

Meeting minutes

23 June 2022, Version 2

Long-term delivery strategies workshop

On the morning of Wednesday 25 May, Ofwat invited the sector to a 90-minute virtual workshop. This note contains the minutes of the discussion and should be read alongside the slides (Ofwat long-term delivery strategies event 25-05-22) as a record of the meeting.

After an introduction by Aileen Armstrong, Senior Director for PR24, the workshop focused on three topics:

- Ofwat's final guidance;
- adaptive culture and assurance; and
- next steps, including early feedback process.

The sessions were chaired by Thea Hutchinson, a Director at Ofwat working on PR24 on cross-cutting issues, including long-term delivery strategies.

Introduction

Aileen Armstrong thanked participants for making time to join the workshop. She reiterated the essential role that long-term delivery strategies will play in meeting both the current cost of living crisis and the long-term ambitions of the sector. In order to optimise the benefits of investment for current and future generations, it is essential that companies embrace adaptive planning.

Ofwat published its final guidance on long-term delivery strategies in April 2022, three months before its draft methodology consultation, to facilitate companies making progress in this important area. Long-term delivery strategies require a holistic and system-wide approach to planning. For this work to have legitimacy, it will be essential that they are developed with input from external stakeholders. This is in addition to the buy-in from companies' own senior management and Boards.

Final guidance

George Miller, Senior Associate and policy lead for long-term delivery strategies at Ofwat, reminded the audience of the key elements of the final guidance. In particular, he highlighted the differences between the November discussion paper and April's final guidance. Even though there had been support from the sector for long-term delivery strategies, there had been some areas of challenge that we have reflected in our final guidance. This included the low common reference scenario for abstraction reductions, which has been changed to better reflect the 'plausible extreme low' principle, in response to stakeholder feedback.

George Miller drew attention to some of the key elements of the final guidance, including:

- the core pathway in long-term delivery strategies captures key activities that will be needed regardless of circumstances, and represents 'low-regret' investment;
- the 'most likely' or 'preferred' pathways used in WRMPs and/or DWMPs should be included in the long-term delivery strategy as an alternative pathway;
- the common reference scenarios are mandatory but only a starting point – for strategies to be robust, they will need to be supported by wider scenario planning; and
- the strategies should include a clear narrative around how base expenditure will contribute to meeting long-term objectives, alongside enhancements.

It was also noted that:

- long-term delivery strategies are not intended to duplicate the work of WRMPs but to bring other areas of the business up to a similar standard of long-term planning; and
- divergence between the adaptive pathways will generally occur later than the 2025–30 period.

In response to a question from Ruth Johnston from Natural Resources Wales about the circulation of material from the workshop, Thea Hutchinson confirmed that Ofwat would be circulating minutes from the discussion in addition to the slides. Ruth Johnston clarified that that the reference scenarios for abstraction are different in Wales to England, with a greater focus on the sustainable management of natural resources (SMNR) and this does not necessarily mean a reduction in abstraction volumes. In response to a question about the application of the Welsh or English approach for water companies with activities in both locations, Ruth Johnston confirmed that the Welsh approach applies to water management in Wales as well as water from Wales and used elsewhere.

Andrew Beaver from Northumbrian Water voiced support for Ofwat's approach to long-term delivery strategies, especially the holistic approach. However, he questioned whether Ofwat was prescribing the process too much, which would prevent 'flowers from blooming'. He also queried whether the focus of the adaptive pathways on enhancement expenditure was too

narrow. In relation to the query about prescription, Thea Hutchinson emphasised that companies had been asking Ofwat for greater detail about how they should develop long-term delivery strategies. This did not necessarily mean that companies like all the answers Ofwat has given but Ofwat has been responding to their requests for guidance and direction. Michelle Davies from Bristol Water said she had found the level of prescription that Ofwat had provided to be helpful. George Miller reiterated Ofwat's previous emphasis on enhancement expenditure for long-term delivery strategies, stating that adaptive pathways offered the most value for enhancement rather than base expenditure. However, he acknowledged that enhancement spend would have to be framed in the context of base expenditure, with the link between the two needing to be made explicit.

Jo Harrison from United Utilities acknowledged the key role that long-term delivery strategies can play to help companies plan for the long term in a cross-cutting and wide-ranging way. She encouraged water companies to not treat it as a regulatory tick box exercise.

In response to a question from Michelle Davies about how to account for climate change over multiple decades, George Miller encouraged water companies to use indicators as set out in the Representative Concentration Pathways and to set trigger points based on appropriate metrics. Professor Martin Hurst from Sustainability First encouraged water companies to refer to Defra's Supplementary Green Book Guidance on adapting to climate change, which he felt was relatively accessible.¹ Martin Hurst stated that a number of decisions around long-term infrastructure would need to be made in the face of deep uncertainty around climate change. He gave the examples of reservoir building or sea level rises and biodiversity indicators to assess flooding risks before 2050.

Adaptive culture and assurance

Martin Hurst encouraged water companies to use the long-term delivery strategies to work for their organisations above and beyond a regulatory exercise. It is about strategy. And while it is a tool for companies to adopt, it requires a mindset change for it to be truly successful. In particular, it will be vital that the answer is clear to the question 'what does it mean?', which means the long-term delivery strategies need to hang together and be a genuinely wide-ranging document.

Martin went on to provide some themes to consider and build into companies' planning processes, as well as some personal tips that he has found useful for adaptive planning in telecoms and energy, both in terms of pilots and system improvements.

Andrew Beaver said that he found Martin Hurst's ideas helpful. However, he flagged concerns about the sequencing of the various planning processes, which would be key to bring

¹ UK Government, ['Accounting for the Effects of Climate Change: Supplementary Green Book Guidance'](#), November 2020.

together in the long-term delivery strategies. Andrew Beaver asked for an example of decision trees, for which Martin Hurst referred him to the Green Book Supplementary Guidance.

Martin Hurst said he found that communities have a real appetite for dialogue with companies on their over-arching long-term vision. Therefore, the sector should not see engagement and formal consultation as simply good practice – it was also vital for contextualising what the companies are doing and bringing it altogether.

Next steps

George Miller said that Ofwat intends to conduct an early feedback process on companies' development of their long-term delivery strategies. This would be focused on how well we consider our guidance is being followed. At this stage, Ofwat is considering providing high-level feedback through meetings. He invited comments from workshop participants on these ideas. He also stated that Ofwat would be inviting queries on the final guidance.

Martin Hurst said that a similar process had been followed by Ofgem for RIIO-2, using a tight window for exploring issues.

Darren Rice from Anglian Water welcomed the early feedback idea because he said that the sector embraced opportunities for exploring issues with Ofwat, which were sometimes restricted during the price review process. His early reflections were that he supported a targeted window for this exercise as well as the opportunity for Ofwat to learn as well as water companies. He queried whether it was necessary to restrict the number of questions the companies could ask about long-term delivery strategies this summer to only five. George Miller explained that this was a pragmatic approach to ensure Ofwat could provide a reasonable turnaround on answers to the questions asked.

Kay Orsi from Severn Trent Water said that Water UK could potentially play a role in coordinating questions to minimise duplication and reduce the workload on Ofwat, while ensuring water companies optimised their opportunity to find out information. Kate Trumper from Anglian Water also felt that water companies could do some coordination on their questions. Thea Hutchinson said that Ofwat would welcome any effort to minimise duplication and coordinate on questions between water companies. Kay Orsi said that she supported a presentation-type approach and thought that it could work well in October or November 2022, after further work had been carried out on water resource management plans in the autumn. Jo Harrison felt that December 2022 or January 2023 would work better due to other regulatory deadlines in November 2022, such as the Water Industry National Environment Programme. Richard Sands from South East Water also supported the December/January timetable but stated it should not be later than this so that companies could reflect Ofwat's feedback in its approach, given that business plans are due to be submitted to Ofwat in October 2023.

In response to a query about how Ofwat would ensure this process did not lead to an evolving policy approach, George Miller said that any feedback would be grounded in the final guidance already released.

In response to a question from Ruth Johnston, George Miller confirmed that all questions submitted via the query process, and Ofwat's responses to them, would be made publicly available.

There was some further discussion about the role of base/enhancement and capital maintenance in the context of long-term delivery strategies. George Miller said that questions asked in chat that were not responded to in the discussion would be addressed as follow up and not count as the questions captured by the Q&A limit.

Thea Hutchinson brought the workshop to a close by thanking participants for their time and positive engagement in the discussion.