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19 MARCH 2018

THE GREAT NORTHERN HOTEL, PETERBOROUGH

MEETING NOTES

**PRESENT:**

Chair: Jim Dixon

Vice Chair: Melanie Laws

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

For Environment Agency: Melissa Lockwood

For Natural England: Hannah Campbell and John Torlesse

For National Farmers Union (NFU) and Environment theme: James Copeland

For the Customer theme: Graham Dale and Bhupendra Mistry (CCW)

For the Communities theme: Mary Coyle (Independent Member), Lesley Crisp (Citizens Advice) and Caroline Taylor (Essex Community Foundation)

For Economic Impact theme: Sarah Glendinning (Confederation of British Industry) and Steve Grebby (CCW)

Water Forums Independent Author: Sarah Young

For NWL Board: Margaret Fay and Simon Lyster (Independent Non-executive Directors)

For the Drinking Water Inspectorate: Milo Purcell (part)

For the Company: Heidi Mottram, Louise Hunter, Ceri Jones, Claire Sharp, Richard Warneford, Elaine Erskine, Martin Lunn (part), Dennis Dellow (part), Alan Gosling (part) and Andrew Austin (part)

PhD Student: Fiona Calder

Ros Shedden (Water Forum Secretary)

Judith Huffee (Communications Consultant – Water Forums)

**NOTES AND ACTIONS**

**Members met with the Chair, Acting Chair and the Water Forum Secretary without the Company**

**1. Welcome and apologies**

Melanie Laws (MJL), Acting Chair, welcomed everyone to the meeting; she advised Jim Dixon (JD) would be arriving soon but had asked her to open meeting.

MJL advised eight independent members, Richard Powell (Chief Executive of the History of Advertising Trust), Anna Martin (GroundWork), Chris Barnard (Ouseburn Trust), Jo Curry (Changing Lives), Joseph Surtees (Money Advice Service), Professor Mark Reed (Newcastle University), Mark McElvanney, StepChange and Iain Dunnett (New Anglia Enterprise Partnership) had given their apologies.

JD arrived and MJL handed over running of meeting to Chair.

**2. Notes and actions of the last meeting (26 January 2018)**

Members approved the notes of the last meeting of the Forums with one minor change.

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Notes on the actions are held in the action log in Appendix 2.

### **3. Pre-meeting – Draft Business Plan Update**

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

### **4. Pre-meeting - Water Forums Report (*Ofwat's final Aide Memoire enclosed and Report*)**

Members had received Ofwat's Final Draft Aide Memoire in their meeting document pack. Also, the Independent Author, Sarah Young (SY) had provided some draft Report content; she had indicated when the material for each section would become available.

With regards to the Aide Memoire, JD said the CCG Chairs had formally adopted this with minor changes at their Ofwat meeting on 14 March 2018.

Members made the following observations on the Aide Memoire:

- it was very helpful, as guidance to what Ofwat regarded as important, as a checklist and a structure;
- each activity had been given a line and therefore could be judged to have equal importance – members noted that this was not the case; and
- the most important section in the Memoire was related to the quality of the Company's customer engagement and the degree to which this is reflected in its Business Plan (this was to be Section 5 of the Report).

### **5. Company members join the meeting – welcome and introductions**

JD welcomed Company members to the meeting and welcomed Milo Purcell (Drinking Water Inspectorate) to the meeting.

JD asked Heidi Mottram (HM) if she had any burning news.

HM said there had been a lot of attention on the water industry because of the statements on some water companies financial arrangements made by the Secretary of State and Ofwat. This was frustrating for the Company, it did not operate in this way and therefore, although it not been named in the publication, such statements could affect customers' trust and confidence across the whole industry. This could lead to changes in the light of the debate, and all companies may have to adopt rules because of the behaviour of a few.

JD said Ofwat had been specific about the financial issues and had named the three companies involved at its 14 March 2018 CCG meeting.

Members asked how the Company's customers were seeing this, was it affecting their trust and confidence or were they seeing this as 'political noise'.

HM said the Company was carrying out customer research, having conversations with customers on trust – it had found that currently trust and confidence remained.

HM said, with regard to trust and confidence the Company had been awarded BQF Company of the Year Award, these awards are a technical audit on how a business operates at all levels.

### **6. Draft Business Plan update**

Members had received the Company's draft business plan update paper.

Ceri Jones (CJ) gave a brief summary; he said the paper gave the potential shape of how the plan might look. There would be more resilience, high environment resilience spend (WINEP) and there would still be reductions in customers' bills. Bills would initially go down by as much as 10%, and then may rise slightly dependent on the Company's performance.

Members said they needed more detail. CJ said the Company was ready to give detail on environment and resilience. With regard to Outcome Delivery Incentives (ODIs) it had more work to do. Also, with regard to efficiency, it was awaiting Ofwat's model.

Members noted that, in its PR19 assurance update document - its assurance partner Mott Macdonald had found that, technically, the Business Plan was progressing, but the Company's development of its business cases was not strong. CJ said the assurance report and its recommendations were now outdated; the Company had moved on.

Members noted that the Company could miss opportunities to be judged as exceptional by not bringing its plans when there was still time for Forums' advice and challenges to be addressed.

Members noted the following – they:

- were comfortable with seeing early plans; they recognised the Company was going through an iterative process, and should not wait until its plans were final; and
- needed to close down the areas that were seen to be good and prioritise areas that were seen to be less good.

Members asked JD to work with the Company and Author to:

- review Forums' progress, cross check against the Aide Memoire and identify what has been agreed and nailed down;
- timetable the points at which the Company can provide information; and
- create a robust mini plan tactical plan to get to the end point giving time for substantive issues.

## 7. Drinking Water Inspectorate

JD welcomed Milo Purcell (MP) from the Drinking Water Inspectorate (DWI).

MP thanked members and the Company for inviting him to the meeting. He said that the PR19 process was picking up steam and the DWI had quite a lot going on. It was meeting with all of the CCGs. Its purpose was to try and answer CCG questions.

MP said the DWI review of the 2017 performance was coming to the end. With regard to general drinking water performance, the Company was doing reasonably well. However there were some issues where the DWI was looking at closely at the Company

MP described the advantages of the DWI's Compliance Risk Index (CRI). Members had seen the CRI approach earlier (item 6, 1 November 2017), they challenged MP on the difficulty on explaining the scoring to customers. They used the example of Hartlepool (Author's note, NWL does not supply water to Hartlepool), which had the potential to show enormous volatility. JD said this observation had been raised at Ofwat's CCG meetings. MP said the DWI had a high confidence in the CRI - it showed performance at a more granular level which highlighted specific areas where companies were outliers.

MP said, according to the CRI, the Company had some variable performance which was slightly worse than national average; one area was discoloured water customer complaints. The DWI was not taking enforcement action on discolouration because the Company was managing this appropriately. However it would always like to see it improve. MP acknowledged that customers would have said what their priorities were – and water quality was always high on customers' agenda. He noted that there had been improvement in discolouration complaints. In 2017 there had been 2,500 – where previously in 2005 there were 11,000. MP said the DWI thought it could push for more improvement.

With regard to water safety, MP said the DWI placed great significance on performance with regard to water treatment incidents. The Company had made an increased number of notifications in the both operating areas. DWI was watching this carefully; checking whether this could be under-investment in operations or in the works. He thought that this could be a little bit of both. He noted that the Company had improved its reporting and this could also have impacted on the trend.

MP said DWI had cracked down on incidents with some other companies - if the Company had further fails DWI may take action in the future.

MP said DWI had currently not had sight of Company's PR19 Business Plan submission which could have investment to address the deteriorating trend. This lack of sight was because Periodic Review planning had changed, for PR19 this type of investment was covered in business as usual - not like the separate water quality schemes in past reviews.

MP said prioritisation of water quality could be important because the current economic climate had resulted in a unique set of circumstances; water companies could take advantage of the reduction in the cost of capital and increase their investment in infrastructure. Some companies were making increases in investments and are rethinking their water quality strategies.

JD asked for the Company to respond before members asked questions.

CJ said the Company was working now to address the causes of the events. It was installing five new small water treatment works which would go a long way to addressing the issues. By May 2018 it needed to submit long-term water quality plan – the work for this was well developed.

MP welcomed this; however he said he would welcome a reappraisal of the risk at water treatment works. He noted that other companies were using new risk assessments which had thrown up new information.

Members asked for context, what were these events? MP said for the most part failures of coagulation and other chemical dosing which could lead to compromised disinfection. For the most part the Company had been able to contain this on the works, with no effect on the water leaving the site.

CJ said the Company recognised the information given by MP and the need for some investment. It needed to prioritise and spend more, though this would not be a large amount of money. Also, the Company was doing this in the current Period (ie before 2020).

Members challenged the DWI on the 'incident' process. Why did it take a lot of incidents - should there be earlier warning? MP said DWI accepted the challenge - however it needed to both examine the evidence and give companies opportunities to put their issues right. He said it was ok for the Company to stabilise its position in the short-term, however for the long-term it needed more ambition/aspiration.

Members noted that these were strong statements – they would need to see evidence that the plan would address these issues – they would also need to see the distinctions between stabilisation and the long-term agenda. (Action Company).

HM said the Company was doing a lot on this - would bring an update on what it was doing to the Forums, the whole story – its big aspirations, for next year (2019) and in the Business Plan.

Members asked if additional spend to improve drinking water quality performance would be regarded as enhancements – MP said no.

JD thanked MP for a clear and candid engagement. He said the Forums were hearing that there is a good working relationship between the Company and DWI; they would need to see how this was reflected in the Business Plan (Action Forums and the Company).

## 8. Leakage Deep Dive

In previous meetings members had noted that Leakage was a high priority and said they wished to better understand leakage, this item was designed to satisfy that wish.

The Company made several presentations on leakage:

- The basics of leakage management
  - History
  - Causes and management of leakage
  - Economic Level of Leakage
- Customer views and expectations
- Innovation and new technologies for finding and repairing leaks
- Consistency across the industry in leakage measurement
- The Company's plan for 2020 – 25 and beyond

Members discussed and challenged throughout the presentations, these notes should be read with the presentation slides which are held in the meeting folder in the Forums information system.

Members and the Company debated on an Acceptable Level of Leakage. HM said what companies do not have is an acceptable level of leakage; we only have the only acceptable level is no leakage.

Members noted:

- the decision by Ofwat (for a 15% reduction) was emotionally driven;
- when engaging with customers, using history was not good – customers did not like to hear “we are better than we were...”;
- with regard to CCW research, it had found the customers views on leakage depended on very much whether they made an instant judgement or had time to deliberate;
- not many companies had an incentive over time to fix when reported;
- with regard to performance of historical versus current materials – the Company said all the new pipes were excellent quality; if all pipes were replaced with these, leakage would be brought down to nearly zero;
- with regard to managing water pressure to control leakage – controlling to 2.5 bar was reasonable, but lower pressures would be a low level of service and have a negative effect on customers;
- Pressure management - make sure it is balanced - pressure related complaints? Objective is to give good customer service - it is more about consistent pressure using new technology. Communication is in place, standard way of working.
- work in partnerships and build even stronger relationships with customers by:
  - extending the use of data analytics to help customers detect their own leaks and fix them; and
  - providing customers with seals and/or technical advice.

With regard to the Company's Business Plan proposals, members made the following challenges:

- The plan was ambitious but possibly not exceptional. The Company said that for the E&S this would make them national leader; in other companies' WRMPs, nearly all going for 15%. Members agreed that exceptional would be delivering.

- Pressure management - make sure it is balance - pressure related complaints? Objective is to give good customer service - it is more about consistent pressure using new technology. Communication is in place, standard way of working.

## 9. Assurance Dashboard

JD asked members to think about their areas of concern, where there remaining areas that they wished to examine. Members noted:

- they had not reviewed the Company's engagement with business customers;
- they needed to be satisfied in their deep-dive on enhancements (17 April);
- enhancements also needed to be covered in the triangulation session;
- the Company had programmed a lot for their workshop on 26 April – possibly it was trying to cover too much;
- trade-offs – they wanted to know how will these will be presented to them would there be a high level piece if there was to be a significant customer impact; and
- they still had to engage on Acceptability.

## 10. Water Forums Report to Ofwat

Sarah Young (SY) had provided with a very early draft of their Report. SY said that, now the Aide Memoire had been properly referenced, she had been able to structure the Report to reflect the Aide Memoire. Members said this was good, they very much welcomed this approach.

Ros Shedden (RS) said the Company Author was acting upon this as well, so that the documents would be able to cross reference each other.

SY said she had populated the Report with some of the work members had done. She would now add in all the activities up to 26 April 2018, and provide them with the next draft in time for the 16 May 2018 meeting. (Action SY).

## 11. Next steps

The next meeting was to be held on 16 May 2018 in Peterborough. Before this meeting there were three Forum working sessions planned, below are the purposes of each session.

17 April 2018: The aim of this session was to explore the Company's proposed enhancement schemes including statutory enhancements such as the Water Industry National Environment Programme (WINEP), along with discretionary enhancements such as those relating to resilience. As part of this session the Company shared the approach it used to engage with customers to understand the extent to which customers supported investment in these areas, along with the headline results from its recent engagement.

20 April 2018: The aim of this session was to continue the discussion on triangulation of customer evidence which was started in February. This session paid particular attention to the Company's proposed Performance Commitments (PCs), with the opportunity for members to challenge its proposals. This went beyond the customer evidence, and examined other drivers for PC levels, particularly comparative information and the industry upper quartile position.

26 April 2018: The aim of this session was to explore the Company's proposals for incentivising the delivery of its PCs, through a combination of rewards for out-performance and penalties for under-performance.

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