



AFW Revised Plan Executive Summary

March 2019

In this executive summary, we present the main elements of our Revised Plan and set out our response to Ofwat's Initial Assessment of Business Plans (IAP) published in January 2019. We have carefully listened to Ofwat's feedback and improved our September plan in a range of specific areas to deliver even more for our customers and communities.

Key features of our Revised Plan

We have sharpened our focus. We commit to sustaining long-term financial resilience while doing more for less, by:

- **reducing** the average household bill. We understand that many of our customers struggle to make their income stretch from Friday to Friday. In the September Plan our average bill was going to increase by 2.1% in real terms by 2025. We now plan to **reduce** our average bill by 1.6% in AMP7, and by a further 2% in real terms in AMP8. This is in addition to the 7.7% reduction in AMP6 and means that **over fifteen years from 2015 to 2030 our average bills will have consistently fallen**. Customers strongly support this type of bill profile;
- stretching ourselves further on our wholesale totex efficiency where **Affinity was already assessed as one of the more efficient company by Ofwat**;
- responding to Ofwat's general efficiency challenges on our enhancement projects contributing to a like for like reduction of £68m in enhancement costs, revising our retail expenditure from 22% to under 5% to achieve **upper quartile** bad debt performance whilst investing more in service. We are progressing with our AMP7 retail and wholesale base cost efficiencies of £200m that we committed to in our September Plan;
- making ourselves **even more visibly accountable** to the different communities we serve by increasing the number of performance commitments (PCs) from 19 to 28, which provides more granular commitments to our diverse range of stakeholders. Clear accountability for performance is strongly supported by our customers;
- adding **bespoke PCs** that are dedicated to: (a) the longer-term provision of resilience in our service area (b) the sustainability of our asset health and (c) supporting customers in vulnerable circumstances, and those who will benefit from our Priority Services Register;
- **stretching ourselves further through our PCs including on leakage** where we have increased our reduction target from 15% to 18.5% (equivalent to 30 MI/d);
- revising **RoRE**, using P10/P90 as assessed in the sector, giving a widened range of +0.33% and -2.61%, which is in line with Ofwat guidance;
- anchoring the Revised Plan in the revised draft Water Resources Management Plan (**rdWRMP**) submitted in March 2019 which has received strong external assurance and uses innovative industry leading adaptive planning techniques;
- continuing to support the recommendations from **"Putting the Sector Back in Balance"**. We have also confirmed our alignment with Ofwat's proposals on Executive Pay and Dividends. We have appointed Chris Bolt as **Senior Independent Director** on our Board;

- planning on reducing our **gearing** to 75% during AMP7, with the detail of the final proposal dependent on the final determination. Our Board have also confirmed their ambition to reduce gearing further to an actual reported level of 70% in AMP7;
- continuing to **apply Ofwat's sharing mechanism in full**; and
- being awarded **the Fair Tax Mark** and we have removed the Cayman company from our group structure.

Improving our performance

Whilst we have performed well in some areas in AMP6, we need to improve in others. Our performance on supply interruptions fell short for the first three years of this AMP. We have acted to address this and we expect to meet that target this year (2018/2019). We were proud to have met our leakage targets for eight years in a row but this year we are very disappointed to have failed that target. We are taking actions to ensure we meet our target for next year and therefore the 14% reduction over the AMP.

We are determined to improve our performance. We are fundamentally reviewing how we work and that includes: driving a major transformation programme to improve productivity and service levels; undertaking a large Opex efficiency programme to deliver the lean and efficient operating structure that we need ahead of tackling the very stretching targets in the next AMP; clarifying accountabilities and strengthening our senior leadership team, bringing in new skills and increasing our pace of change. We will have the full leadership team in place by July this year.

We are increasing the quality of management information: bringing in systems which provide better granularity and transparency of performance information; increasing the visibility of performance data at all levels of the business; and improving the robustness of our data management as well as audit and compliance systems. We are also giving our teams more of a voice to share their expertise, ideas and concerns to drive higher performance. As part of this, we are developing clearer lines of communication from the ground to the Board and back. Board members and our leadership team are sponsoring community areas which helps to ensure they are visible and accessible to customers and stakeholders in our communities.

The changes required to deliver leading performance will take time to take effect, and we therefore propose to maintain a limited number of collars in AMP7 to ensure the appropriate balance of risk and performance is in place and to secure resilience-in-the-round.

I am determined that we will step up and deliver on the challenges we are facing. Having instigated these reforms in other sectors, I am focusing on putting solid foundations in place so that we can ramp up to upper quartile performance in the next AMP. We have started on that journey and this plan sets out what we are striving to achieve, for our customers and communities.



Pauline Walsh, Chief Executive

Confidence and Assurance of the Revised Plan

In developing this Revised Plan, we have been challenged and held to account by both our Customer Challenge Group (CCG) and our Board.

CCG

We have worked hard to ensure that the CCG has had sufficient time to scrutinise our work and to provide robust challenge on our further work since September – and it has done so:

- following a challenge and review session, we modified some of the customer questions, to provide better insights into our customers' thinking;
- a CCG sub-group worked with us on our consultation materials for our rdWRMP;
- a CCG working group challenged us on our PCs on resilience which we changed as a result;
- the CCG challenged us to retain the Value for Money PC and is working with us to develop it further.

The CCG has submitted its report alongside our Revised Plan, setting out its assessment of their assurance of specific Ofwat actions.

Affinity Water Board

In the January IAP, we were assigned 93 actions across eight test areas. The Board has assured itself that these have been completed.

- 5 actions have a target delivery date of beyond 1 April 2019, and we will respond to Ofwat accordingly;
- 4 actions are now no longer applicable given intervening actions we have taken ourselves, including a transition from a financial to a non-financial ODI and the removal of an uncertainty mechanism that was previously in our September Plan;
- **All the remaining 82 actions have been completed;**
- In the test area, Engaging Customers, no actions were assigned.

The Board has robustly challenged the leadership team on the deliverability and efficiency of the changes in our investment programme, in the light of the further stretch on our PCs.

It has also reviewed an independent report on our data assurance processes and strongly challenged the company on strengthening the assurance of our data and commentaries. For this submission, we have achieved this by reinforcing the “three lines of defence” approach, introducing more effective change control processes and providing further internal and external challenge, guidance and support to those responsible for providing data and preparing commentaries.

The Board has assured itself that our Revised Plan is of high quality, is even more stretching than our original plan, is financeable, and that it delivers for customers, stakeholders and the environment. The Board sets out how it has assured our Revised Plan within the Supplementary Board Assurance Statement.

Detailed breakdown of actions across test areas

We summarise, below, the main Ofwat actions in each of the eight relevant test areas, our responses and the impact these responses have had on our Revised Plan and on customers. Further detail on each action is available in the relevant Test Area Evidence Document.

Test area	Key Ofwat actions	Our response	Impact on Revised Plan	Customer benefit
Addressing affordability and vulnerability	Consult with customers on the final bill profile for AMP7 & AMP8	Further consultation has been undertaken, with final elements due to be completed by May 2019	Updated, declining bill profile with higher acceptability, aligned with revised expenditure and delivery commitments	More robust evidence and acceptability of long-term bill and bill profile as well as social tariff
	Evidence support for social tariff cross-subsidy research	Completed, evidence provided	No impact	Greater understanding of attitudes to social tariff and wider social customer support, which boosts public value and social capital
	Maintain BSI standard and introduce related Performance Commitment	Completed. BSI standard secured, and new performance commitment to retain it introduced. Evidence provided	Enhanced PC framework	More robust process and independent assurance underpinning our work with customers in vulnerable circumstances
	New Priority Services Register (PSR) Performance Commitment	Completed, committing to a significant increase in the number of customers on the PSR	Enhanced PC framework	
Delivering outcomes for customers	Increase and amend PCs	Moved from 19 to 28 PCs	We now have a total of 17 financial and 11 non-financial incentives	Greater public confidence in our performance across a range of stakeholders
	Amendment to PC and commitment target levels	Increased 4 target levels to upper quartile or customer preferences	More stretching levels of outcome delivery for customers	Fostering public trust in Affinity Water's financial and non-financial performance

Test area	Key Ofwat actions	Our response	Impact on Revised Plan	Customer benefit
	Amend financial PC incentive rates	Harmonised common ODI rates in line with industry averages	RoRE range increased to +0.33% to -2.61% in line with Ofwat guidance	Sharpened focus using granular, specific, and public performance commitments Ensured financial resilience along with the right balance of risk and stretching performance Better balance of risk and reward aligned to customer priorities and interests
	Amend deadbands and/or caps and collars	Reviewed on a case-by-case basis, and appropriate changes made	Overall RoRE range increased to +0.33% to -2.61% in line with Ofwat guidance	
Securing long-term resilience	Evidence how planned reduction in gearing will be achieved	Reconfirmed intent to reduce gearing and level of ambition, setting out expected mechanism	Updated wider financing plan	Maintained and increased public confidence in long-term resilience of their water supply, the financial resilience of their water company, and its external and internal systems
	Clear, supported, challenging resilience PCs	Moved from 6 to 11 resilience-related PCs	Enhanced PC framework	
	Systems-based resilience	Building on existing initiatives, we are creating a robust systems-based forward plan, due in August	Fully aligned long-term plan	
Targeted controls, markets and innovation	Set out strategic supply options	Fully-integrated with strategic supply-side actions in rdWRMP	Reassessment of expenditure plan	Greater collaborative working across companies and with other stakeholders will enable future innovation and greater future efficiency as well as increase long-term resilience
	Explore resource-sharing to support common research aims and innovations	Further developing collaborative working to address industry challenges	Greater emphasis on cross-company working, aligned to increase IAP funding for regional collaboration	

Test area	Key Ofwat actions	Our response	Impact on Revised Plan	Customer benefit
Securing cost efficiency	Review efficient wholesale costs in light of 12% challenge	Accepted the general efficiency challenges on the enhancement costs, lowered the costs for demand management in line with our revised dWRMP and accepted the Ofwat benchmark on metering costs. An overall reduction of £52m excluding the additional funding given by Ofwat for supply side development and excluding additional stretch on leakage.	Reassessment of expenditure plan	Protect customers by having stringent efficiency levels, enabling bills to be reduced while dealing with increased long-term water resource challenges
	Review efficient retail costs in light of 22% challenge	Following review, revised costs now within 4.75% of Ofwat's view and bad debt at the upper quartile based on Water Companies September plans	Reassessment of expenditure plan	Greater visibility of, and increased trust in, environmental costs
	Deliver joint strategic solution development	Joint statement provided	Evolving impact, further assessed in May	
	Justification of WINEP uncertainty mechanism	Further evidence provided as requested	No substantive change	
Aligning risk and return	Update financial modelling in line with Ofwat framework	Financial modelling fully aligned	No substantive change	Improved financial sustainability over long-term. Clearer public understanding of risk and return which enables greater scrutiny and fosters public confidence
	Remove or justify uncertainty mechanisms	One mechanism removed; other mechanism further justified	No substantive impact on RoRE range as the mechanism mitigates the RoRE risk to ensure it remains within Ofwat guidelines	
	Set out and explain RoRE range	Further detail on RoRE range provided which is in line with Ofwat guidelines	RoRE range adjusted in line with revised expenditure and delivery commitments	

Test area	Key Ofwat actions	Our response	Impact on Revised Plan	Customer benefit
	Confirm affordable long-term bill profile with CCG	CCG assuring engagement on declining long-term bill profile	Expected further improvement in acceptability of plan	
	Adjust PAYG/run-off levers in line with bill profile	PAYG ratios reduced to meet the financeability requirements of the notional company, run-off rates adjusted to not disadvantage customers and to smooth bills in line with customer expectations	Financial sustainability improved over longer-term	
	Ensure financeability of plan including with notional structure	Updated plan assured for financeability using both actual and notional structure	Financeability preserved in the light of more stretching delivery commitments and incentives, and lower bills	
Accounting for past delivery	Improve explanation of AMP6 expenditure	Further evidence provided as requested	Reconciled to updated expenditure projections	Greater public trust in future delivery and transparency on current performance Greater public and customer (residential and non-household) understanding of strategic risks
	Explain company approach to WRFIM	Further evidence provided, including impact of exceptional demand growth	Proposed adjustment to AMP6 allowed revenues in line with Ofwat mechanism	
Securing confidence and assurance	Provide updated assured data and financial model, including updated tables on investment benefits and trading	Fully assured, updated model and data provided	Consistent with rest of revised business plan	Evidence of high quality scrutiny to maintain public trust and confidence in current and future performance
	Update Board Assurance Statement, including for major scheme assurance	Supplemental Board Assurance Statement provided	Updated plan assured by AWL Board	
	Update on progress with dividend and executive pay policies	Update on dividend and executive pay policies provided	No substantive impact. Policies in line with Ofwat framework	