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26 JANUARY 2018

THE GREAT NORTHERN HOTEL, PETERBOROUGH

MEETING NOTES

**PRESENT:**

Chair: Jim Dixon

Vice Chair: Melanie Laws

For Customer Council for Water (CCW): Robert Light, Bernard Crump (part)

For Environment Agency: John Giles

For Natural England: John Torlesse and Hannah Campbell

For the Customer theme: Melanie Laws (Vice Chair), Bhupendra Mistry (CCW) and Graham Dale (CCW)

For the Environment theme: Richard Powell (Chief Executive of the History of Advertising Trust)

For the Communities theme: Mary Coyle (Independent Member)

For Economic Impact theme: Steve Grebby (CCW), and Iain Dunnett (New Anglia Enterprise Partnership)

Water Forums Independent Author: Sarah Young

For NWL Board: Margaret Fay (Independent Non-executive Director)

For the Company: Heidi Mottram, Ceri Jones, Louise Hunter, Richard Warneford, Claire Sharp, Elaine Erskine, Mark Wilkinson (part), Lisa Connell (part), Nicola Fish (part), Les Hall (part), and Michael Baker (part).

PhD Student: Fiona Calder

Ros Shedden (Water Forum Secretary)

**NOTES AND ACTIONS**

**Members initially met with their Chair, an NWG Independent Non-executive Director, the Water Forum Secretary and the Strategic Research and Assurance Manager - without the Company Executive Leadership Team**

**1. Welcome and apologies**

Jim Dixon (JDi) Chair, welcomed everyone to the meeting; JDi said he was glad to be back in his post, he thanked Melanie Laws and the Company for supporting him during his absence.

JDi introduced Margaret Fay (MF), an NWG Independent Non-executive Director (INeD) with the 'customer' portfolio.

MF said she was attending the deliberation session (this session) to watch the Forums in action and asked if members thought that this was appropriate. Members said that Board representatives should attend their meetings and MF was especially important as she had the Board's 'customer' portfolio. JDi asked if others would be attending. MF said yes if possible, the INeDs had all expressed a great interest in the Forums.

Members noted that Ofwat had specifically called for full Board engagement – however it was the right thing to do whether Ofwat wanted it or not.

JDi then welcomed Bhupendra Mistry (BM) who was replacing Colin Wilkinson as Consumer Advocate for the Northumbrian operating area.

JDi said that Colin Wilkinson, a Consumer Council for Water (CCW) Consumer Advocate, was leaving the Forum. He said CW had been an exceptional member, and thanked him for his great diligence. JD said Colin was going to attend the Customer engagement workshop (13 February 2018) and members would be able to give him their personal messages at that time.

JDi said Environment Agency's Melissa Lockwood, along with five independent members, Jo Curry (Changing Lives), Lesley Crisp (CAB), Joseph Surtees (Money Advice Service), James Copeland (National Farmers Union), Caroline Taylor (Essex Community Foundation), Mark McElvanney (StepChange), Chris Barnard (Ouseburn Trust), Anna Martin (Groundwork), Sarah Glendinning (Confederation of British Industry), Professor Mark Reed (Newcastle University), and the Company's John Devall had given their apologies.

As usual, the Company was making sure members who could not attend were kept informed. It had held a northern breakout session on Inclusivity with three members (22 January 2018).

## **2. Notes and actions of the last meeting (1 November 2017)**

Members approved the notes of the last meeting of the Forums, subject to a correction to item 6.

Members noted that the challenges they made are recorded in the Challenge Log in their Information System, and asked if there was some way for members to review the capture of and progress on challenges without logging in to the system. Ros Shedden (RS), Forum Secretary said she would consider how this could be done, and report back at the next meeting (Action Company).

## **3. Board structure and engagement**

JDi said he and Melanie Laws (MJL) had met with the full Board on 17 October 2017, they had agreed it was time to put in place a more formal programme of engagement, which could include inviting Non-executive Directors to attend Forum meetings for discussions. He, MJL and Mary Coyle (MC) had reviewed the programme with Simon Lyster (NWG INeD) on 11 January 2018 (Paper A – Chairs update). MF's attendance to this meeting was a direct result of this engagement.

MF had supplied members with a paper which summarised the Board structure, its members and their roles (Paper 4.0).

MF said she would feed back to the Board on the meeting. The Board was looking for assurance that the Forums were challenging, were being heard and the Company is responding appropriately. She would not feed back on any specific things that members were saying.

Members asked if the full Board were interested in the Forums; MF said yes they were at one and wedded to the process. However, with regard to the Forums, they had acknowledged that the INeDs had a specific role as they were independent and had a more personal understanding of the issues.

MF said that she had been out to Customer tariff strategy engagement events hearing the customers working with the Company. Also she had attended northern breakout session on Inclusivity on 22 January 2018.

## **4. Pre-meeting**

Members prepared for discussion with the Company; they deliberated on the papers they have received.

Notes on this session are either superseded by later discussions with the Company (in items 5, 6, 7 and 8), or held in Meeting Review notes (Appendix 1).

## 5. Company members joined the meeting

JDi welcomed Company members to the meeting. He thanked the Company for supporting him in his absence.

JDi said on his return he had been both amazed and proud to see how much progress had been made. Members had proved themselves to be an incredible range of talented and diligent people; they had worked continuously outside of meetings; they had attended and participated in over 90 engagements, and made 100s of strong knowledgeable challenges.

JDi asked Heidi Mottram (HM) if she had any news to share.

HM said 2017 had been a good year. She said the areas which had stood out were:

- pollutions – the Company had achieved a 45% reduction on Cat 3 Incidents;
- sewer flooding - both internal and repeat sewer flooding incidents had been reduced;
- the Company had met its financial targets;
- Ofwat, with regard to its company monitoring framework, had designated the Company as self-assured; and
- The Company had also been awarded Utility of the Year.

HM also updated members on:

- Bills – the Company was increasing its bills in line with its 2014 Final Determination.
  - in the Northumbrian Water area the average combined bill increased by £12 (£390 to £402) or around 3%; it remained one of the lowest in the country; and
  - in the Essex & Suffolk area, average bill increased by £6 or around 2%, which is one of the smallest increases of all companies, but still leaves it at the highest bill of the water only companies at £251.
- Leakage – 2017 had been a really challenging year and the Company had significantly increased its leakage resources; it was continuing to work really hard, and its performance monitoring was showing performance was close to the line.

Members noted that a number of companies were using innovation to find leaks, they asked if the Company was innovative. HM said yes, the Company was already using drones and heat measurement. Also, at the Innovation Festival, data-mining had shown some real potential. A mega data study may be able to help with leakage detection; the Company was still working on this. HM said the Company was putting more energy into data science rather than space science. Members deliberated on leakage later – this is recorded in item 10 below.

Ceri Jones (CJ) noted that Ofwat had published its PR19 Final Methodology in December. He gave the following feedback:

- the Weighted Average Cost of Capital (WACC) had been set on the bottom end of the range;
- there were rewards for Companies which were determined as exceptional; and
- there was a more common sense approach to (Outcome Delivery Incentives) ODIs – eg Ofwat was no longer expecting any companies to be instantly upper quartile.

CJ said PR19 was going to be a very challenging review. However, Ofwat had responded positively to Companies, it had largely done what had been asked of it.

Members noted that some other stakeholders, eg CCWater, did not feel that they had been listened to.

Members noted that, with regard to PR19, they had a short space of time and lots to do.

## **6. Shaping our Future**

Members had been supplied with a paper summarising the context, content approach as well as a draft of the Company's 'Shaping our future document' (Paper 6.0).

Members said they really liked the approach the Company had taken – they noted that they had advised it to produce a long-term plan which would put the PR19 Business Plan in perspective and were satisfied that the document fulfilled this purpose. Members noted that it would help them to write their Report.

Members liked the six themes, with potentially the themes coming together as one – they regarded this as manna from heaven – a regional sustainable approach. They also welcomed the positive statements the Company had made. One or two of these commitments were really important nationally.

They had some specific challenges:

With regard to the strategy:

- the Company had missed the opportunity to step further forward, show more ambition, eg on natural capital – this was disappointing because members knew how ambitious the Company was, eg catchment delivery was under stated; and
- the integration between the themes could be strengthened, eg showing climate change impact interlinks.

Environment members agreed to give more detailed feedback to the Company on the above challenges. Author's note – comprehensive feedback was given – this, and the Company's response is recorded in the Challenge Log.

With regard to the document:

- time frame – the document did not consistently feel as though it is intended to be a long-term and strategic – this could be made clearer;
- some of the commitments needed more time information;
- the case studies were repetitive and familiar – future case studies would help tell the story better; and
- the case studies were north centric, especially building economies.

Louise Hunter (LH) said the challenges were really important, the Company would address them, and the document would be launched in March 2018. Members said that the document was good, and with their challenges addressed it had the potential to be very good. Members agreed that they were comfortable for JDi to take the responsibility to review the next version on their behalf.

## **7. Inclusivity update**

Members had been supplied with an Inclusivity Update paper (Paper 7.0).

Claire Sharp gave an overview of the Company's inclusivity strategy and plans; she said that the Forums had participated in the shaping of the Inclusivity Strategy from the outset – she referenced a real turning point, the 30 January 2017 Vulnerability Day, where the Company had shared its progress, and members advised and challenged. Many of these challenges had been instrumental in elevating both the Company's understanding of vulnerability and ambitions.

With regard to zero water poverty – members noted that it is really important nationally – it was wider than just the water industry, also CCWater supported this and was keen to be involved. Members said it should become public as soon as possible - it was potentially a game-changer.

This is right for this point in time - public discussion on poverty and vulnerability has changed.

The Company's multifaceted approach is very good.

Members asked where the money would come from, and if customers would be willing to pay for this. CCWater members said the scale of the water poverty ambition went way beyond subsidy – CCW and the Company needed to work together on this, especially on its tariff research.

The Company then provided members with the draft Inclusivity Strategy and members and the Company split into working groups to review the document.

#### **After working on the document with the Company:**

Members noted a lot of progress had been made on the day (27 January). There was still a lot of detail needed and the Forums see the way it went forward.

Members said that the approach was really strong. In order to take this forward successfully – the Company would need to take its customers along. This seemed to be the right time (2018), members saw a shift in public perception of debt. The Company needed to plan how to get it across to customers. It needed a hook, eg how Blue Planet plastics pictures had mobilised people.

Members asked the Company to consider that ‘success’ would not be just hard number crunching; it could also be measured in the level of engagement; in the wellbeing given to people by the approach; that the Company would be seen in a better light.

With regard to using vulnerability ambassadors – this has potential for engaging with diverse communities, but they would need the emotional capacity and some technical understanding of the material – members said they would like to closely examine their remit.

With regard the imminent publication, the Chair asked members if they had any burning points – members said:

- some material in the strategy was detail and could be stripped out, ie some of the ‘ten’ were enabling mechanisms;
- the themes should link with MOS - with staggered targets;
- some measures should be merged – some seemed to counteract others ; and
- timescales – members noted that 2030 seemed perfectly reasonable, but why 2030 - some explanation on the timing would help make this more credible.

Members noted that the Company was giving a strong message and was leading the way. They said the proposals were positive, really welcome and positioning Company in a really strong place.

Members asked the Company to share the changes and the next draft, and agreed that, this was broadly reflective of their challenges, they would support the timely publication.

Author’s note:

In the 22 January 2018 northern breakout session on the Inclusivity Update, members made the following statements:

Quotes from water forum members regarding the inclusivity report:

- *“I am in the unusual position of feeling excited about water”, “it is a really good challenge for the industry”, “NW is a step ahead”, “It is very exciting...a massive opportunity to do something”* said in reference to the goal of ending water poverty by 2030.
- *“it is a really good eye catching piece of work” “I like it that NW are taking a multifaceted approach, it is very good approaching it from lots of different angles”* said in reference to the inclusivity report.

## 8. Business Plan Update – Resilience framework

The Company had supplied Members with an update paper which gave an overview of the Company's approach to delivering resilience in the round.

CJ explained that, with regard to resilience, there were regional differences. Suffolk treated water networks tended to be separate, joining them up would enable the Company to avoid an extreme event. In the Northumbrian operating area, water was collected in valley systems – and treatment capacity for each valley was at its upper limits. Because of the geography, there was limited system connectivity. Increasing connectivity would again increase ability to deal with extreme situations.

The Company had carried out two phases of customer engagement relating to resilience. In Phase 1 of the research, the key messages from customers were:

- resilience is not easy to understand; keep the language simple;
- customers trust the Company to understand where the risk to service exists but cannot easily see how it does this;
- customers expect the Company take appropriate actions to manage risks;
- customers expect the Company to plan for the long-term [intergenerational fairness] and effectively communicate its plans to customers; and
- the Company had to be mindful of customer affordability.

The Company noted that the priority areas of service for customers were;

- the provision of clean, clear drinking water that tastes good;
- the provision of a reliable and sufficient supply of water; and
- the provision of a sewerage service that deals effectively with sewage and heavy rainfall [NW only].

In Phase 2 of the Company's engagement the main aim of research was to understand customers' appetite for risk and support for the options it was proposing to put forward in its plan. The Company also explored customers' preferences for intergenerational fairness when it comes to asset health, including whether they are willing to support better monitoring of asset performance and condition. Finally, the Company explored whether customers were willing to support reducing the risk of service failure for all customers ie cross-subsidisation.

The Company took a scenario based approach, using simplified language wherever possible, and provided anonymised examples of our resilience proposals to test acceptance; in principle, customers were supportive of the Company's plans and showed a willingness to support the delivery of schemes that reduce risk and provide them with a more secure levels of service.

Members noted that a resilience plan was really important – they thought that climate change could severely impact on customers. Members said that, as a framework this was a good start. However, their challenge was that it was too much a helicopter view. It needed to be firmed up with commitments and enhancements, ie examples of what it translated into. They needed to see what the candidate list looked and felt like, with the types of projects and the impact they would have on customer.

Members also made the following challenges on missing aspects which the Company should consider including:

- management of incidents – how they were planned for and managed; what support would the Company plan for customers - members noted that customers' support expectations had increased over time; and
- links with others – the framework had covered resilience within the bounds of the Company - it would be good to draw out the links with others, including trades, transfers and collaboration in resilience networks.



CJ said these were good challenges. With regard to the management of incidents, water companies were at risk from things outside their control, eg extensive loss of energy supplies. The Company had a good story to tell on Business Continuity and was about to be accredited with a new quality standard. The Company was aligning its practices to ISO22301 (International Business Continuity standard) to provide more confidence to customers and stakeholders (eg Ofwat) that the business is prepared for and capable of responding to an extreme event. The Company was planning to request the actual certification in late 2018.

CJ said the Company was also supporting national resilience initiatives such as planning for 'BlackSky' events [large country wide power loss] as part of the Electric Infrastructure Security Council group. Also the Company was proposing a number of investment schemes which would deliver overall improvements in resilience to computer systems and information from both malicious (cyber) and accidental compromise.

CJ said the Company would carefully consider the Forums challenges and he could see the possible need for additional segments on the resilience wheel.

Members deliberated on resilience later – this is recorded in item 10 below.

## 9. Growth

Members had been supplied with a paper giving an overview of the Company's approach to supporting growth within its water and waste water systems (Paper 9.0).

Les Hall (LH) briefly described how the Company was set up to manage growth. He said that it was essential that the Company looked ahead, at least three to five years ahead of planning consent. The real start was with water cycle studies – they would then future cast and determine the point the Company should start investment.

LH said there were risks in this process, the Company needed to invest wisely, investing to invest too far ahead could be wasteful. Balance was so important especially in the South East. LH said there was a need to be forthright.

Members noted that their perception was that resources were increasingly tight for Local Authorities, who were also losing experienced people as cuts tightened. LH said that this underscored the need for a good Water Resources Management Plan (WRMP) and good partnership working.

Members noted that the biggest challenge is resource - there needed to be an open and honest debate on where development should be allowed. Some members noted that they had sat in lots of meetings where the missing link had been the developers.

Ofwat has published new Adoptions Codes which will improve the timescales for adoption of sewers on development sites from 2019. As part of this the Company has membership of the national Steering Committee which will deliver Sewers for Adoption 8<sup>th</sup> Edition. For the first time Sewers for Adoption will include guidance on the adoptable standards for Sustainable Drainage Systems.

**Authors note** - this will not fix the problem that not all sewers will be automatically adopted, as Government has no current plans to enact Section 42 of the Flood and Water Management Act 2010. This would have seen mandatory adoption of all sewers following the transfer of private drains and sewers in 2011.

Members noted the benefits of Sustainable Urban Drainage projects (SUDs) – they had seen some great examples and said the Murton Gap project was a really great example of getting people to work together, and an example of the integration of the Company's policies.

Members concluded that this was a brave new world of natural capital there are many ways of bringing about benefit. Members challenged the Company to speak out louder - make sure its contribution is recognised.

## 10. PR19 Business Plan update – Assurance Dashboard

Members had be provided with an update of the Company Dashboard – they reviewed the areas they had covered and agreed to put the Company under extra scrutiny in three important areas, Outcome Delivery Incentives (ODIs), enhancements and leakage.

For ODIs members decided to use a sub-group, importantly this group should contain with some members who were expert on the ODI concept – eg CCWater executive members.

With regard to enhancements, members asked for more information to be brought to a future meeting or event - they wished to examine:

- customer engagement – what members support and do not support;
- the nature of the enhancements the Company was proposing to put in its plan;
- what difference these will make to customers' bills; and
- how will these items benefit customers.

With regard to leakage members considered:

- customers were right to be concerned about any level of leakage, which feels wasteful of water which customers are encouraged not to do themselves and so and intrinsically wrong;
- EA regarded leakage as harmful environmentally as extracting, transporting and treating water for it to be leaked away was poor resource management;
- Ofwat was taking a special interest in leakage and imposing additional obligations through PR19; and
- making step changes in the amount of leakage may be very costly, indeed not cost efficient, so the Company has to strike a fair balance.

Members expressed great interest and decided to ask for a deep dive into leakage – they want to see:

- the basics - what leakage is and how is it measured;
- an overview of what customers have said (including going back to our innovative customer engagement for PR14 where “customers actually got it”;
- what this has led the Company to think; and
- the innovative ways is the Company using or planning to use to control leakage.

The Company said it would organise these three fact finding sessions (Action Company).

## 11. Water Forums Report to Ofwat

Members noted that they would be able to comment on the Company's use of customer engagement after the “Triangulation” workshop in February, and therefore substantial reporting on this could then start. Sarah Young agreed to bring some text to the 19 March 2018 meeting.

## 12. Next steps

The next Forums meeting will be held on 19 March 2018.

**Following the meeting, members broke the meeting to resume in camera. Members held their meeting review in this session. Jim Dixon (JDi) prepared a summary of this review, this is in Appendix 1.**