

# Wessex Water Draft Business Plan - Reporter's Short Summary

## Introduction

1. Wessex Water (Wessex) has prepared a Public Summary of its Draft Business Plan (DBP) in line with Ofwat's requirements as part of a series of submissions for the PR09 price-setting process. The purpose of the DBP is to inform stakeholders of the proposed future service standards and to set out a business case with associated costs, benefits and price impacts. The DBP will be used by Government Bodies and Regulators to make strategic decisions with regard to the provision of water services and prices between 2010 and 2015. Ofwat will determine prices using the Company's Final Business Plan (FBP) to be submitted in April 2009 which will incorporate feedback received on its DBP.
2. Wessex has capped its investment plans between 2010 and 2015 with the aim of pegging price rises to RPI whilst safeguarding high service standards, compliance with statutory obligations and maintaining assets to secure serviceability in the medium-term whilst making measurable progress towards declared sustainability targets.
3. The Company's flat price philosophy stems from extensive customer research involving a cross section of almost 3,000 residential and commercial customers incorporating low income and small business groups. In this research, some two-thirds of participating customers told Wessex they were opposed to price rises but wanted value for money, high quality and reliable services delivered in a sustainable way with rapid resolution of problems. The research provided a unique and valuable regional perspective into customers' willingness to pay and confirmed their support for improvements in service, security of supply, flooding, drinking water quality and sustainability. This insight has been used to test value for money and set priorities within the plan.
4. The DBP proposes actions needed to achieve customers' expectations within price constraints after allowing for improved efficiency and inflation.
5. DBP is a comprehensive submission that fully describes Wessex's approach to business planning with costed projections of future activities, the resulting outcomes and how price rises align with customer priorities. Prior to FBP in April 2009, the proposals will be refined to reflect the regulatory process, new data and revised forecasts.

## Reporter's Role

1. The Reporter's role is to provide independent opinion to Ofwat on the Company's regulatory submissions by checking compliance with regulatory requirements and advising Ofwat of material discrepancies. Ofwat approves Reporter appointments and regulates their activities through an agreed protocol.
2. The purpose of this Summary is to provide independent commentary on Wessex's Public Summary of its DBP and to confirm, or otherwise, whether the processes were adequate,

whether the plan in the Reporter's opinion is well founded and whether the Public Summary is consistent with the DBP.

3. We have extensively audited the DBP in line with Ofwat's requirements. Our audit included checks on processes, controls and assurance arrangements and our team examined the underlying customer research, performance assessments and the analysis. We checked the submitted data, compliance with Ofwat requirements and challenged the Company on areas of materiality and have provided a detailed commentary to Ofwat.
4. We also provided feedback to Wessex's management and presented findings on 23 and 24 July 2008 to the Directors prior to their endorsement of Wessex's DBP and the Public Summary.

## Liaison with Regulators

1. Throughout the preparation of the DBP, we have maintained an ongoing dialogue with Ofwat and an open liaison with the Quality Regulators (Drinking Water Inspectorate, Environment Agency and Natural England). We attended Ofwat's director-level review of DBP and met the Quality Regulators to confirm their support for the quality enhancement schemes.
2. We have liaised with the Company's financial auditors KPMG and other independent advisers to establish the validity of assumptions, supporting data and shared information on audits.

## Co-operation from the Company

1. We have received full co-operation from Wessex's management and staff with full access to data. We have received all the documentation we requested to enable us to conduct our audit and are not aware of any information being withheld by the Company.
2. We have had an ongoing liaison with the Directors and provided feedback on the underlying strategies during preparation of DBP.

## Context

1. Wessex is a medium sized Water & Sewerage Company and is a well run business consistently ranking in Ofwat's upper echelon for both efficiency and overall performance. Service standards for water, sewerage and customer service have been continually high.
2. As well as being an exemplar for customer service and business efficiency, Wessex's financial performance has been outstanding. Asset serviceability is stable and Wessex has made demonstrable progress towards environmental sustainability targets.
3. Unlike its peers, Wessex takes a unique approach to asset management with an integrated approach to planning and operation using both in house and external resources for constructing new infrastructure.

4. Against this background, and framed within affordability and value expectations of customers, Wessex has prepared a properly researched and costed draft business plan. The plan includes an assessment of future investment needed to maintain assets, protect service standards and reduce risks to both customers and the business. The plan has been extensively challenged internally to minimise price impacts by ensuring that only schemes aligning with these objectives are included. Schemes totalling some £400m between 2010 and 2015, identified through a fuller interpretation of regulatory requirements, were discarded on affordability, customer willingness to pay or value for money grounds.
5. Wessex has identified certain technical, legislative, financial and economic uncertainties and risk factors on which it seeks clarification before submitting its final plan in April 2009.

## Reporter's Opinion

1. Following audit and review of the Draft Business Plan we confirm that:
  - Wessex has fully reviewed its services, assets and operating environment and engaged extensively with customers as to their expectations and willingness to pay for future services.
  - The outputs are fully consistent with Wessex's long term strategy to protect current performance, to comply with known future obligations and to meet customers' expectations for service improvements and sustainability. It addresses the key issues within the constraints of customer priorities and affordability.
  - The plan is properly researched and based on recent comprehensive studies to inform the process. Wessex has actively engaged stakeholders and the quality regulators in the planning to ensure that its proposals are both necessary and cost efficient. Costings are based on historic costs and are appropriate for the purpose of business planning.
  - The Company has made an assessment of future operating and capital cost efficiencies but there are significant uncertainties due to the current economic climate which will need revisiting before April 2009.
  - The Public Summary is an abridged version of the draft business plan
2. There are uncertainties in some underlying economic, financial and regulatory obligations which may require expenditure above that identified. Forecasting costs in the current economic climate is problematical and Wessex has voiced concerns over inflation, the cost of finance and changes in financial regulation. For these the Company has made interpretations, some of which will not be clarified before 2009. Where possible these will need to be addressed before April 2009 or an appropriate regulatory mechanism agreed.