
18 NOVEMBER 2022

MEETING HELD VIRTUALLY VIA MICROSOFT TEAMS

FINAL MEETING MINUTES

PRESENT:

Chair and Independent Member: Melanie Laws

For CCW: Graham Dale and Janine Shackleton

For Environment Agency: Roger Martin

For the Environment theme: Richard Powell (Vice Chair and Independent member)

For the Communities theme: Mary Coyle (Independent member)

For the Customer theme: Simon Roberson (Independent member), and Lesley Crisp (Independent member)

For Economic Impact theme: Iain Dunnnett (New Anglia LEP)

For National Farmers Union: James Copeland (Vice Chair)

For Customer Engagement Panel (CEP): Nikki Stopford (Chair) and Barbara Leech (CCW)

Water Forum Independent Author: Sarah Young

Water Forum Independent Secretariat: Ros Shedden

For NWL Board: Peter Vicary-Smith

For the Company: Andrew Beaver, Louise Hunter, Elaine Erskine, Andy Duff, Tony Erskine, and Carol Cairns

Company Secretariat: Judith Huffee

MINUTES AND ACTIONS

1. Welcome, apologies and aims of the meeting

Melanie Laws (MJL) welcomed members to the meeting and welcomed Ros Shedden (RoS).

RoS had been engaged by Communication Pure and Simple to carry out the secretariat activities for the Water Forum.

Apologies had been received from Melissa Lockwood (Environment Agency), John Torlesse (Natural England) and Sarah Glendinning (CBI).

MJL reminded members that they had received the notes from the 10 October 2022 National Collaborative Research Group (a group comprised of water companies, Ofwat and CCW) meeting with the papers for this meeting (18 November 2022). These had been very helpful and had offered some insights into the potential role Ofwat was envisaging for groups such as the Forum in relation to PR24 (around affordability and acceptability). Caroline Warner, who chaired the Challenge Coordination Group (COG), which ran in parallel to the Collaborative Research Group, had attended the meeting to provide a link between the two groups, and would do so in future.

MJL said that in the absence of a mandatory approach to the role for Independent Challenge Groups (ICGs), the Forum should consider carrying on in the manner it had agreed at the WF 1 November 2022 meeting, which was to produce a Report which would not be dissimilar to PR 2019, although it planned to push the boundaries further for PR24, if possible. This was agreed.

Elaine Erskine (EE) then informed members that Ofwat had published its Draft Guidance on Affordability and Acceptability Testing (17 November 2022) which contained references to companies working with their ICGs and research partners. EE said the Company would immediately send the link to this document to members. **Action: Company.** EE said she would also work to digest the document and work with Nikki Stopford (NS) on it.

MJL gave updates with regards to assurance:

- at the 1 November meeting, members had taken part in a session on assurance;
- agenda Item 6 should complete the work on assurance questions;
- she was working with the Company to have the assurance questions and its responses embedded in Company's WF meeting papers;
- Communication Pure and Simple had been appointed to provide an independent secretariat;
- at the WF Chair and Vice-Chairs' meeting with the Company on 11 November 2022, it was agreed that, for PR24, notes would be taken for all Forum meetings including CEP and Task and Finish Groups;
- all information would be stored in an accessible IS system (managed by Sarah Young (SY) and RoS), which was live at the time of the meeting 18 November 2022; and
- subject to budget and so on, the WF can appoint some independent technical consultants to help with scrutiny on issues such as programme deliverability and Outcome Delivery Incentives (ODIs) and Performance Commitment (PC) stretch – these people would be commissioned by and report directly to the WF for a period of time.

Members agreed that there had been good progress, and supported the idea of taking on expert assistance where there were gaps in Forum technical expertise.

With regards the CCW Assurance Review of ICGs, MJL said she had been interviewed recently. This had been straightforward and she had gone onto nominate Mary Coyle (MC) as Chair of the Nominations and Review Committee (N&RC) to also give input. Company INEDs and Executive Board members would also be interviewed. The results of the work would be published in early 2023. Any issues raised would then be considered by the N&RC as part of its Annual Review.

2. Minutes and actions from the last meeting

Members agreed the minutes of the 17 October 2022 represented a correct reflection of the meeting and there were no matters arising.

3. Members' deliberation

Members had been supplied with the following Company meeting papers:

- Enhancement cases overview and our approach to the environment (Agenda item 5)
- Assurance question update (Agenda item 6)

Members had also been supplied with the following Company update paper for review:

- Customer engagement and participation update (Paper A)

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

4. General Company updates and questions

MJL welcomed the Company to the meeting and summarised the topics the members would want to deep dive into.

MJL said the WF had some real concerns over the enhancement programme with regards to affordability for customers, and that big question ‘how has it come to this’?

Autumn Statement

MJL asked the Company to give its reflections on the Government's Autumn Statement (17 November 2022), especially on how it could affect its plans going forward. She asked it to give an immediate first impression, and then provide a short briefing note after it had taken time to review the situation.

ACTION: Company.

Louise Hunter (LH) and Andrew Beaver (AB) gave an immediate response for the Company.

Members noted that the Company:

- with regards to customer affordability issues, perceived the Autumn Statement to have significant implications;
- on Sizewell C possibly being approved, this would have to be assessed in detail; and
- on the devolution deal for the North East, this could be good for the north of the NWL region.

Affordability

Key issues that emerged during members' deliberations before the Company joined the meeting had included affordability for customers, the impact on bills of WINEP, WRMP, DWMP and other potential non-statutory enhancement proposals, and the consequences of not making investments for current and future generations. Members had felt that the scale of investments proposed for the sector required a sector discussion nationally. Some proposals, around nutrient neutrality for example, could potentially be handled differently and be of less impact on water customers.

The Forum felt that some of the proposals were of such a scale and potential impact on bills that to land the cost on water customers seemed unfair. Were there other ways financially of dealing with or mitigating the cost of some major infrastructure requirements – through general taxation, a cap on bills and/or seeking investment from other sectors for example? Had the potential impact of increasing numbers of customer debt been factored into thinking nationally?

Members wanted to conduct at least two deep dives into affordability, and it was agreed that this would be set up with Mark Wilkinson (MW). MW was currently working with TransUnion to aid identification of customers who needed help. Also, the Company was updating its Affordability and Inclusivity Strategy to include other ways it could support customers in line with its PR19 target to eradicate Water Poverty by 2030.

As part of the deep dives, members would want to be updated on Company shareholder funded initiatives that were being planned for PR24. MJL said she felt that it was important for the Company to demonstrate clearly how it planned to continue to support customers in, for example, financial difficulty. Members noted that because of the cost-of-living crisis and other issues there may be many more households who would find themselves in hardship, who might have otherwise been expecting to be managing. The Forum would want to review how the Company was identifying such people and what support was available.

AB said the pressure from Government was to significantly increase investment at a time when customers could least afford it. The Company was trying to influence to achieve a more sustainable outcome. The Company was lobbying using bodies such as Water UK. The Company was also urging the Government to move forward with the proposal for a national social tariff. This was currently expected to happen in 2026 and therefore be late in the context of addressing the current problems.

With regards to the influence of affordability on the Business Plan, AB felt that this could potentially be more of an issue in the early part of the Asset Management Plan (AMP). Most of the inflation forecasts had predicted inflation at very high levels for two years (2023 and 2024) but dropping down to below 2% as the AMP started (2025). If higher inflation lasted for longer the immediate impact on customers could be softened by phasing, to move the cost into the future.

Performance against PR19 targets

Members asked about the Company's PR19 targets, would these be moved forwards? Would customers see a delay or see a continuation of problems?

AB said the Company was committed to delivering to the terms it had agreed in the tough Ofwat/CMA settlement. It expected to deliver most of the outputs- customers should largely receive what had been agreed.

Members noted that they would get the opportunity to scrutinize performance in their Annual Performance Review in June 2023.

Asset health

AB said, regarding Asset Health, the water industry was structurally underfunded to do the work it needed to do; therefore, some problems were inherent in the system. The important question on asset maintenance would be whether the Company was carrying out less work than it had done in previous Periodic Reviews and could be therefore building up problems.

With regards to a recent non-household customer research session, MJL had witnessed and noted that Asset Health investment had been declared as critically important by non-household customers. Members noted that this was not only an issue within the water industry, it was cross-sector and many industries also had problems with maintaining Asset Health.

PR24 capital programme

With regards to PR24, AB said that if the capital programme was four times the size of any previous AMP and there would have to be a tradeoff. From an affordability perspective some items were likely to be pushed back and others moved forward. He said the Company was working with a specialist external engineering consultant on deliverability, to help with choices.

With regards to nutrient treatment, LH said that green solutions were cost effective and better for the environment but would be slower to deliver. The quicker fixes would be more expensive, and more harmful to the environment. She said the Company had some great examples of using seaweed farms and mussel farms which can achieve similar results to heavy engineering. The Company would be trying to encourage a longer-term view looking at the solutions which would give the best results. This could create some more balance in the debate.

MJL said the Forum needed to examine the Company's investment programme looking at the short-, medium- and long-term effect on customers. Recapping, it was noted that Members had already scheduled two deep dive sessions on affordability. For the sessions, members would want to see what the Company was currently doing for customers and what were its current shareholder funded help for customers, and how was the Company going to approach this going forward for PR24. MJL said that, alongside the pressure for improvements, there would be questions asked on what companies were doing to reduce the burden on customers, and there was potential for this to become highly political.

Nutrient neutrality

Members said that nutrient neutrality had come into PR24 late, and the Government was looking to achieve a massive sea change of nutrient loading in rivers. To take an alternative approach the Government would need to be persuaded that this was going to work. Therefore, one essential thing to influence it would be working examples that were proven to be effective. Small pilot scale trials would not be enough. It was therefore incumbent on the industry to demonstrate this, and time was very short. The EA needed to be convinced as well.

LH said the Tees Valley was one of the biggest areas in the country to have this issue. The Company had therefore been having conversations with the Mayor, Ben Houchen, and others on forming a partnership that would put itself forward to Government as a pilot of an alternative approach. She said the Company had ongoing work at Hartlepool Sewage Treatment Works which was already showing that evidence. LH said the Company was working with the right people, eg Natural England and was optimistic that this could be successful.

On timing AB said the legislation was at Report stage, it would be added to the Levelling Up Bill which would then go back to the Lords. AB said there was a lot of work going on to make the case, the Company was using all avenues to make this change.

5. Enhancement cases overview and approach to the environment

Members had been supplied with a paper which was taken as read, and Andy Duff (AD) introduced Carol Cairns (CC) and Tony Erskine (TE) and then gave an overview of the Company's approach to the environment, covering key points.

Enhancement programme size and costs

Members noted that the main costs were driven by:

- WINEP was larger than any previous reviews, comprising of:
 - Storm overflows (35%)
 - Nutrient neutrality ((39%)
- WRMP
- Asset Health case, which was being built
- Climate change adaptation – proactive protection and also reaction to events
- Net Zero

WINEP

MJL asked how the Company could balance WINEP statutory requirements with the issue of affordability.

One WF member said the proposals were so significant that the sheer scale of the statutory requirements' impact on bills was staggering. They had been working to influence the Company and the Periodic Review process for many years, and these issues had been raised throughout that time, they were not new. They understood that Ofwat had different priorities and over time had led water companies to do other things. But companies had made their own choices and decisions within the regulatory framework. Now it could be very difficult for this Company to manage the situation on its own - it would need to be considered nationally to find a solution.

In addition, MJL said some members would recall how, at PR19, the Company planned to take the opportunity to make some additional investments when bills were about to go down. However, Ofwat's priority was to keep bills low.

Members commented robustly on several aspects:

- storm overflows had been heavily covered in the media; and the emerging nutrient neutrality issues could cause further reputational damage and fundamentally change how customers would see water companies;
- good customer engagement for this would be critically important – customers would need to understand what they could be paying for; it would be equally critical that customers understood the impacts of not investing; and
- if customers were not able to pay, looking at the economics of the North members wondered how any other funding could be found; partners and stakeholders would be under financial pressures, so this could be a perfect storm.

The Company gave some additional information, members noted:

- the Company was not an outlier, it was well ‘in the pack’ with other companies;
- on previous environmental investments, e.g. around water resources and Blue Spaces, important work had been done;
- the water quality problem was not all down to water companies, e.g. there were impacts from agricultural, industrial and mining sectors; NWL examples included Teesport, one of the largest heavily industrial and chemical areas in the country, where the impact of sewage treatment works was tiny in comparison to other discharges; also Storm Overflows on the Ouseburn – if these were all blocked up this would not bring the river to life because of the existing agricultural and industrial discharges; and
- yes, the Company had a part to play but it was not the only factor and it was unfair that customers would bear the burden of trying to fix all the environmental damage.

MJL confirmed that members felt that there needed to be a national conversation on how these national infrastructure issues need to be funded. She urged the Company to press the Government to reconsider. **Challenge: Company.**

AD gave members an overview of how the challenge had developed. In March 2022 the Company was talking about nutrient neutrality as an opportunity to provide wetland projects to developers, which would have benefitted customers as it could have secured extra revenue to set against bills. The news that end-of-pipe solutions would be required by the legislation had come as a surprise. Although nutrient neutrality had been around for a long time, the tactic of requiring ‘technically achievable limits’ on sewage treatment works outputs was new.

MJL said she would raise the issue at the next COG ICG meeting. **Action: MJL.** MJL also challenged the Company to work with Water UK to raise the issue again. **Challenge: Company.**

With regard to selling ‘Nutrient Credits’, members referenced Anglian Water’s approach and asked if NWL’s approach was going to be similar. They noted that water companies working together could be more beneficial than working individually. CC said the Company was working in a strategic partnership with the Rivers Trust, together they had formed the North East Catchment Hub. With other partners they had been looking across the Company’s catchments for catchment solutions to WINEP challenges. The Company had received the report from this initiative and at least 20 opportunities had come from work with stakeholders over summer 2022. CC said she would provide more information on the project. **Action: Company.** With regards to customer research, members noted that customers would see these types of options included in the range of solutions they would be able to review.

Net Zero

On carbon, members asked for the Company’s logic on prioritising converting its fleet to electric vehicles.

AB updated members on carbon emissions generally – members noted:

- the Company had a target to be Net Zero on operational emissions by 2027;
- it was one of the few companies that had a financial incentive;
- it was making good progress on reducing emissions;
- the last big area to complete was on the fleet; and
- on decarbonising the fleet the Company would be Net Zero.

AB added that process emissions would be harder to reduce, innovation would be needed for this. Also, because the Company would have hit Net Zero, its plans to go further would be discretionary. If there was a cost that customers were not willing to pay it could be progressed later.

Business plan funding and WF assurance

AB summarised the Company's options:

- where measures were statutory, it could lobby for change;
- where activity was discretionary, it could ask its customers if they wanted improved services and if they were prepared to pay for them, the Company would listen and if directed then take on the risk of not delivering.

MJL asked if there could there be a cap imposed on bills, e.g. like the one imposed on the energy sector? AB said that customer engagement on priorities and appetite for bill increases could start to inform a cap approach. The challenge of an overall cap would be that if the Company could not deliver with the totex it was given, that would be a problem. Members noted that the funding would then have to come from elsewhere, e.g. affordability funding, as in South West Water's case.

Members noted that this was a pivotal point – an issue that needed to be logged as a challenge and also needed to be included as a strategic discussion across ICGs. **Action : WF.**

Members noted this was a difficult process, but at the end when decisions had been made, there would inevitably be a large statutory investment programme required. On the 'upside' this could be an opportunity to put money into local economies. The Company needed to carefully plan its delivery capacity, looking at how it could build the resources it would eventually need. Members noted that the WF had an extant challenge, calling for the Company to increase local spend.

On engineering deliverability, AB said the Company was looking at this with other companies as there was a national deliverability issue. He agreed there could be a limited silver lining to the increased investment and the Company was looking at local delivery solutions, as well as recruiting and training people. AB then agreed to specifically look at how to maximise the benefits for the Company's local areas. **Action: Company.**

Members noted that the Company had experienced issues on making its case for investment at PR19, and asked how the Company would improve its approach for PR24. AB said it had recognised this and had increased its internal resources, and taken on external expertise to help build stronger investment cases. However, the programme of work would be many times larger than PR19 and therefore there would be a lot more work to do. Also, guidance had been provided late, and subsequently planning had started late, so the Company was squeezed for time. AB said Ofwat had been publicly challenged on its previous behaviour of focussing too much on keeping bills down. Therefore it would be sensitive to this issue and probably would concentrate on agreeing to appropriately evidenced WINEP schemes, while keeping the non-statutory business plan costs low.

MJL said members had previously agreed that to be able to comment favourably, any discretionary enhancements would need a robust case supported by customers who had a full understanding of the impact of the investments.

MJL said members were due to work on their PR24 assurance questions (agenda item 6). The Company had agreed to make funding available to the Forum to commission additional work where required. Members felt that a number of the Forum's challenge questions could benefit from some additional independent critique. **Action MJL and Company.**

AB said the Company supported this approach, and the WINEP proposals would be the most important part of the business plan.

Members said they needed timelines to fully understand the customer impact, e.g. when investment would be made and when bills would rise. **Action: Company.**

AD said the Company planned to bring its costs and outcomes to next meeting (8 December 2022). This would start to fill the timeline gaps.

6. Assurance questions update

MJL said that members had been supplied with papers which were taken as read. She said good progress on assurance had previously been made.

AD presented on ideas for improving the questions and how the Forum could address the questions, including how they could be coordinated with deep dives and possible timescales.

Members worked on the questions; several amendments were agreed.

NS had worked on CEP assurance and provided a paper. She said, for the CEP, she had started with the Forum questions and then looked for an overarching CEP objective for the WF. Also, she felt there was a real need to include the CEP assurance criteria into the deep dives to ensure that a joined-up approach to maintaining customer engagement assurance (including COG) was part of the process. NS said questions CEP1–5 could be included in the deep dives, 6 and 7 could be used later when the business plan was being drafted. There was an overarching question 8 which would then be addressed.

On timescales for deep dives, RM said the WINEP for example would be closed off by 31 March 2023. MJL asked AD to review the timescales and get back to the Forum as soon as possible. **Action: Company.**

Members noted:

- some deep dives might have to go ahead without the full suite of customer engagement information and this would be included later;
- for others, the customer engagement evidence could be ready;
- for some, the Ofwat customer research could be used;
- customer engagement could be incremental, for example the Company should not shy away from doing incremental research to complement the Ofwat material if needed;
- the deep dive list was not fixed, items could be added, e.g. if issues came out of customer engagement sessions; and
- the Company was planning to engage with a third party to carry out triangulation, members would need to understand the timescales.

MJL said the questions were progressing well and some work was needed to refine the deep dive programme.

The meeting concluded and Members then resumed in camera to hold their meeting review.