

PR24 FORUM STRATEGIC STEERS - Hafren Dyfrdwy

CONTEXT

This is a communique under Water Price Review 24 Forum (PR24 Forum) – Terms of reference May 2022 [Terms of Reference – PR24 \(ccw.org.uk\)](https://www.ccw.org.uk/terms-of-reference-pr24). Water companies are expected to consider Communiques in the development of their Long-Term Delivery Strategies and Business Plans. The companies will be responsible for developing their Long-Term Delivery Strategies and five-year Business Plans and capturing the steers received from customers and the Wales PR24 Forum, and effectively translating these high-level priorities into actionable and measurable plans.

Where those plans materially deviate from positions expressed in Communiques, the relevant water company commits to provide a written explanation to the Forum explaining the reason for that deviation. Ofwat is also expected to consider and take into account Communiques as part of the price review process. Ofwat commits to explain how it has taken the communiques of the Forum into account when publishing its decision.

The Price Review Forum (PR24 Forum) aims to deliver a collaborative approach among government, regulators, water companies and wider stakeholders in Wales to provide strategic steers that will guide and inform the development of water companies' Long-Term Delivery Strategies and Business Plans and provide views on the priorities for the sector in Wales.

The PR24 Forum has focussed on the priorities and themes set out in the Welsh Government's Strategic Priorities Statement to Ofwat. Forum members have provided challenge, views and feedback to the water companies as they develop business plans and Long-Term Delivery Strategies.

An extensive programme of investment by the water companies is required over the next 25 years and beyond. The PR24 Forum recognises that trade-offs are necessary between investment and affordability. To do this effectively investment and activities must be phased over the short, medium, and long term, and kept under review to ensure business plans deliver in a way which achieves pace and scale of investment whilst being affordable, deliverable, and financeable.

STRUCTURE OF THE STEERS AND EXPECTATIONS

As set out in the PR24 Forum terms of reference, Welsh stakeholders will have scope to help shape the companies' Long-Term Delivery Strategies and – consequently – their five-year business plans. This is why, in 'Creating tomorrow, together', Ofwat suggested there may be scope to implement a collaborative approach. This would allow early engagement on the high-level outcomes, capture the priorities of the companies' stakeholders and customers, and feed these into their business plan development processes. It would also provide a forum where customer views that have been captured, through company-level customer research and engagement, could be discussed and incorporated into these high-level outcomes.

This document sets out the output of the work of the Wales PR24 Forum and is structured as follows:

1. Steers from Welsh Ministers in respect of water company investment for PR24 and beyond
2. Joint vision
3. Strategic priorities
4. The PR24 Forum high level priorities
5. Strategic steers from the PR24 Forum
6. Company specific steers from the PR24 Forum

STEERS FROM WELSH MINISTERS IN RESPECT OF WATER COMPANY INVESTMENT IN WALES 2025-2030 AND BEYOND

Given the increased focus on water quality and water company performance, Welsh Ministers:

Recognise the contribution water companies make to Wales's economy, both nationally and locally, noting that, aside from the large investment, the water companies are large employers.

Recognise the scale of the challenge facing the water sector, the array of issues with which the water industry is contending and the need for increased investment which would need to be sustained over the long-term. Ministers acknowledge the likely scale of investment needed to deliver the National Environment Programme and want to see investment prioritised based on delivering the maximum improvement to the environment in terms of reducing harm taking account of customer and stakeholder expectations around harm and impact, delivering best value for customers.

Acknowledge, with some disappointment, the anticipated customer bill increases arising from increased investment with some concern on the impact this might have on households already facing a cost-of-living crisis. Ministers emphasise the need to sustain and, where possible, enhance effective social tariff schemes to support those customers struggling to pay their bills. These arrangements should be coordinated with other utility providers and relevant authorities wherever possible to optimise benefit and help target support quickly to those who need it most.

Note that water company delivery on the ground should take account of long-term goals, community and economic needs, including the need to decarbonise and to meet statutory requirements.

Note that, in terms of the current water sector model, and the associated regulatory framework, the balance needs to be better struck to meet the current and future needs of customers and the environment jointly.

Want to ensure every penny of investment delivers for customers, communities, and the environment whilst avoiding creating or exacerbating inequality; and keen to maximise investment/funding and encourage organisations to work together better.

JOINT VISION

The water companies developed the following joint vision for the water sector in Wales which was discussed and endorsed by Forum Members:

We will establish the water sector in Wales as a model of **effective collaboration** for delivering **excellent performance** against the backdrop of the climate and nature emergencies.

We will work with communities, stakeholders and regulators to **co-create and deliver solutions in the most efficient way over the long-term** having taken full account of the needs of our customers, the environment and society. We will seek to reflect the diversity of the people we serve in our workforce.

We will both engage and inform customers, helping them to play their part in addressing future challenges. We will always be responsive to their changing needs and expectations, paying particular attention to customers in vulnerable circumstances.

We will deliver **excellent drinking water quality**, working in catchments to protect raw water quality. We will **upgrade our network** to ensure it is fit for the future and resilient to current and future threats.

We will support a **thriving environment** in our rivers and seas by effectively managing and treating wastewater, upgrading treatment and network capacity where required and dealing with changing rainfall patterns. We will achieve net zero carbon emissions and seek to go further.

We will harness **innovation** and adapt to the world as it changes, while keeping bills as affordable as possible. We will provide a world-class, resilient, and sustainable water service for future generations.

WELSH GOVERNMENT STRATEGIC PRIORITIES

The Strategic Priorities Statement to Ofwat, Programme for Government and the themes for the long-term vision for water in Wales in the Water Strategy for Wales set out the high-level Strategic Priorities which have shaped discussions.

Water for nature, people and business – We want to ensure the people of Wales and our future generations continue to benefit from our natural resources. We must evolve and constantly challenge ourselves to find new ways for Wales to grow sustainably, increase resilience and manage our natural resources efficiently.

Improving the way we plan and manage our water services - The importance of balancing short-term needs with the necessity to safeguard the ability to also meet long-term needs is a key sustainable development principle and particularly in relation to managing our water environment.

Delivering excellent service to customers - Ensuring access to fair and affordable water and sewerage services, both for people and businesses, is a key priority for the

Welsh Government. In particular, we are concerned about the level of water charges and the impact of increases on those customers who are least able to pay.

Protecting and improving drinking water quality - the supply of potable water to our homes, businesses and industry is a vital service, supporting economic activity and protecting public health and the environment. We will act to maintain the current high standard of our public drinking water quality. Water companies must maintain and build on good practice and where required, make improvements to ensure we have clean, wholesome, safe and reliable drinking water quality.

21st century drainage and sewerage systems - Drainage and sewerage systems in Wales are a critical but often overlooked asset. We want sewerage and drainage infrastructure for both wastewater and surface water to be well managed and maintained in an integrated way, with sufficient capacity to manage the demand placed on it and without causing pollution or sewer flooding of people's homes. Deteriorating performance of sewerage assets poses a significant risk to water quality and we want to see a structured approach to the planning and maintenance of the sewerage and drainage network.

Supporting delivery - The role of the regulators in encouraging and incentivising water companies to deliver for their customers and the sustainable management of our natural resources is central to our vision for water in Wales. We expect our regulators to work proactively and constructively with each other and with other key partners to ensure effective decision making, joined up regulatory approaches, to reduce regulatory burdens where appropriate and to hold companies to account, utilising all enforcement tools as necessary.

PR24 FORUM HIGH LEVEL PRIORITIES

The greatest business planning challenge is the trade-off between maintaining affordable bills and a deliverable and financeable plan whilst also delivering much needed investment to meet current environmental standards, future environmental need linked to climate change, and build resilient water and wastewater infrastructure that will effectively support current and future generations of Wales. The investment from PR24 must improve our environment, our economy, our communities for the people and our planet, now, and for the future. The Welsh Government ambition is to build a fairer, greener and stronger and ever more successful Wales where no one is left behind and no one will be held back.

The following sets out priorities identified and informed by discussion at the PR24 Forum which have taken place over the last year or so. They are also informed by various PR24 documents from the organisations represented.

Climate and Nature Emergencies

Climate change is an urgent global issue requiring universal action. The Climate Change Committee (CCC) has advised that this decade must be a decade of action in Wales. The PR24 cycle is a vital timeline to achieve this as it delivers water companies' investment from 2025-2030. It is also the first price review since the Senedd introduced the net zero by 2050 target into legislation. The Welsh Government Biodiversity Deep Dive identified actions to protect and effectively manage at least

30% of our land, freshwater and sea for nature by 2030. This reinforces the need to take ambitious and integrated action to put nature on the path to recovery and reverse biodiversity decline. Given that climate change and biodiversity loss are two sides of the same coin; we cannot tackle one without also addressing the other.

The viewpoints provided by PR24 Forum members make clear that when planning for how to reach our net zero targets, water companies should consider two shifting contexts: environmental conditions and finance / affordability. First, climate change is impacting catchment and source water composition and sufficiency. For example, the Drinking Water Inspectorate (DWI) highlights the degrading of the chemical and biological composition of the catchment and source water which can impact the ability of treatment works in Wales to supply wholesome water. Second, Natural Resources Wales (NRW) has worked with companies to identify an evidence-based list of statutory obligations and national priorities. NRW is concerned that water companies may be unable to fully fund statutory obligations required for legal compliance as identified in the National Environment Programme (NEP) while maintaining affordable bills for customers and ability to deliver the programme. This risks environmental harm from water companies' operations and raises questions of how to balance affordability and urgency. Difficult choices are required about the prioritisation of essential work under the NEP to maintain delivery for nature and the climate. We expect business plans to prioritise in line with company specific steers.

The role of nature-based (NBS) and catchment-based solutions (CBS) has emerged as a critical avenue to address both climate and nature emergencies, whilst still delivering for customers. A step-change is needed to allow the move to more sustainable solutions whilst ensuring the required level of environmental protection is secured. Ofwat highlights that they are putting plans in place to facilitate this step-change for nature-based solutions (NBS) in particular (see *Appendix 9: Expenditure Allowances* of Ofwat's final methodology).

Environment

Our water sector and the ecosystem services they rely on must deliver for both people and nature. Issues of pollution, storm overflows, phosphates, temperature increases, and flow reductions are placing significant pressures on the water environment. The state of water quality is receiving intense media scrutiny.

Rapid progress is required to ensure resilient drainage systems which protect the environment and support people and the economy of Wales. The companies Drainage and Wastewater Management Plans (DWMPs) evidence must be used to strategically assess and address these issues in conjunction with work already done (and other statutory plans) to assess high spilling assets. Companies need to act now, ahead of and during PR24 to set out and deliver a clear prioritised pathway to a sustainable and resilient drainage and sewerage network.

Resilience

The threats facing the water sector are complex and constantly evolving. In the PR24 cycle, water and wastewater services will need to be ready to grapple with a complex set of existing and emerging risks. The PR24 Forum members highlighted the risk of more extreme weather changes relating to frequency and intensity of flooding,

prolonged dry weather and freeze/thaw incidents, plus cyber security, reservoir safety, energy and chemical resilience as key risks for PR24.

To build resilience most effectively, a collaborative and agile approach is essential. Ofwat also suggest that water companies' five-year plans should include scheduled decisions on certain issues where certainty is likely to increase between now and PR29. Water Resources Management Plans (WRMPs) and DWMPs have resilience at their core, so there is an opportunity to use these planes to deliver efficiently.

Consumer Council for Water (CCW) highlighted the current context of the cost-of-living crisis and affordability considerations for customers. The consumer representative highlighted importance of comprehensive assistance and adapting the provision of help to short term and long-term challenge to ensure climate change resilience in the long run. This was echoed by the companies. Building resilience will need to be done with these factors in mind, to achieve the most cost-effective and cost-efficient approach.

Customers expect reliable water and wastewater services now and in the future. Expectations need to be managed to ensure that the resources these services rely on are not used unsustainably.

Asset health

Effective management and maintenance of companies' assets is a crucial element of achieving resilience in the water and wastewater sector in Wales and to prevent increased risk to the environment due to asset failure. This is particularly important given the population growth and ageing infrastructure combined with more extreme weather. Ofwat's final methodology emphasises the importance of forward-looking asset management, with a greater focus on asset stewardship for the long term. This includes forward planning for obsolescence of assets and necessary asset upgrades under the Security and Emergency Measures Direction 2022.

The DWI highlights a need for investment in source to tap planning as a result of assets and ageing infrastructure that are no longer able to cope or effectively cater to changes in our environment, demographic and customer expectations. Additionally, reducing discolouration of water is likely to be a prominent asset health investment cost, which remains the most common reason for customers contacting companies with water quality concerns.

The impact of asset health on the environment and services for customers may only become apparent in the longer term. Companies should provide assurance on how they are assessing and managing risks associated to their assets, from network to natural assets (such as the catchments that support raw water supply). Companies should demonstrate a clear understanding of the health of their existing assets including interdependencies, trends in the long-term, and how this impacts levels of overall resilience. This should be costed with an indication of future investment pressures.

Customers and communities

A key priority raised by PR24 Forum members is achieving a balance of long-term, investment requirements with customer affordability. The cost-of-living crisis is leading to an increase in the number of customers struggling to pay their water bills and the number of customers eligible for financial support. At the same time, there is an increasing number of customers who are struggling but currently do not qualify for financial support by way of a discounted bill. To support customer affordability, CCW proposes an option to establish a single water affordability scheme across England and Wales. This would ensure a consistent approach whereby costs are shared between contributing customers across England and Wales.

The scale of investment needed for PR24 is one not seen since privatisation, with water companies assessing that, given the nature and extent of demands, the required investment needed is many times higher than in previous price reviews. It is therefore imperative that water companies prioritise and phase investment to ensure bills can be maintained at an affordable level while also enabling them to finance and sustain their operations and meet their environmental obligations. Recognising the investment required, it is also vital that companies can sustain social tariff support to protect financially vulnerable customers from bill rises.

The PR24 Forum also emphasised the need for collaboration and customer engagement throughout the PR24 process to promote transparency and build public trust. For example, it is the priority of the independent customer challenge groups to ensure that a collaborative approach is adopted whereby customers are engaged and their feedback is incorporated into water company business plans. The need for a collaborative and transparent approach is also reflected in Ofwat's final methodology for PR24 which requires water companies to hold two 'your water, your say' meetings, which provide an opportunity for customers, and for community and wider stakeholders to challenge companies on their plans directly in an open forum.

The Well-being of Future Generations (Wales) Act 2015

The Well-being of Future Generations (Wales) Act 2015 is a central pillar of the policy landscape in Wales. The Act requires bodies in Wales to think about their long-term impact of their decisions, to work better with people, communities, and each other to protect the environment and future generations in Wales. The Welsh Government expects the PR24 process to reflect the goals and ways of working set out in the Act, and that water companies adhere to the Act.

NRW highlights the imperative to act now in the face of the climate and nature emergencies. While it is recognised that bill increases to address these challenges may not be welcomed by customers, it is imperative that water companies address current challenges effectively to avoid significant financial and environmental burdens being placed on future generations. Significant investment is required now to meet net zero targets, improve reservoir and dam safety, tackle storm overflows and improve wastewater treatment works and to adopt the learning from recent droughts, storms and freeze/thaw events.

The DCWW independent customer challenge group also emphasised the need for a Wales-specific narrative to ensure that the interests of Wales are being accurately reflected and incorporated throughout the PR24 process.

PR24 FORUM STRATEGIC LEVEL STEERS

The PR24 Forum sets out the following strategic steers:

Climate, nature and environment

- We expect companies to comply with their legal obligations to achieve compliance., guided by company specific steers. Companies should, when supported by customers/stakeholders and where it represents good value for money, exceed these legislative requirements and deliver wider environmental and social benefits while carrying out their functions.
- We expect companies to explore and maximise collaboration and co-funding opportunities with other sectors, for example closer partnerships with local authorities on flood and coastal erosion risk management programme (FCERM), to better align investment and collective ambition on surface water management, network capacity, addressing storm overflows and improving asset health.
- We expect companies to accelerate innovation opportunities to deliver more, quicker, and in a cost-efficient manner.
- We expect companies to seek out opportunities for efficiencies and synergies in solutions to deliver across multiple areas including improved outcomes for consumers, reducing drinking water quality risk and benefits to the environment.
- We expect companies to deliver at scale and pace to address the climate and nature emergencies during PR24, prioritising action based on delivering the maximum improvement to the environment in terms of reducing harm.
- We expect companies to have a clear roadmap for delivery for investment proposals which go beyond PR24.
- We expect business plans to be evidence based, but pursuit of perfect evidence must not prevent action now. (Ofwat's final methodology for PR24 sets out expectations on evidence for PR24 business plans.)
- We expect companies to investigate the impact of their assets and where further evidence is required, to act, in time to inform planning for PR29.
- We expect companies to take advantage of alternative approaches, innovation and collaborative partnerships to actively identify opportunities to accelerate investment before and during AMP8.
- We expect companies to address problems at source; prioritise their effort on the greatest environmental impact and prioritise nature-based solutions, while recognising that some outcomes may take longer to deliver than traditional solutions.

Resilience

- We expect companies to demonstrate how their business plans take account of learnings from weather events, cyber threats, and supply chain challenges, in particular how they have adapted their approach to mitigate against future events.
- We expect companies to prepare business plans which demonstrate the current and future resilience of water and wastewater services is understood and managed through a robust, adaptive, and evidence-based approach.
- We expect companies to enhance the resilience of their assets and operations to flood and coastal risk and to meet the requirements of their role as a Risk Management Authority (RMA) under the Flood and Water Management Act 2010.
- We expect companies to meet obligations under the relevant regulations and legal obligations, including SEMD, Critical National Infrastructure and cybersecurity.
- We expect companies to invest in their water supply infrastructure in particular reservoirs in response to the Balmforth Review.

Asset Health

- We expect companies to improve their asset health to address the risks to drinking water quality and compliance.
- We expect companies to improve their asset health to ensure assets do not pose a risk to the environment.
- We expect companies to improve their asset health to support planned and future growth.
- Companies should provide the PR24 forum members with their assessment of where replacement rather than maintenance provides the best value for customers in the short, medium and long term.

Customers and communities

- We expect companies to demonstrate how their plans have changed in response to customer, stakeholder and PR24 Forum feedback and what elements of concerns will remain unaddressed.

- We expect companies to work with CCW and the sector to support and demonstrate coordinated action on comprehensive and effective affordability support measures, which address a wide range of customer needs and circumstances now and in the future.

COMPANY SPECIFIC STEERS - Hafren Dyfrdwy (HD)

Guarantee future water supplies

We expect HD to address short and long term water availability through strategic planning and scenario analysis to anticipate future water supply challenges.

We expect long term water supplies to be guaranteed through a combination of:

- **Water conservation:** HD should prioritise water conservation and efficiency initiatives to reduce demand and minimize wastage. This includes the implementation of smart metering, leak detection technologies, and public awareness campaigns to promote responsible water use.
- **Infrastructure improvements:** We expect infrastructure investment to modernise and expand water treatment and distribution systems. HD should also explore alternative water sources, such as treated wastewater reuse, desalination, and rainwater harvesting. This diversification can enhance supply reliability and reduce pressure on traditional water sources.
- **Climate resilience:** Emphasise the importance of climate resilience in water supply planning.
- **Collaboration:** Promote collaboration among water companies, regulatory bodies, environmental agencies, local governments, and other stakeholders. Encourage joint ventures, data sharing, and coordinated efforts to optimize water management across regions.

We expect HD to reflect evidence of consumers' expectations and priorities as part of the company's strategy to guarantee future water resources.

Ensure water is used wisely

- We expect HD to maximise the opportunities available from installing smart meters, particularly around managing peak demand.

Deliver a high quality, affordable service.

- We expect HD to continue to support social tariffs, offer flexible payment arrangements and other mechanisms to help customers to pay their water bill and avoid falling into debt

- We expect HD's affordability approach to reflect (i) the needs of its customers, (ii) their willingness to support affordability, and (iii) advice and feedback from affordability stakeholders.
- We expect HD to maintain security of supplies through effective delivery of targets and compliance with cyber, physical, personnel and emergency planning requirements for drinking water supplies

Lower risk of flooding and pollution

- We expect HD's performance on SOs to be monitored and incentivised based on reducing ecological harm and not on average spill numbers. Reductions in the numbers of spills are welcome but are not in themselves the priority for action, which should be focused on identifying and addressing SOs causing the greatest impact on the environment.
- We recognise the significant investment estimated to be required to address the problem of SOs causing ecological harm and recognise the need to take a phased approach in order to manage the impact on customer bills, financing and deliverability.
- We expect all HD assets to be classified against criteria set out in NRW's Storm Overflow classification guidance by 2030.
- We expect HD to invest to increase the proportion of SOs causing no harm (or 'very low' harm) to the environment to 100% by 2040 at the latest including all currently unpermitted SOs. We expect the company to achieve 60% by 2030, and 80% by 2035.
- We expect HD to work with local authorities to maximise opportunities from the flood risk management programme where projects can directly or indirectly support the SO programme. We expect the company to be an exemplar on surface water management in Wales.
- We expect HD to enhance monitoring, in line with commitments from the Better River Quality Taskforce, supporting development of future AMPs and the long-term goal of smart networks making best use of technology and real time control.
- We expect pollution reduction to be firmly embedded in the values and operational practice of the company.

Protect and enhance our environment

- We expect HD's priorities to include environmental interventions that provide the maximum ecological benefit, in accordance with the approach agreed in the Better River Water Quality Taskforce and the First Ministers' River Pollution Summits.

- We expect HD to be ambitious in its proposals to improve biodiversity given its extensive landholdings and the nature of the business. It is in a position to make a significant contribution to achieving national targets set by NRW.
- We expect HD to support national targets for at least 30% improvement of protected sites and habitats by 2030, 30% improvement of condition of SSSI, SAC and RAMSAR sites, and 10% improvement of woodland from unfavourable to favourable condition by 2030.

Make a positive social difference

- Consistent with the long-term priority of achieving a lead-free Wales, we expect HD to set a long-term goal for lead pipe removal, with material progress to be made on these across future AMPs – including AMP8 – building on the successful approaches and work carried out in AMP7.
- We expect HD to adopt and report against the principles of the Well-being of Future Generations Act 2015.

Maintain a safe, inclusive and fair workplace

- We expect HD to ensure that the company values and culture is aligned with providing the best service to its customers.