes Based Environmental Regulation (OBER)¹. Using this approach, Government and regulators specify the outcomes they want to see achieved and the timeframes, but sectors and markets are then free to use innovation and collaboration to deliver outcomes in the most effective way. The current approach presents the sector with very detailed outputs that companies are required to deliver even if alternative solutions would be cheaper, greener and quicker.

Anglian Water has long advocated this outcomes based approach and already has a strong record of delivering for the environment and customers, such as our leading work on catchment-based partnerships to improve river quality. To maximise these opportunities and allow companies to support the Government's ambitions to deliver levelling up, environmental regulation needs to change to allow and encourage OBER, which would also deliver a much reduced regulatory burden.

There has been some progress by quality and economic regulators towards this in the latest Water Industry Natural Environment Programme (WINEP). However, we are keen to take this further, and at an accelerated rate. Ofwat and the Environment Agency (EA) have invited water companies to submit Advanced WINEP ("A-WINEP") proposals alongside their full WINEP submissions in November of this year. The A-WINEP proposals will outline where companies wish to go further and achieve more for the environment and customers, and where partnerships to co-design, co-deliver and co-fund solutions enables better value and wider benefits for the environment and customers; we have already indicated our enthusiasm to pilot this approach in the East of England and would welcome your support for this.

What we are doing to meet the challenge

OBER

As mentioned above, we see OBER as essential and we are working hard to showcase how these approaches can work. One such example is the strategic partnership between Anglian Water, Water Resources East, Norfolk County Council (representing the seven districts across the county) and The Nature Conservancy (TNC).

This partnership is working to understand the water security challenges faced by the county, and then to develop the governance mechanisms that enable investment in nature-based solutions at scale.

This 'Water Fund' concept has been implemented successfully by TNC in over 40 locations around the world, but Norfolk is the first place in Europe to take this approach forwards.

Water Industry Natural Environmental Programme (WINEP)

Looking at direct environmental investment, Anglian Water has the biggest natural environment programme in the sector, with over £811 million worth of projects aimed at environmental

¹ See, for example, the Frontier Economics and Wessex Water report on OBER, available at <https://www.wessexwater.co.uk/corporate/strategy-and-reports/performance/ober-report>

enhancement between 2020-2025. I am pleased to say that we are ahead of schedule on the delivery of this programme and are taking opportunities to bring investment forward wherever possible.

In addition, we are also leading the way in the design and delivery of natural wetlands that perform the dual purpose of delivering net zero water treatment and habitat creation for biodiversity. Earlier this summer we announced the building of 26 new wetlands across the region, to be modelled on our flagship River Ingol wetland that opened in 2019 in partnership with the Norfolk Rivers Trust.

Learning from the EPA

Notwithstanding the progress on delivery of these leading and innovative schemes, our poor performance on the annual Environment Performance Assessment (EPA), published by the Environment Agency, where we received a two-star rating, is something that I am incredibly disappointed by. Although there were mitigating circumstances from extreme weather events, I know we must do better. Working with my Board, we have put in place a series of changes that will allow us to return to a stronger rating in future.

The primary cause of our EPA score was a high number of serious pollutions recorded in 2021. These events were linked to the extremely challenging weather experienced in our region between January and March. 150% of the average rainfall fell in this period, hitting already incredibly saturated ground as a result of a very wet autumn. This record rainfall, coupled with historically high levels of ground water, meant an additional four million litres of water entered our sewer network compared to the previous year. To put it simply, it was just not possible for the network to process these volumes without some impact on the environment.

These unprecedented conditions were also compounded by a number of named storms hitting the UK in 2021 that furthered the impact of surface water and fluvial flooding the region. Storm Arwen had a particularly significant impact and was a substantial contributory factor to the number of serious pollutions recorded in the EPA.

Anglian Water made representations to the Environment Agency and asked that some dispensation was granted following the extreme nature of events like Storm Arwen. Unfortunately, this request was not accepted.

Nevertheless, we have taken the opportunity to learn from these events in order to minimise the environmental impact of similar situations in the future. In the 2021 storm events, our focus was on protecting public health and customer shower and toilet facilities, especially given the ongoing pandemic. This meant we had 125 tankers on the road every day to maintain services, taking them away from other planned works, which in turn damaged our overall performance. We have now implemented a new approach to the deployment of tankers and resources, making sure we strike the best balance between managing unforeseen events and maintaining business as usual activities.

We have also created 26 infiltration reduction plans to tackle issues like misconnections and root ingress to restore system capacity across our network. We are also working closely with partners to develop and deliver strategies to reduce flood risk and enhance environmental protection in high-risk areas. One example of this is the pioneering work we did with Lord Dannatt to set up the Norfolk Strategic Flood Partnership. This has identified all parties with a role in the management of flood risk and put in place new governance arrangements to ensure that each organisation delivers against its responsibilities in a collaborative manner that leads to the best outcomes for residents and the environment.

In addition, we have established a dedicated Pollution Risk and Prevention Team in the business, focussing on using data and monitoring to inform proactive pollution reduction activities, overseeing delivery of plans to ensure successful delivery of pollution reduction schemes, and to identify root causes of historic pollution events to ensure lessons are learned and embedded into our plans. We

are also continuing to increase the public awareness of unflushables and the impact these have on the environmental pollution. I am pleased to report that this work has yielded significant improvements in the performance of our sewer networks this year compared to 2021.

Working with Developers and Planning Authorities

It is also vital that water companies, local planning authorities (LPAs), landowners, and developers work together to minimise the impact of growth on the environment. Whilst water companies currently hold few statutory powers with regard to development, Anglian Water works closely with LPAs and developers to encourage the use of Sustainable Drainage Schemes (SuDS) and surface water attenuation wherever possible, minimising the amount of water entering the sewer. Anglian Water has also opted to adopt surface water systems since 2009, folding them into our own network so that we can ensure they are properly maintained and operated. We are also leading a £6m Ofwat Innovation Project to develop a national framework for integrated water management in all new developments, showing how rainwater harvesting and reuse, SuDS, nature-based solutions, and water efficiency measures can drastically reduce the water and carbon footprint of new housing developments.

Get River Positive

Driven by our purpose, and the shared expectations with our customers that rivers should be beautiful places, rich in nature, Anglian Water joined forces with Severn Trent Water in March 2022 to launch Get River Positive. This campaign, entirely funded by investors through dividend surrender, saw both companies pledging to Get River Positive by 2030, striving to do no harm to UK rivers whilst doing all we can to ensure they thrive. There are five core commitments, each one a clear and actionable response to calls for a revival of rivers in England.

These commitments will:

1. make sure Combined Storm Overflows (CSOs) and sewage treatment sites do not harm rivers;
2. create more opportunities for everyone to enjoy rivers;
3. support others to improve and care for rivers;
4. enhance and create new river habitats, and;
5. ensure we are open and transparent about our performance and future plans.

In the first six months since we made these ambitious pledges, I am proud of the significant achievements we have already delivered:

- We are supporting several local river and community groups to submit their applications for inland bathing water designation. We are funding a long-term programme of water quality monitoring and detailed investigations into potential sources of pollution in and around the potential bathing water areas, which will support the applications and give assurance on quality. The River Deben application is on track for submission next month and, if successful, will become only the third formal inland bathing water in the country.
- We have launched our 'New Deal for Farmers' working with our partners at Agreena to support farmers and landowners in our region to transition to regenerative agricultural practices. This builds on the experience and strong relationships we have built over the years with our dedicated catchment management teams who work with farmers to reduce pesticide use and enhance water quality.
- We have committed significant funding to Norfolk Rivers Trust for the restoration of four chalk streams in North Norfolk, including the Stiffkey and the Glaven. Our support for this exciting programme of work has also enabled the project to be selected as one of the recently announced Landscape Recovery Environmental Land Management Scheme (ELMS) trials by DEFRA.

- We have formed a strategic partnership with the Rivers Trust movement, and are funding a three-year post to enable the creation of an East of England Hub for Rivers Trusts and other river groups. An early priority for the Hub will be the co-creation of the PR24 Water Industry National Environment Programme (WINEP).
- We have developed a map of all of sewer overflows in our region together with the most recent spill data, and expect to make this fully accessible in the coming weeks.
- We have formed an expert panel, chaired by the national chalk stream restoration expert, Charles Rangeley-Wilson, to help shape, challenge and further develop our Get River Positive Pledges.

Changes that are needed to address the challenge in the future

Purpose

Anglian Water has truly placed environmental and social prosperity at the heart of our business. This is not only reflected in our corporate strategies, KPIs and business culture, it is enshrined in our Articles of Association and Board Governance. Myself and the Board will continue to challenge ourselves on achieving these goals and will report openly and transparently against our progress. I believe that this wider social and environmental purpose should be at the heart of all companies in our sector, recognising the special nature of water companies as natural monopolies delivering an essential public service.

EPA and OBER

When it comes to reporting environmental performance of the water sector, I believe there are changes needed to present a more balanced and holistic picture of performance. The water sector has invested billions of pounds into environmental protection and improvements in the last 33 years and is responsible for removing the UK's reputation as the 'dirty man of Europe' by improving river and bathing water quality. In fact, the sector delivers significant environmental benefits, but the EPA as currently constituted does not take into account performance on key environmental factors, such as abstraction from the environment and biodiversity impact.

You will have received separately a joint letter from myself and the CEOs of Severn Trent and Wessex Water setting out some of changes we believe should be made to the environmental performance metrics applied to the sector and environmental regulation more broadly. These changes would ensure the full environmental picture if being recorded and that regulation is an enabler, not a constraint, to meeting environmental targets. We would be keen to meet with you at your convenience to discuss these proposals further.

As detailed earlier in this letter, we believe OBER is vital if the sector is to identify and deliver the wider benefits desired by Government and the public. We are doing what we can to demonstrate where taking these outcomes based approaches would be beneficial for all parties but, going forward, we are keen to work with Defra, Ofwat, Natural England and the EA at an accelerated pace to demonstrate opportunities to put OBER into practice, especially in the upcoming PR24 process.

Increased pace of investment to enhance environmental outcomes

Pace of investment is a challenge we think needs to be addressed and was in fact one of the challenge areas we raised with the Competition and Markets Authority following Ofwat's PR19 determination. We wanted the regulator to allow earlier investment in order for us to address resilience on both the water and water recycling side of the business and to deliver infrastructure to support the rapid growth in the region.

Implementing Schedule 3 of the Flood and Water Management Act

We would urge that the Government's review of Schedule 3 of the Flood and Water Management Act be concluded as swiftly as possible. As well as removing the automatic right to connect, triggering Schedule 3 would require developers to follow a 'drainage hierarchy' that promotes local water reuse and sustainable drainage options, mandate SuDS design standards, and clarify adoption arrangements. This would allow water companies to object to connection requests that did not adhere to these standards. This would help to reduce the risk of flooding and pollution in future. To be clear, this is not about blocking development, it is about encouraging all parties involved in the delivery of new homes to work together to ensure growth can be delivered sustainably, and without detriment to the environment.

Challenge Two - Sewage Discharges & Storm Overflows

Context

Across the UK, CSOs are responsible for just 4% of the reasons why rivers are not achieving good ecological status. Here in the East of England, the number is even lower at only 1%. It is therefore important that a holistic, outcomes-based approach is taken to address the challenge of river and bathing water quality, including reducing the impact of agriculture and rural land management, urban development and transport, non-native invasive species, and misconnected plumbing.

There has been some great progress made on CSO performance since privatisation. In the last 20 years Anglian Water has surrendered the permits for 220 storm overflows across the East of England. This represents a reduction of 1 in 6 CSOs on the sewer network (around 16%). Today, only 0.3% of the water we process is discharged through CSOs and, whilst this is still higher than we want to see, it is important to place the issue in context. It is also worth noting that since privatisation we have delivered an 80% reduction in the amount of phosphorous discharged into waterways.

That said, we are not resting on our laurels and are extremely aware of how important this issue is to the public. We agree that, despite the progress that has been made, the sector has not been able to prioritise investment to remove harm from CSOs as effectively as we would wish. One challenge we are currently tackling is delivering significant improvement in monitoring, to increase visibility of CSO performance across our region, making sure we know when they are being triggered and making this data freely available to communities and stakeholders.

What we are doing to meet the Challenge

Investing in Monitoring

We are targeting £46M of investment to increase monitoring and deploy systems to directly reduce spills and pollutions. I can confirm that we have delivered 88% of our 2020-25 WINEP commitments on overflow monitoring in the last two years. This means 73% of our storm overflows have Event Duration Monitors (EDMs) installed as of today. As well as delivering the remainder of the WINEP commitments by March next year (two years early), we are also funding an additional 356 monitors that will see us achieve 100% coverage by December 2023, greatly surpassing the agreed EA target of 78% by 2025. It is also worth noting that Anglian Water is an industry leader with regards to the operability of the EDMs installed, providing us with regular and robust data.

This data is helping us to demonstrate that the number of discharges from our CSOs is decreasing at a good rate. Discharges per CSO have decreased from 36 in 2018 to 25 in 2021. The first six months of this year have seen only nine discharges. The average hours of discharge events has also reduced from 405 to 232 since 2018.

We believe in transparency and have taken steps to publish this information in an easy to access way for customers and environmental groups on our [website](#). We are also in the process of developing an

interactive map that will show the location of all storm overflows, water recycling centres, and where we are investing in environmental protection and enhancement. This should be live by the end of this month.

Investing in water recycling resilience

Of course, monitoring storm overflows in only one part of the puzzle and the sector must continue to reduce the occurrence of storm overflows being triggered. Over the remainder of this AMP, we are investing heavily in this area, accelerating £200m of work such as:

- Installing more storm tanks across the network to increase storm storage capacity (£80m)
- Increasing capacity at multiple water recycling centres, reducing the risk of spills to the environment (£56m)
- Improving bathing water quality through site enhancements and implementation of nature-based solutions (£21.5m)
- Installing SuDs (£20m)

Delivering Sustainable Growth

As shown by the latest census data, the Anglian Water region saw the highest levels of population growth in the last decade, even more than London. The region we serve also sees some of the highest levels of housebuilding too. We have long known this and are proud of our record when it comes to working in partnership with developers and landowners to manage flood risk, especially with regard to keeping surface water out of the sewer. We also work closely with local planning authorities to contribute to local plan development and support innovative initiatives such as the Reclaim the Rain campaign in Norfolk and Suffolk that supports the development of surface water removal and flood alleviation schemes in the rural parts of the counties.

Anglian Water has a highly experienced growth and planning team that proactively liaises with LPAs across the region to identify and feed into planning applications. However, as water companies are not statutory consultees for new development, input given by the company is only advisory. As such, despite our best efforts we still see new developments moving ahead that bring new surface water connections and flood risk.

Changes that are needed to address the challenge in the future

A stronger role for water companies in land use planning

I fully understand and support the Government's focus on enabling housing growth, and we will do all we can to support this in our region. However, if water companies were made statutory consultees on planning developments, not just local plans, and if Schedule 3 of the Flood and Water Management Act were enacted, then our role in ensuring sustainable growth would be greatly enhanced.

Ensuring the price control process enables investment to support population and housing growth

We also believe there are several other policy levers that could be used to drive significant improvement in this area, such as ensuring investment to support growth, and to enable reduction in harm from CSOs can be appropriately prioritised through the price review process. Whilst implementing bans should always be a last resort, we also believe the time has come to enforce a complete ban on the sale of wet wipes that do not adhere to Fine to Flush standards. The sector has worked closely with manufacturers and retailers on the development of this standard, but adoption is not happening quickly enough.

Challenge Three - Water Security & Drought

Context

The declaration of drought earlier this summer brought home the reality of the UK's water security challenge. A country regularly cited as being wet is far more vulnerable to water shortages than many would assume, especially in the South and East of England where, in some years, less rain falls than in Jerusalem.

This year has seen the driest and hottest conditions in ever recorded in the East of England, putting enormous stress on our infrastructure and leading to even more bursts than we saw following 'the Beast from the East'. Despite these challenges, I am pleased to say that Anglian Water was ready and, because of our investment in resilience over many years, our frontier position on leakage, and the high level of metering across our region, we were able to continue supplying customers without needing to introduce a hose pipe ban.

What is more, we were able to take steps to support agriculture and the environment by reducing abstraction in some areas, pumping water from boreholes into rivers to maintain flows, and by trading water with other abstractors. We have worked in close partnership with environmental NGOs like the Rivers Trusts and RSPB, focussing on sensitive sites like chalk streams and wetland habitats and proactively adjusting our abstraction regime to ensure their protection.

All of this was enabled by the hundreds of millions of pounds that we have invested in the last decade to protect water supplies. Schemes like a new water treatment works in Lincolnshire, the creation of back-up water supplies for Norwich, and a new scheme to move water from Rutland to Milton Keynes has meant that the driest and fastest-growing region in England is also now one of the most resilient.

I could not be more passionate about the issue of water security and believe that the clean, safe, sustainable supply of water is our first duty. Anglian led the development of the National Long Term Planning Framework for Water Resources, which has resulted in many important changes, such as regional water resource planning and the development of the Regulators' Alliance for Progressing Infrastructure Development (RAPID) that is accelerating the development of new critical infrastructure like multi-sector reservoirs. Jean Spencer, our former Regulation Director, is still chairing the national group overseeing this

What we are doing to meet the Challenge

Demand Management

We have around 500 people working around the clock to find and fix leaks and to repair bursts that have been brought on by the dry conditions. Tackling leakage has been a priority for us for years and our focus on this area means that we have the lowest level of leakage in the industry, less than half of all other companies. I set out more detail on this under Challenge Four.

We also have 90% of our customers on a water meter, which means we are able to see exactly where water is needed and manage the network accordingly. Our long-term plans for smart meter upgrades will see us go further still. We have set out a commitment to make sure every home and business in our region has a smart meter, with 1.1 million upgraded by 2025 and the rest following by 2030. The new meters will provide hourly usage data, allowing us to better understand water use and plan for where demand will be highest. What is more, the upgraded technology means data can be downloaded automatically without the need to send vans and meter readers to homes, saving time and carbon.

New Supply Solutions

We are currently in the initial stages of delivering one of the largest infrastructure projects in the UK, installing a £400m strategic pipeline, longer than any UK motorway, that will transport water to the areas of the Anglian Water region that are most scarce. I would be incredibly happy to welcome you to visit the site where the first sections of this pipe are being installed and talk to you in more detail about this vital scheme.

We will also be launching a public consultation in early October on the creation of two new strategic reservoirs in the East of England. Located in south Lincolnshire and South Cambridgeshire, this multi-billion investment from our owners will provide essential storage and deliver resilient water supplies for many decades to come.

These reservoirs are being designed and delivered in a way that ensures maximum benefit for the region and UK Plc. Rather than approaching this as a water company challenge, we have been working in partnership with landowners, agriculture, academia and a wide range of other businesses and stakeholders to develop a multi-sector reservoir plan. This will see the biggest reservoir construction projects in decades delivered in a way that enhances biodiversity, bolsters flood resilience, provides climate change mitigation to communities and businesses, supports farmers to strengthen food security, and brings a range of wider recreational, social, and economic benefits to surrounding areas.

Future Fens: Integrated Adaptation

Following her recent appointment, myself and other partners from the Future Fens Integrated Adaptation Coalition wrote to the Prime Minister to set out the importance of new water infrastructure, like our new reservoirs to enable a sustainable future for the breadbasket of Britain. We also highlighted the work that is being done to adapt to a changing climate in a way that meets the needs of multiple groups such as agriculture, environment, public water supply, and society.

The UK water sector is leading the world in the steps we are taking to secure long-term resilience and we should do more to promote this leading position.

Changes that are needed to address the challenge in the future

Enabling multi-sector benefits from new reservoirs

The need for new water supply and resilience infrastructure is clear and plans are well underway in the Anglian Water region to deliver some of the biggest infrastructure projects in the UK.

However, to deliver schemes at such scale there are some challenges that need to be overcome. With regard to new reservoir delivery specifically, the latest report commissioned by RAPID has highlighted the need for more evidence around the individual user benefits of multi-sector reservoirs, and the need to identify potential participants, funding streams and a “ring holder” role to unlock huge net benefits across sectors, whilst ensuring that costs are fairly attributed and linked to where these benefits fall.

The support and involvement of Government and regulators in this work is essential if we are to deliver new ambitious infrastructure that can yield the greatest benefits for public water supply, agriculture, the environment, and recreation.

It is also important that planning does not become a constraint for these critical schemes. Previous planned reservoirs proposed by other water companies have not been delivered as a result of planning challenges. We believe Government should revisit the draft National Policy Statement for water supply infrastructure to provide a streamlined planning process, whilst ensuring proper scrutiny is applied.

Challenge Four – Water Efficiency & Leakage

Context

Even as the leading company in the sector on leakage reduction, we acknowledge that leakage is an issue can never be fully 'solved'. With thousands of kilometres of underground pipes, it is impossible to find and fix every leak. That said, I am committed to ensuring Anglian Water continues to maintain its position as an industry and world leader in this area. We will continue to deliver innovative solutions like drones and smart technology to close the gap further, and we share the knowledge from these innovations with companies across the sector.

We must also acknowledge that everyone has a responsibility to protect our water resources and it is right and proper for companies to be engaging customers on this issue, although asking customers to be mindful of water use does not replace the need for companies to act. Ensuring the sustainable and long-term supply of water is our top priority and we are leaders when it comes to leakage reduction and network management.

What we are doing to meeting the Challenge

Our leakage rate per kilometre of water main is half the industry average, despite having the biggest geographical region of any water company.

Last year we delivered our best ever performance, surpassing the incredibly stretching target set by Ofwat and delivering the equivalent of five years' worth of leakage reduction in a single year.

Despite population growth of over 25%, we put the same amount of water into supply today as we did 30 years ago, which is testament to our progress on leakage reduction and good network management.

I am proud of the work Anglian Water leads alongside Portsmouth Water on Water UK's route map to reduce leakage in the sector in line with the industry's Public Interest Commitment. This sees companies working together and with others to triple the rate of sector-wide leakage reduction by 2030. This goal represents an unprecedented rate of leakage improvement that will help meet the challenges posed to water supplies by climate change and population growth.

Changes that are needed to address the challenge in the future

Leakage is such an important issue for the sector, both in terms of operational delivery and public perception.

Recognising the legitimate costs of driving leakage down further

Ensuring that the regulatory regime incentivises continued improvements in leakage, and fairly rewards those companies that deliver excellence in this regard will be critical for the future. One of the issues that the Competition and Markets Authority considered in its recent Redeterminations of the Price Control for Anglian Water and three other companies was the costs associated with delivering frontier performance on leakage. The CMA concluded that to drive leakage down to ever-lower levels would cost more than in the past. This is a critical principle that should help to inform future price reviews, as without it, companies will be disincentivised from delivering the lowest possible leakage levels, a task that becomes harder both as leakage falls, and as we see more frequent extreme weather events as a result of climate change.

An invitation to address the annual leakage conference

On 6th December, the industry will be holding the 23rd Annual Leakage Conference in Birmingham. I know I speak for the industry when I say we would be honoured if you could join us at the event and

deliver the keynote address. It would also give the sector a platform to demonstrate to you the work that is being done in this area.

Challenge Five - Structure of the Sector and Remuneration

Context

The corporate and regulatory structure of the water sector is complex and confusing. However, we must not allow that complexity to be misinterpreted as obfuscation by the industry. Whilst the monopolistic structure of the sector by its nature requires regulation to ensure returns are fair, we must also openly acknowledge the benefits the current ownership structures have delivered.

The sector has invested more than £160bn in infrastructure since privatisation. Between 2020-2025 the sector is investing an additional £51bn (>£10bn per year). Anglian Water is delivering £5.7bn of that, our biggest ever business plan, that includes the largest environmental investment in the industry and eight-times more funding than during the previous five-year period to manage scarce water resources.

Whilst it is true that there was an initial increase in water bills in the 1990s, which saw a doubling of investment in the sector, the last 22 years has seen bills remain flat in real terms, in some cases falling. During the same period, investment has continued at a steady rate of billions of pounds a year.

For context, Anglian Water's bills have seen the smallest increase in the sector since privatisation. Our bills today are actually 15% lower in real terms than they were in 2000 despite the huge investment that has been delivered. The average Anglian Water bill is around £452, or £1.24 per household per day. Set against the context of ever rising energy bills, water represents good value for money.

When looking at the UK sector against international comparators, an independent report by Global Water Intelligence concluded that the privatised water sector in England & Wales has consistently outperformed counterparts in France, Ireland, Italy and Spain since 1990 in terms of the core service indicators (water compliance, wastewater treatment, customer service, leakage, charges, total cost per person).

Looking at the different ownership models in use across the UK, the privatised sector in England and Wales also performs better than the publicly owned companies in Scotland and Northern Ireland whilst bills remain broadly similar.

In terms of relative performance:

- Drinking water quality in England is currently 99.96% compliant, amongst the best in the world. The drinking water test failure rate is 3-4 times higher in Scotland and Northern Ireland than in England.
- Leakage rates in England have reduced by more than a third since the mid-1990s, and every water company in England outperforms Scottish Water and NI Water.
- Storm overflows have been increasing in Scotland despite only 3% of overflows having monitoring equipment installed, versus more than 80% in England. In England, CSOs operate an average of 29 times per year. In Scotland, the annual average is 114 discharges.
- Despite having the longest length of combined sewer when compared to other Northern European companies, England has the lowest number of CSOs per capita.

In my career I have worked in water across five different continents and can say with all honesty that our model, despite its challenges, does deliver for customers and the environment. Whilst important to understand, I appreciate that these comparisons carry little weight with the public and they expect to see companies like Anglian Water do more to increase transparency, especially about returns to shareholders and exec pay.

What we are doing to meet the Challenge

Despite continuing to make profits, shareholders did not take dividends between 2017 and 2022. Instead, over £360m of this profit has been reinvested back into the business to improve performance. This brings net dividends taken since 2010 to well below the level expected by our regulator and demonstrates our shareholders' commitment to the business.

In addition, an extra £1.17 billion of equity was injected into the business in 2021 to reduce the level of debt gearing in the regulated business.

There is also a level of misunderstanding of company financing structures that leads to misreporting of dividend values. Overall, Anglian's shareholder returns have been in-line with Ofwat's allowances, the industry average, and with listed companies.

As a sector on the whole, shareholder returns have been falling, with Ofwat consistently making cost and service targets more stretching whilst reducing returns. Last year, half of the sector earned less than 4% base return. Energy network business by comparison earned 50% more.

It is also important to reference executive pay and remuneration, as this is another issue of importance to the public. Anglian Water's executive pay and bonuses are governed by the independent Remuneration Committee. Last year Directors' bonuses were significantly below the levels paid in previous years: total remuneration for the Executive Directors has also reduced by 34 per cent when compared to the previous year. The Remuneration Committee felt that it was right to reduce bonus payments in light of our poorer environmental performance.

It is also worth noting the significant support water companies offer for customers who may struggle to pay their bills. There are currently over 21 different affordability schemes for customers who need support with their bills, some of which offer 90% discount on bills.

Earlier this month I met with David Buttress, the Government's Cost of Living Tsar, and outlined the sector leading work being done in this area, from the £65m funding we have made available this year to support customers struggling to pay to the partnership with Department for Work and Pensions to share data and ensure social tariffs are targeted to those customers who most need them. Our Extra Care support has also enabled customers to receive benefits to which they are entitled, with customers receiving benefits of up to £3000 through this scheme, more than the average water bill for the entire 5-year price control period.

David was keen for us to share our work with others and to support the Government's Help For Households campaign, something my team is very happy to take up. We will also be announcing further plans this Autumn, such as a plan to write off a significant amount of customer bad debt, which will further support customers struggling with the cost of living. I would be happy to write to you with full details of this nearer the time.

Changes that are needed to address the challenge in the future

Purpose-Driven Organisations and the new BSI Standard

We are absolutely committed to our wider social and environmental purpose, and to being held to account for our performance. We have also been working with partners externally to drive this approach forward across businesses more broadly, in particular through working with the British Standards Institution (BSI) on a new Publicly Available Specification (PAS) for embedding purpose in business and avoiding "purpose-wash".

As mentioned in the joint letter to you from ourselves, Severn Trent and Wessex Water, Anglian Water was the lead sponsor of the creation of PAS 808:2022 'Purpose driven organisations – Worldviews, principles and behaviours for delivering sustainability'. We worked with BSI and an advisory panel

consisting of leading responsible businesses, academics, charities and sustainability organisations to produce the standard and, having gone through a full public consultation in late 2021, the final standard was published in July of this year.

We are now in the process of assessing ourselves against the specification, ready to include a summary in next year's report and would encourage other water companies to do the same.

Better Business Act

We're also proud supporters of the Better Business Act coalition (BBA), a business-led campaign supported by more than 1,000 UK companies. The BBA calls for a change to Section 172 of the Companies Act and would require every medium and large company in the UK to align their activity with the interests of wider society and the environment, as we already do at Anglian Water. We think this would be something that would help to harness the huge energy and resources of the private sector to help deliver the Government's societal and environmental goals and increase the public's trust and confidence in companies.

In closing, I would like to thank you once again for meeting with the sector so urgently, and to reaffirm my personal commitment to working with you to address the five priority areas you have outlined. The Anglian Water Board has also reviewed and approved this letter and has asked me to share their commitment and support.

Finally, I, and my senior team are of course available to you should you wish to discuss the content of this letter, or any other issues, in more detail.

With many thanks and best wishes,



Peter Simpson
Chief Executive