

Natural England's Executive Overview of Water Company Draft Business Plans 2008

1.0 Background and Natural England's objectives

- 1.1 The 2009 Periodic Review of Water Company Prices (PR09) will address the spending period 2010-2015. Companies published their draft business plans on 11 August, for scrutiny by Ofwat and the other key regulators. Companies will produce their final business plans in April 2009.
- 1.2 Natural England's key objective for the PR09 process is to ensure that water companies can deliver their statutory obligations for Natura 2000 sites, SSSIs and Biodiversity Action Plans (BAP). Natural England also has an objective to promote more sustainable methods for tackling water quality and water resource problems at source through catchment based approaches that deliver multiple objectives, and to promote climate change mitigation and adaptation.
- 1.3 Natural England has engaged in the development of draft business plans by providing initial feedback to company Strategic Direction Statements, and by engaging directly with each company, primarily through the quadripartite process on the schemes needed to deliver Natural England's objectives.
- 1.4 Natural England has assessed 22 company draft business plans.

2.0 Natural England's assessment of draft business plans

- 2.1 Natural England has assessed the following, where relevant to our objectives:
 - The list of schemes and investigations from the National Environment Programme (NEP) we expected to deliver our objectives
 - Additional work to deliver benefits for biodiversity, access and recreation
 - The results of cost benefit analysis
 - Catchment management proposals
 - Sites of ongoing concern that are not included in the investment programme
- 2.2 Natural England has also assessed each Part A – The Company Strategy, against the following key areas:
 - Consistency with the Strategic Direction Statement
 - Clarity on customer priorities
 - Top issues for Natural England's objectives
- 2.3 The table at Annex 1 presents an broad overview of our assessment of the draft business plans against Natural England's objectives for PR09.

3.0 High level messages from the draft business plans

3.1 Inclusion of the National Environment Programme and wider objectives

- 3.1.1 16 companies appear to have included all the schemes and investigations from the National Environment Programme (NEP) in relation to Natural England's objectives. Currently 9 schemes appear to be missing or unclear, 2 schemes have been added and 2 companies have chosen to downgrade schemes we support to investigations on the basis of their cost benefit analysis which we have been unable to verify. In addition to these all the water resource schemes for Southern Water are excluded but these are currently subject to further discussions between the company and the Environment Agency.
- 3.1.2 We believe that 10 companies are proposing additional work that will deliver wider objectives for biodiversity (through First time rural sewerage schemes and Biodiversity Action Plan delivery) and recreation.

3.1.3 In general most of the plans include the schemes and investigations that Natural England is looking for, but they also demonstrate a mixed awareness and response to the natural environment, and delivery of wider objectives for biodiversity, landscape, recreation and access, some are very strong, such as Anglian Water, Northumbrian Water, Three Valleys Water and Portsmouth Water. We believe others continue to undervalue their contribution, including Thames Water, Yorkshire Water, Bournemouth & West Hampshire Water and United Utilities. Finally, Southern Water, despite including a large environment programme continues with its consistently negative tone around environmental improvements.

3.1.4 Recreation features in Anglian Water and Bristol Water's plans, but we believe it could be much stronger in those companies who already have a significant recreational resource, such as South West Water, Thames Water, Severn Trent Water and United Utilities. Access to the natural environment is an important aspect of Natural England's work and we believe that companies should use these activities to help promote consumer awareness of the water environment.

3.1.5 The plans demonstrate mixed awareness and response to population growth and development issues.

3.2 **Cost Benefit Analysis (CBA)**

3.2.1 We have found the results of the CBA difficult to interrogate. The results appear mixed, but it has been impossible for us to make objective assessments of the CBA and make comparisons between companies. We believe companies have adopted different approaches for the analysis (and for valuing the benefits used in the analysis) in response to the limited guidance on CBA methodology provided by Ofwat.

3.2.2 We believe that some companies appear to have positive results for the CBA for the schemes we are interested in. A small number of companies have negative results for the CBA of just a limited number of habitats and SSSI schemes, but we are unclear about the results of the CBA from at least 7 plans.

3.3 **Catchment Management Proposals**

3.3.1 Natural England believes that catchment schemes represent the new, innovative, enlightened way of thinking regarding cutting pollution at source and we are encouraged that more than half of the companies have catchment proposals in their draft business plans. Together these companies are proposing a total of 40 schemes. In addition to these proposals, we believe Welsh Water are proposing a number of catchment schemes in Wales. We do not know the results of CBA for any of these schemes. Natural England has produced a detailed summary of all the catchment management proposals in the draft business plans, jointly with the Drinking Water Inspectorate.

3.3.2 We are concerned that Wessex Water, who were the water company that pioneered the development of catchment sensitive land management programmes to improve water quality beyond land in their ownership, is not placing a priority on catchment management in the next business plan period as they believe Government actions are providing inadequate support to reverse increasing nitrate in groundwater.

3.3.3 From analysing both the draft business plans and the company Water Resource Management Plans (WRMPs), 4 companies have highlighted issues in their WRMPs that Natural England believes could be potentially tackled through catchment management: Bournemouth & West Hampshire Water, Folkestone & Dover Water, Sutton & East Surrey Water and Three Valleys Water. We would support these companies bringing proposals forward.

3.4 Consistency with Strategic Direction Statements

3.4.1 We believe that 13 draft business plans are consistent with the company Strategic Direction Statement (SDS). Of those that are not consistent we would particularly note the following discrepancies:

- Southern Water has lowered its commitment to reducing pollution incidents, although they have made some improvement on their proposals for carbon reduction and messages around water efficiency.
- Thames Water has not followed up on its references to additional community and environmental benefits of Biodiversity Action Plan work, access, recreation and improving wildlife habitats.
- Wessex Water appears to have excluded any new catchment schemes.
- South East Water has reduced the level of action on demand management which is not consistent with the emphasis in their SDS on changing customer behaviour.
- South Staffordshire Water has reduced its level of meter penetration by 2025.
- Sutton & East Surrey Water has much weaker delivery against water efficiency, than set out in their SDS.
- Three Valleys Water has weaker delivery against leakage.

3.4.2 Portsmouth Water has included a much more positive profile around the company's role in protecting the water environment. Cholderton Water has changed position to include a positive approach to greater demand management.

3.5 Water Resources and Water Efficiency

3.5.1 Some companies have a very strong focus on water efficiency, particularly Folkestone & Dover Water and Southern Water, whereas others could do much better, particularly those in water stressed areas in the East of England and the South East, including Portsmouth Water, South East Water and Sutton & East Surrey Water. Outside of these water stressed areas we also believe Bournemouth & West Hampshire Water and Bristol Water could do better.

3.5.2 There appears to be a lack of collaboration between neighbouring water companies on sharing resources, affecting particularly Portsmouth Water and Southern Water, and Severn Trent Water and South Staffordshire Water.

3.5.3 Most company plans have a lack of appreciation of broader biodiversity objectives and of the need for wider planning to reduce overall abstraction pressures and deliver objectives such as the wetland vision.

3.5.4 Over the 25 year planning period, whilst many companies are predicting a trend that slowly reduces their average per capita consumption (PCC), many are still high and all are predicting an average PCC higher than 130 litres/person/day (l/p/d) by 2030. This is at odds with the Government's own Water Strategy *Future Water* (whose vision includes average PCC of 130 or 120 l/p/d). Many companies are also proposing increasing greenhouse gas emissions. This demonstrates a real need for companies to get to grips with water and energy efficiency, measures to tackle demand management and alternative, more sustainable options, including source protection.

3.5.5 Natural England has carried out a more detailed company by company assessment of the Water Resource Management Plans.

Natural England
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Annex 1 - Broad overview analysis of the company proposals from draft business plans

	Appears to be good
	Only partially delivering
	No inclusion/appears limited
+	Company known to be able to do more
?	Information is not clear
	Not relevant for the company

Water and Sewerage Companies (WaSC)

Water Company	Inclusion of NEP in full for NE objectives	Inclusion of wider objectives for BAP, access & recreation	Outcome of CBA for NE objectives	Inclusion of Catchment Management Proposals	Consistency with SDS	Overall view of DBP in relation to Natural England's objectives
Anglian & Hartlepool			?	+		
Northumbrian & Essex & Suffolk						+
Severn Trent		+				
Southern						
South West		+				
Thames		+				
United Utilities		+				
Welsh Water			?	?		
Wessex		+		+		
Yorkshire		+		+		

Water Only Companies (WoC)

Water Company	Inclusion of NEP in full for NE objectives	Delivery of wider objectives for BAP, access & recreation	Results of CBA	Inclusion of Catchment Management Proposals	Consistency with SDS	Overall view of DBP in relation to Natural England's objectives
Bournemouth & West Hants		+				
Bristol		+				
Dee Valley						
Cambridge			?		?	
Cholderton				?		
Folkestone & Dover						
Portsmouth			?			
South East	?		?			
South Staffs				+		
Sutton & East Surrey			?	+		
Tendring Hundred						
Three Valleys						