

Wessex Water Services Ltd Response to Ofwat's PR19 Draft Determination – August 2019

Representation reference: Cost Assessment C9

Representation title: Partnership working

Summary of issue

All of our proposals for partnership working in the environmental sector have been disallowed:

- Partnership working – wastewater (£2.323m), which was included under resilience but for which Ofwat make no allowance
- Partnership working – water (£0.528m), which was moved to resilience after the IAP, but for which Ofwat make no allowance and now suggest we reallocate to raw water deterioration.

We have moved costs of partnership working to freeform line in tables WWS2 and WS2, and include the rationale for all the partnership working in this representation.

Partnership Working	£m
PR19 business plan	2.851
Draft determination	0
Representation request	2.851

Ofwat states that it recognises the importance of such partnerships and the opportunities they present to deliver more for customers than a company can in isolation, and asks for more detailed descriptions of the activities and confirmation that there is no overlap with other activities delivered through base allowances or performance commitments.

We have received letters of support from Natural England and the chair of our Catchment Panel.

Change requested

Reinstatement of funding to deliver partnership working activities, including wastewater: Bathing Water partnerships, catchment partnership and Brinkworth Brook; and water supply: partnership working to improve SSSIs. This is on the basis that:

- the investment is required to meet the target levels
- the target levels are higher than are required to comply with our statutory obligations
- the target levels are an increase on historical activity
- the costs are over and above the level of expenditure that would be incorporated with a companies' base costs

- there is no overlap with an entirely separate area of partnership working related to contributions towards floods and coastal erosion management (FCERM) as part of our sewer flooding programme, which is described in representation C10.

Rationale (including any new evidence)

In its deep dives of our partnership working proposals, Ofwat stated the following against the 'Need for investment' assessment gate:

Ofwat's deep dive on Partnership working (wastewater)

Partnership working, £2.362 m - the investment is for the delivery of environmental resilience through partnership working, Wessex Water specifies that this includes: catchment management to improve raw water quality and the development of EnTrade; working with local authorities to deliver sewerage and flooding programmes, and; catchment permitting to optimise existing assets to deliver phosphorus reductions. Following our initial assessment of business plans we indicated that we would make an allowance for this investment. During the time intervening between our initial assessment and draft determinations we have considered the evidence presented by the company in more detail and we do not now make an allowance for this investment. We recognise the importance of such partnerships and the opportunities they present to deliver more for customers than a company can in isolation. However, the activities described are insufficiently defined in order to demonstrate the low probability high consequence risks mitigated. Furthermore, there is insufficient evidence to confirm that there is no overlap between the component of the investment for 'working with local authorities to deliver sewerage and flooding programmes' and any improved performance measured by the company's internal and external sewer flooding PCs, which are funded through implicit base plus allowances.

Ofwat's deep dive on Partnership working (water)

The company has reallocated a new investment (£0.528m) to resilience, stating: "Capex related to Partnership Working to improve SSSI landholdings in the Water Resources price control has been moved from line 13 (Investment to Address Raw Water Deterioration) to line 14 (Resilience). This reallocation is on a similar basis to WWS2a where Partnership Working was reassigned to Resilience as requested by Ofwat in the capex reallocations." The scheme is not well defined in terms of the resilience risk that the investment mitigates against, particularly because there is insufficient evidence of: the service failure mode and the probability of failure; how mitigating against the failure is currently beyond management control; the impact on customer service and; how the consequence of failure is beyond management control. However, we suggest that in its resubmission of the business plan tables for final determinations the company reallocates this investment back to the raw water deterioration line as we consider that the scheme involves activities (maintenance and catchment management activities) which are better assessed under this enhancement area.

We confirm that the proposed costs are those required to achieve the target levels (rather than generate outperformance) in the two relevant bespoke performance commitments. The target levels are higher than are required to comply with our statutory obligations, and are higher than historical levels.

The proposed investments are over and above any expenditure that might be considered to be within a companies' base costs. Nor is there any overlap with an entirely separate area of partnership working related to contributions towards floods and coastal erosion management (FCERM) as part of our sewer flooding programme, which is described in representation C10.

Letters of support

In addition to a detailed description of our partnership working activities, we append two letters of support:

- 1) In Annex A we provide a copy of a letter of support from Dr Richard Cresswell, who is the independent chair of the Wessex Water Catchment Panel. The Catchment Panel includes local environmental stakeholders and other agencies that impact on the water catchments in our region. The chair of the Catchment Panel sits on the Wessex Water Partnership (our Customer Challenge Group).
- 2) A letter of support from Natural England, which emphasises the importance of our proposals for the management of SSSIs. The letter is included in Annex B.

Furthermore as described in our Strategic direction statement (Supporting document 12.12 of our business plan submission), our Board fully supports us developing proactive and positive partnerships.

Our proposals for partnership working include four areas of work:

- Bathing Water Partners Programme
- Catchment Partnerships
- Brinkworth Brook
- SSSIs improvements.

We provide below a detailed description of each of the partnership working projects.

Table 1: Partnership working projects

Projects		Partnership Costs	
		Total	Annual
Wastewater	Bathing water partnerships	£1.056m	£211k/yr
Wastewater	Catchment partnerships	£0.950m	£190k/yr
Wastewater	Brinkworth Brook	£0.317m	£158.5k/yr (2 years only)
Water	SSSI improvements	£0.528m	£106k/yr

Bathing Water Partnerships:

Associated PC: Community Partnership Working to Improve Bathing Water Amenity (E6)

This project contributes to the ongoing work of the Litter Free Coast and Sea (LFCS) Partnerships in Somerset and Dorset to raise awareness of behaviour change activities applicable to different sectors near bathing waters.

Support for the LFCS Partnerships covering both the Dorset and Somerset coasts (2 projects) is budgeted at £211,000 per year which includes 3FTE Project Officer and assistant posts, consumables, marketing materials and equipment. This support includes all bathing waters along the coasts, rather than limited to those targeted through the PC, but has delivered sustainable partnership projects at 13 specific beaches. It should be noted that activities at six of these 13 beaches are being delivered as a result of Enforcement Undertakings agreed with the EA. The remainder (seven) are due to ongoing project work at specific beaches. These have been excluded from any outperformance and are considered the baseline delivery in AMP6 (2015-20).

This current funding level has assisted in achieving ongoing partnership projects at a baseline of 13 beaches to date. Without this funding we would not be able to maintain the ongoing effort and activities at these beaches.

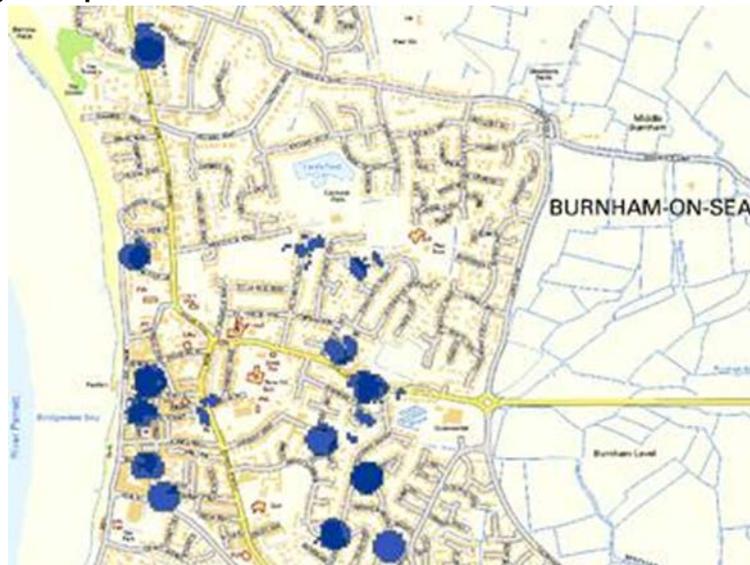
We have promoted a bespoke environmental performance commitment covering: 'Community Partnership Working to Improve Bathing Water Amenity (E6)' to incentivise us going above and beyond current activities. The PC is targeted to focus on a limited number of bathing waters each year and will work with a wider number of partners including the agricultural sector, Surfers Against Sewage and Marine Conservation Society, for example.

These projects raise awareness of bathing water quality, sewer misuse, misconnections and wider water company, community and other business activities. Where there is bad practice in these areas, it can lead to service failures such as blockages and sewer flooding. There is a risk that this may lead to impacts on C-Mex, perceived customer experience and services.

We are not the only influence on bathing water quality within our catchments, however, there is a small number of bathing waters which are at risk of failing, or have previously failed, Bathing Water Directive standards. In 2018, two of the 47 bathing waters in the WW area failed to achieve the sufficient standard. Burnham is currently a failing bathing water where we are working in partnership through the Litter Free Coast and Sea Project to improve

beach amenity and raise awareness. As a result of this a Burnham Beach Committee has been established with a monthly beach clean (c.35 volunteers per clean), a dog patrol and waste advice for local business including reducing fats, oils and greases and managing litter to reduce seagull nuisance (and defecation). Campaign work is focussing on sewer misuse to address the problem of blockages in the area, impacting both bathing water quality and customer service. The map below shows the frequent sewer blockage hotspots where the project is working:

Figure 1: Blockage hotspots identified in Burnham on Sea



Catchment Partnerships:

Associated PC: Working with Partners at a Catchment Scale to Deliver Natural Capital Benefits (E7)

Our Catchment Partnerships proposal covers the two catchment partnerships which we host (Dorset and Bristol Avon) and the Biodiversity Action Plan Partners Programme (currently supporting four projects), counted as six partnership projects within our Performance Commitment.

We provide support to Dorset Catchment Partnership, from the Frome and Piddle Catchment Initiative pilot, co-funded by the EA and NE. This Catchment Partnership has grown to include all three operational catchments in Dorset, not just the Frome and Piddle. Similarly, the Bristol Avon Catchment Partnership has been hosted by us since 2015, when the previous hosts (local authority and wildlife trust) were unable to sustain the hosting without additional support (in excess of the annual £15k Defra contribution).

For both the Dorset and Bristol Avon Catchment Partnerships we provide the full time Catchment Co-ordinator post and assistance. Additional funding from Defra (£15k/yr) is paid to the charitable co-hosts (Dorset Wildlife Trust and Bristol Avon Rivers Trust) to enable project delivery. Provision of the officer support is essential to enable these Catchment Partnerships to operate, lever additional funding and deliver improvements to the river environment and local communities, in line with WFD targets. Support for these two

Catchment Partnerships costs c.£110k/yr to cover 4FTE (2 x Catchment Co-ordinator, 1 x Catchment Technician and 1 x Apprentice), travel, conferences and relevant PR, including websites and publications.

This heading also covers the Biodiversity Action Plan Partners Programme, which provides funding for typically four key partnership projects over a five-year project to deliver biodiversity improvements across the region. This funding includes £80k/yr to support these projects and provide information sharing on best practice which we can then use across our functions, including conservation management, catchment management, biodiversity enhancement and offsetting.

We have identified a bespoke environmental performance commitment: 'Working with Partners at a Catchment Scale to Deliver Natural Capital Benefits (E7)'. This covers wider partnership working than these two Catchment Partnerships and Partners Programme, including a trajectory of supporting 36 partnership projects by 2025. The identified outperformance is £4,100 per partnership project, which is insufficient to deliver the partnership contributions identified above.

It is through these core Catchment and Biodiversity partnerships that wider partnership projects are identified through close working with existing and new partners, such as local authorities, regulators and NGOs. Without these core partnerships the wider opportunities and additional projects would not be identified, worked up and ultimately supported by a mix of funding sources, including us. The performance commitment relates to the identification and support of wider partnership projects, above and beyond the six detailed above.

Brinkworth Brook:

Associated PC: Working with Partners at a Catchment Scale to Deliver Natural Capital Benefits (E7)

Our Catchment Delivery Team has been working with farmers in the Brinkworth Brook since 2017. The intention has been to demonstrate phosphorus offsetting mechanisms in preference to capital infrastructure improvements at small sewage treatment works.

The focus of this activity is to developing phosphorus offsetting options which can inform Catchment Nutrient Balancing approaches in PR19. As part of this work we have upgraded EnTrade to include phosphorus mitigation and wider biodiversity enhancement measures. The £0.317m identified covers a further 3 years of this project, providing 1FTE and offsetting payments to landowners demonstrating quantified phosphorus reductions. This is over and above the E7 performance commitment and could not be delivered for the level of outperformance available (£4,100 per partnership, per year).

SSSI:

Associated PC: Natural Capital: Improve Sites of Special Scientific Interest (E4)

Although all water companies have a duty to manage their landholding to conserve and enhance biodiversity, specific targets relating to SSSIs have lapsed, e.g. 2010 Defra PSA

target and Biodiversity 2020 Strategy. In the absence of these, we have identified funding to manage and enhance our SSSI landholding, including both operational and tenanted land.

£0.528m over five years has been identified to undertake this work. Wessex Water owns c. 300ha of SSSI landholding which requires specific management to enhance its conservation value. £105k/yr covers 0.5FTE to monitor SSSI condition, in the absence of recent condition assessments from Natural England, liaison with tenants who manage SSSI land and delivery of action to enhance the conservation status. The action can be wide ranging and sometimes intermittent from one-off actions such as fencing and provision of water supplies, to annual scrub clearance or woodland management.

We have identified a performance commitment: Natural Capital: Improve Sites of Special Scientific Interest (E4) within our Business Plan. This PC includes a very small outperformance of £170/action which would not cover the costs of work required to deliver enhancements to these sites. As part of the PC actions are being agreed with Natural England to go beyond the SSSI citation to identify and deliver more holistic conservation targets. These measures and any outperformance will be agreed with the Catchment Panel.

A further representation provided by the Chair of the WW Catchment Panel has been included in Annex A.

Why the change is in customers' interests

Customer protection is provided through the underperformance payments associated with the performance commitments.

As part of these projects, the natural and social capital benefits of partnership working will be captured and reported in 2025. This will include aspects such as the length of river improved, habitat enhanced or created and volunteers engaged, as a result of the funding enabled by us. This will be a significant step towards identifying the natural and social capital improvements enabled across our region but not on our landholding, ultimately capturing the benefits to customers.

Bathing Water Partnerships:

We have no jurisdiction over many of the issues where the Litter Free Coast and Sea Projects focus, such as business advice on waste/litter disposal, local and visitor dog walking/fouling behaviour, domestic misconnections, diffuse pollution from farming activities etc. Therefore, a partnership approach is essential to tackle these wider contributions to avoid further bathing water decline. This is a more sustainable and effective approach than focussing on Wessex Water owned assets which, following considerable recent investment, are frequently not a primary cause.

Research by a number of organisations including Keep Britain Tidy Group, UN Environment and University of Plymouth has evaluated the effect of beach cleans across a number of different aspects including environmental improvement, awareness raising and health and wellbeing. This research has demonstrated the wide value of supporting this approach, beyond the litter picked and correctly disposed of, primarily through behaviour change and

mental wellbeing (positive action). Indicating that by supporting these activities we can deliver wider solutions around sewer misuse, plastic pollution and improve health and wellbeing in a far more sustainable than investing in our assets alone.

An EA Cost Benefit Exercise at Weston super Mare in 2013 demonstrated that beach cleanliness was important to 92% of users surveyed, 65% of beach users were visitors rather than local residents and that the average visitor spend c.£45 during their visit. Working in partnership to improve beach amenity will increase visitor enjoyment and potential spend in these locations.

Catchment Partnerships:

We recognise that by working in partnership a greater level of environmental and customer benefit can be delivered more efficiently. These partnerships enable blending of funding from public and private sources to deliver common outcomes, without conflict and duplication. Additionally, many of the outcomes delivered are beyond our expertise and reach. This supports Ofwat's vision for water companies to work in partnership to deliver longer term targets to achieve the ecological status of rivers through innovative and sustainable approaches

The table below summarises the funding and outcomes delivered by the Dorset Catchment Partnership during 2018-19, as reported to CaBA:

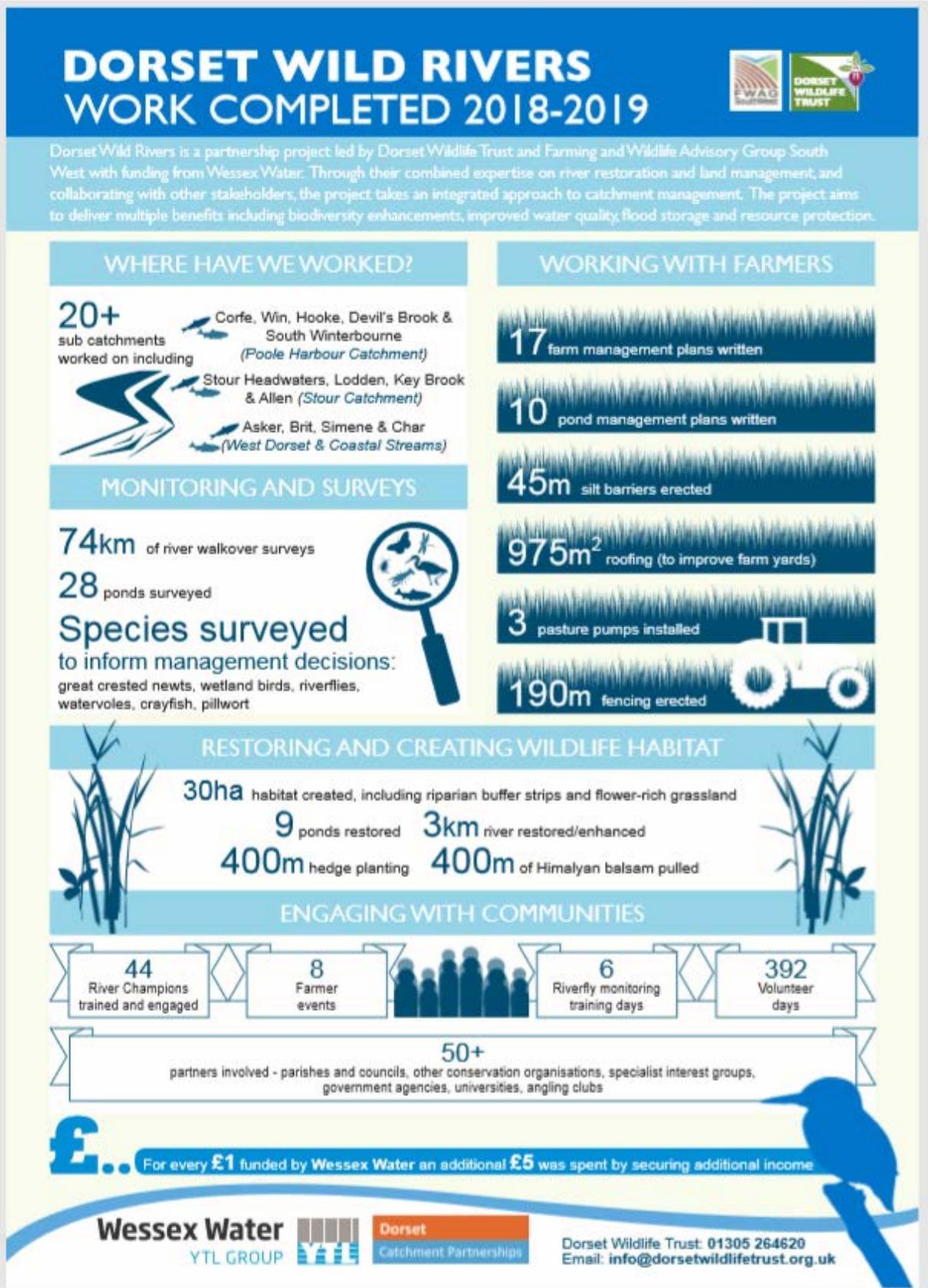
Table 2: Dorset Catchment Partnership funding sources and outcomes, 2018-19

<u>Funding</u>		<u>Outcome</u>	
Source	Amount	Description	Number
Public/private	£628,000*	Number of people engaged	1,850
Match	£ 57,000	Number of farmers engaged	1,469
In Kind Contributions	£181,000	Volunteers	1,116
TOTAL	£866,000	KM of River Enhanced	69
		Number of Projects	40
		Partners	43
		Barriers to fish migration tackled	2
		KM of river opened up to fish migration	9

*Including c.£55k from us to host the Catchment Partnership

The outcomes delivered during 2018-19 through one of the four BAP Partners Programme projects (£20k/yr from us), is illustrated below:

Figure 2: Infographic demonstrating the benefits of the Dorset Wild Rivers Project, 2018-19



Brinkworth Brook:

Catchment offsetting for phosphorus reduction, as opposed to asset investment, presents a new opportunity for water companies in PR19 to deliver both WFD targets and wider environmental benefits. The work in the Brinkworth Brook has been pioneering this approach to identify the most effective land management measures, and the wider benefits delivered. This has informed our PR19 Business Plan, enabling us to agree with the EA alternative approaches to deliver the WFD phosphorus reduction programme in the Dorset Stour and Parrett and Tone catchments. This has provided a reduction of c.£50m to phosphorus enhancement programme in PR19.

In addition, the offsetting research undertaken in the Brinkworth Brook, working with farmers, is helping to identify the wider natural capital benefits and funding streams available through this approach. For example, we are working with the EA to identify mutually beneficial natural flood management measures in the catchment to reduce both phosphorus and flooding, whilst ensuring farmers receive a market price for these services.

Working with EnTrade we are starting to quantify the level of natural capital benefits which catchment management delivers. These will be benefits realised by those within the catchment and society more widely. Reduction in flooding through complimentary NFM measures will benefit customers in this catchment, but other benefits such as increased pollinator habitat and reduced carbon emissions (both through reduced construction and increased tree planting) will benefit society more widely.

This approach strongly aligns with the messaging and direction advocated by Rachel Fletcher at the recent CaBA conference (WWF in Woking, June 2019), see Figure 3.

SSSI:

Effective management of SSSIs enables the preservation of some of the UK's best habitats and species. Some of this landholding has public access via footpaths and bridleways. This is a core duty of a water company to conserve habitat and improve the company's natural capital for society more widely.

Summary:

We believe that the partnership projects described above are in line with the direction identified by Rachel Fletcher at the CaBA conference in June 2019 (see following figure). These projects aim to achieve long term improvements in the ecological status of rivers (and quality of bathing waters) through innovative partnership working delivering benefits to customers through efficient use of funding and financing, not solely provided by us. It is only through partnership working that we can test different financing models to deliver environmental and social outcomes.

Figure 3: Slide from Rachel Fletcher's presentation at the 2019 CaBA conference.



Similarly, it is recognised by the EA and NE as a key theme in WISER that there are considerable environmental and social benefits from partnership working and collaboration:

Figure 4: Extract from WISER Partnerships

Better outcomes can be achieved by working with others to align programmes, funding and action on the ground. Partnerships with others who use and depend on water and the services you provide, can greatly improve efficiency and drive more sustainable, resilient options. This includes working with other local plan makers and authorities to ensure adequate water for growth, development and the environment. Working with catchment partners will allow you to optimise your investments and help gain support from local communities by developing a shared vision and understanding. Figure 2 identifies some of the collaboration opportunities that exist.

Figure 2. Opportunities for collaboration and partnership



Links to relevant evidence already provided or elsewhere in the representation document

- PR19 business plan submission (September 2018)
 - Supporting document 12.12 – Strategic direction statement
- Response to Initial Assessment of Plans (April 2019)
 - Appendix 4 – Protecting and enhancing the environment: Response to IAP.
 - Section 6 – Partnership Working

The performance commitments associated with our Partnership Working proposals described above can be found:

- Appendix 3 – Updated Performance Commitment detail document

Annex A – Letter of support for partnership working

Mr David Black
Senior Director of Water
Ofwat

29 August 2019

Dear David,

I write as Chair of both the Wessex Water Catchment Panel and the Bristol Avon Catchment Partnership to express concern over the disallowance of funding for partnership working in the draft determination for Wessex Water.

The Catchment Panel is made up of representatives from government agencies, local authorities and a range of NGOs. Its role is to scrutinise Wessex Water's environmental performance and to advise on how this might be maintained and improved.

Over the current Business Plan period, the Panel has been pleased with the Company's partnership approach to delivering its environmental duties efficiently and effectively, often enabling wider benefits to be achieved in collaboration with both regulatory and non-governmental stakeholders.

For the past two years, the Catchment Panel has been working in collaboration with the Wessex Water Partnership to scrutinise the Company's draft business plan and associated performance commitments, rewards and penalties. The Catchment Panel has been extensively involved in shaping and creating stretch in the bespoke performance commitments and ensuring that there is no double counting with other commitments. Future roles of the Panel will include maintaining the stretch, scrutinising performance on an ongoing annual basis and assessing whether reward or penalty is justified. Already there have been several meetings of Panel sub-groups (all members external to WW) focussed specifically on each of the bespoke performance commitments; E4 SSSIs, E6 Bathing Water Amenity, and E7 Catchment Partnership. These have been working on the detail and making sure it is clear what will be delivered and by when.

I was pleased to see that Ofwat had supported the investment in partnership working in its IA of the Wessex Water Business Plan, but then was concerned to learn that this investment had been disallowed in the Draft Determination.

It is helpful that Ofwat recognises the importance of partnership working and the opportunities that this presents to deliver more for customers than the company can do in isolation. Customers have welcomed this. I understand the issue with insufficient definition, and this is an area to which members of the Catchment Panel have given particular attention. More work has now been carried out on the definition

of the activities to demonstrate their potential to mitigate low probability and high consequence risks.

Partnership working has been exceptionally good at raising wider awareness of the threats to the water environment and Wessex Water's role in helping to address them. Partners have raised awareness on how the wider public can help Wessex Water to reduce risks in high consequence areas.

As Chair of the Bristol Avon Catchment Partnership (BACP), I see the benefits of Wessex Water's partnership approach very clearly. The Company co-hosts the BACP along with the Bristol Avon Rivers Trust and, as a result of their professional and financial support, the Partnership is strong and well respected. The stable foundations provided by Wessex, have given confidence to local authorities, government agencies and others to contribute both financially and in kind enabling the delivery of some great projects improving the water environment across the catchment.

Without Wessex Water's investment in partnership working, there is a serious risk that much of the progress in catchment partnership working made in the Wessex area over the past decade will stall. Such is the key role that Wessex Water plays.

I would, therefore, ask that Ofwat give serious consideration to reinstating the specific allowance for partnership working.

Yours sincerely,

Richard

Dr Richard Cresswell MBE
Chair, Wessex Water Catchment Panel
Chair, Bristol Avon Catchment Partnership.

Annex B – Letter of support from Natural England

28 August 2019



Mr P Wickens
Director of Regulation and Reform
Wessex Water
Claverton Down
Bath
BA2 7WW

Horizon House
Deanery Rd
BRISTOL
BS1 5AH

phil.wickens@wessexwater.co.uk

BY E MAIL ONLY

Dear Mr Wickens

OFWAT DRAFT DETERMINATION OF WESSEX WATER PR19 BUSINESS PLAN

We understand that in their draft determination of your 2020-2025 business plan, OFWAT have disallowed a number of project areas linked to partnership working unless further supporting evidence is provided. We are concerned about the implications of this decision, particularly in relation to your future work on the restoration and maintenance of Sites of Special Scientific Interest (SSSIs) within the company's landholdings, and continued support of local catchment partnerships. Natural England is keen to provide evidence to support the company's case, and, to this end, we hope the information below is valuable.

The Wildlife and Countryside Act 1981 as amended by the Countryside and Rights of Way Act 2000 requires public bodies to take reasonable steps, consistent with the proper exercise of their functions, to further the conservation and enhancement of the flora, fauna or geological features of SSSIs. As you already recognise, this includes the appropriate management of SSSIs within your ownership. Based on recent discussions with the company, Natural England is of the view that further work is required to ensure these sites are appropriately monitored, and in some cases, new actions are required going forward. These include the need to work innovatively and in partnership with tenants to secure favourable condition in the long term. Natural England is keen to work with Wessex Water in an advisory capacity over the next business plan period to ensure that these objectives are realised, but success will depend on the company having sufficient resource focused on this activity. Including this commitment as a Performance Commitment does provide a structured and transparent approach which can be readily scrutinised by the company's independent and advisory Catchment Panel.

The strategic environmental advice jointly provided by the Environment Agency and Natural England at the beginning of the PR19 process, summarised in *Water industry strategic environmental requirements (WISER)*, clearly promotes the need for shared visions and partnership working to realise the environmental goals set out by government in its 25 Year Plan, whilst highlighting the key role of the water industry as part of this. In our view the company's support of local Catchment Partnerships and the Wessex Water 25 Year Prospectus align very well with the approach proposed in WISER. In particular,

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nutrient enrichment is a major and very challenging environmental problem for internationally important nature conservation sites within the Wessex Water operating area. It is clear that this pressure can only be managed successfully through innovative and collaborative approaches across sectors. By promoting partnership working at this stage, Wessex Water is undoubtedly creating the much needed foundation for a future way of working which relies less on traditional end-of-pipe solutions, and has much greater opportunities for wider natural capital and social benefits. This would seem to be in the interests of its customers going forward, both economically and socially.

If Wessex Water is unable to support such partnership working going forward we see the real possibility that the company will find it increasingly difficult and costly to meet its environmental responsibilities, and especially, from our perspective, the Habitats Regulations and CROW Act requirements. We therefore hope that OFWAT will review their current position to ensure that the company has sufficient flexibility to appropriately contribute to much needed partnership working projects over the next business plan period.

Yours sincerely



Matthew Heard
Area Manager

Wessex Area Team
Natural England

Tel: 07900-608168

E mail: Matthew.heard@naturalengland.org.uk