

8 DECEMBER 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, Melissa Lockwood

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

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

For Economic Impact theme: Sarah Glendinning (CBI)

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, Jennie Collinwood, Ross Smith, Elaine Erskine, Andy Duff, Benjamin Wisniewski, Geoffrey Randall, Tony Erskine, Carol Cairns, Colin Day and Keith Haslet.

Company Secretariat: Judith Huffee

MINUTES AND ACTIONS

1. Welcome, apologies and aims of the meeting

Melanie Laws (MJL) welcomed members to the meeting.

Apologies had been received from Mary Coyle (Independent member), Iain Dunnett (New Anglia LEP), John Torlesse (Natural England) and James Copeland (Vice Chair and NFU).

MJL gave updates with regards to the following:

- On 23 November 2023, MJL had attended the Challenge Coordination Group (COG), the major topic was the Water Industry National Environment Programme (WINEP). The Environment Agency (EA) had given some excellent presentations, and there was good all round engagement. MJL had raised the issue of the magnitude of funding which would be required to deliver statutory and other commitments. As the EA had not given any indication on how companies were individually affected by WINEP, MJL had later asked the Company to provide information on where it sits with regards to others. **Action: Company.** On WINEP scale, Melissa Lockwood (ML) said the EA had looked at the impact overall across the industry and the indicative numbers were showing the scale was about four times that of PR19. All companies were affected and the bulk of their programmes were statutory.
- On 1 December, MJL attended a good second session of the COG on affordability and acceptability testing Draft Methodology and the Open Challenge Sessions. Also MJL, Caroline Warner and Zoe McCloud had been invited by Ofwat to form a small sub-group. In early January 2023 the sub-group would meet with Ofwat and CCW to discuss the interface of the Independent Challenge Groups (ICGs) with the Open Challenge sessions.
- With regard to affordability, it was clear from the Affordability and Acceptability Draft Methodology that ICGs were expected to focus on this and the COG may have a session on this in early 2023 to have an overview of the different ICG approaches.

- On commissioning of expertise on behalf of the WF, invites had gone out to four potential candidates, responses were to be received by 14 December and interviews would be held on 16 December; if this was successful the expertise could be in place by end of December 2022.
- On working on PR24, MJL planned to have monthly catch up sessions with Nikki Stopford (NS) and Andrew Beaver (AB). Members would be able to join these sessions or refer items to them if they had any pressing issues.
- On press coverage of the water industry, MJL had asked Ross Smith (RS) for a briefing from the Company regarding recent press articles on water company debts; this was nearly ready and would be sent to members.

Members asked whether Ofwat had given its views on what it wanted ICGs to do. MJL said it was starting to emerge but was still not clear. However, MJL said she was clear that the WF's key focus would be on how customers were being engaged, whether that engagement was robust, and whether engagement outcomes were being appropriately reflected in the Business Plan. NS and the CEP would be helping the WF to navigate this scrutiny in an informed way. The WF would be able to present a credible and strong piece to Ofwat, and to the Company, which should help inform the plan development and subsequent performance monitoring in due course

In summary, members noted that they would need to make an informed view of the Company's customer engagement. To do this thoroughly they would need to look more broadly at the Company's plans.

2. Minutes and actions from the last meeting

Members agreed the minutes of the 18 November 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:

- Overall package of outcomes and costs (Agenda item 5)

Members had also been supplied with the following background information papers for review:

- CEO update (Paper A)
- Regulatory update (Paper B)

Members had also been provided with the following slides for reference:

- Draft Business Plan outcomes and costs and its annexes

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.

Members noted that Ofwat had issued press notices (6.12.2022) and just published its Service Delivery Report (8.12.2022). In the press, it had said some companies had invested less than half of their allowances. In the report, NWL had been listed as a poor performer.

AB said there were two press articles, one was on wastewater spend where the Company was not mentioned as its expenditure was in line with its allowance. The second was on water enhancement spend, where the Company's spend was less than it had expected for the point in time (2022). He said spend on large water enhancement projects was generally later because of the need for plans and permissions, and the pandemic in the first year of the AMP had inevitably caused timing issues. AB said the Company was seeking to deliver everything it had committed to, and was expecting to overspend against its allowances in aggregate.

On Ofwat's Service Delivery Report, Ofwat had only notified the Company on 7 December 2022; it had been surprised by the assessment and needed to review it in detail. Ofwat had said it had judged performance by the number of the Company's Performance Commitments that it was not meeting, rather than an assessment of actual performance against other companies. AB said the Company had carried out its own comparative performance assessment, and it had come fourth using that method.

Members noted that, because of the nature of the regulatory five-year plans, the Company's phasing of work was stop-start in nature; this would be especially difficult with the size of the PR24 investment programme. They asked the Company how it was planning to mitigate this.

Delivery of investment

AB said the Company had started to work with its partner, Jacobs, looking at that very issue. If the scale of the programme the Company was going to have to deliver changed significantly, how would it need to transform to deliver. The Company had received a draft report on this work and would bring this issue back to the WF. The report had recommended that the Company could push some work, eg some of the design elements of larger statutory schemes, forward into the last two years of the current AMP, scale up internal resources, review its delivery route with supply chain partners, and look at different delivery routes.

Members asked the Company to give them the detail of the water investment shortfall against planned and phased work. **Action: Company.**

Financial challenge

AB said that if a Company had to deliver such a huge investment, it would have to borrow money at a scale possibly over three times more than any previous period. This would create a financial challenge for water industry businesses.

Members noted the press debate on the high level of debt in the water industry and asked if companies could get their shareholders to directly contribute to funding and receive their dividends through that route.

AB said the Company's shareholders already did invest. However with regards to paying for capital investment, debt was a better way to finance as it was cheaper for customers. Debt would only become a problem if too much debt was incurred and there was not enough equity in the business to deal with financial shocks. As a requirement of its license, the Company annually carried out a long-term viability statement, which involved that kind of analysis. In terms of debt, the Company was exactly on the industry average, and was highly financially resilient, its debt equity balance was good.

MJL said the press narrative would inevitably shape public opinion. Therefore the WF needed to see how the Company was communicating with customers on its financing and its shareholders. Some other utilities, for example, were articulating in their communications that their shareholders were going above and beyond, eg paying for tree planting. How would the Company reflect back to customers on the role its shareholders played in creating a long-term sustainable future for customers, going above and beyond what the regulators were asking it to do. **Challenge: Company.**

On recent Ofwat publications Louse Hunter (LH) said the national media was the wrong place to play this out as it created a toxic environment. Ofwat had broken its 'no surprises' agreements. Also the 'story' that water companies had under invested and not spent the money that customers had given them was not true. To cut through this the Company had been talking to local business journalists to help them understand its position on investment and its actual performance. The Company was also creating a knowledge hub on its website bringing information together in one place. Potentially customers, journalists etc would be able to go to this hub to find the Company's position on issues such as water quality, finances, storm overflows. The Company was also working closely with CCW, to help promote it as a customer champion.

On shareholder behaviour, AB said the Company had changed its shareholder dividend policy. The Company already had an executive pay policy which linked the reward that the executive gets to service performance and cost efficiency, with 60% of the reward linked to service performance. In order to get that reward, the executive needed to deliver very stretching service levels against its targets, which were normally more stretching than the Company had in its regulatory settlement. The new shareholder dividend policy now linked the dividend explicitly to performance for customers, and aligned with the regulatory framework using Outcome Delivery Incentives (ODIs), Performance Commitments (PCs) and cost outperformance. On cost outperformance, customers would receive 55% of the saving. With the new policy, the Company would be able to transparently show this.

Members noted that the big question around efficiency was 'were these real savings', or just cutting cost by not delivering the service. AB said, on current estimates NWL would overspend and Ofwat had said, in its Service Delivery Report, that the industry as a whole would overspend.

Members challenged NWL on its previous hesitance in celebrating when it did well. Information on the Company was really difficult to find. During previous consultations customers had said "tell us more we will do more". The Company should get its message out, possibly via the new hub, and be more visible. **Challenge: Company.**

CCW noted that the Company had to produce action plans for Ofwat against its shortfalls, and asked for these to be made available for the WF. **Action: Company.**

5. Overall package of outcomes and costs

Members had been supplied with a paper which was taken as read, and slides which had been provided for reference.

Members said some of the material was repetitive and had been covered before at previous sessions. This repetition was fine (and indeed helpful), but some of the content had already been commented on and this could usefully be acknowledged in the papers, even if it had not been possible, due to timing, to reflect on those points.

AB said the presentation materials had been the very first cut. He apologised for the WF comments not being reflected, it was an effect of the pace of the process. This would be addressed going forward. On service levels, Ofwat would possibly be supplying the industry targets in the week beginning 12 December 2022 and this would inform the plan. With regards to performance the Company was already in the upper quartile, so it did not have far to go in improving these. On base costs, the Company was close to the upper quartile, again not far to go. The real challenge lay with the size of the enhancement investment. Where the Company had a statutory requirement it had very little discretion. The Company would be looking to consult with the WF on areas where there was some flexibility, and opportunities to do things differently. Members noted that these opportunities could be looked at in the deep-dive sessions, using their own advisor to help them to form appropriate challenge.

Andy Duff (AD), Benjamin Wisniewski (BW) and Geoffrey Randall presented the overview of the extent of the Company's business plan, its impact on customers bills and how this had been developed using customer research.

AD said the information provided was a starter and this would then lead on to working through the deep dives process, he went on to give members a presentation.

Author's note – the detail of the presentation was included in the slides and, to reduce repetition, is in in Appendix 1 (Draft Business Plan and its annexes) and referenced by slide number against members' commentary.

AD said that this was the beginning of a conversation and there was still a lot of uncertainty.

On the timeline (Slide 3), MJL said the said the customer engagement piece should be placed front and centre of all the Company's materials. **Challenge: Company.** AD said he would ensure this happened.

On People Panels (Slide 14), MJL asked Elaine Erskine (EE), now the Company had Ofwat's Affordability and Acceptability Testing Methodology, how robust she considered this to be. EE said the Company's engagement methods were robust. The People Panels were quite a small sample, but they gave good indications. The Company could then carry out more robust pieces to verify the results. NS asked if the Company was seeing any differences and divergent views across regions. EE said the People Panels were broken down regionally, this was indicated in the slides, the Company could also carry out a breakdown of its formal survey.

NS agreed that breakdown and understanding of the quantitative research was really important.. The People Panels could be used to flush out, understand and crudely rank the issues. EE agreed and said that this would come out in the work on triangulation.

On bespoke PCs (Slide 15) MJL noted the WF had previously said that customers would expect the Company to continue to monitor former bespoke PCs because they would think it was the Company's duty to do this as part of providing a good service. BW said yes, the Company would continue to monitor them, it would be outside of the bespoke PC process.

On Service Levels and Outcomes (Slide 16) which was a list of questions for the WF, MJL said the WF would take them away to work on. Members' first instinctive reaction was to support the repeat Sewer Flooding commitment. From a customer perspective this was such a dreadful thing to happen. A way to ensure the problem was addressed needed to be found.

With regard to performance measures, members said the WF would gain more confidence if the company provided the measures in the context of how other companies were performing, eg leakage.

If the Company is planning to include financial incentives, it must test, test, test with customers. **Challenge: Company.**

Members noted that Slide 14 indicated the Company had asked Essex & Suffolk customers about repeat sewer flooding and sewer blockages bespoke PCs, but any changes would not impact these customers as Essex & Suffolk (ESW) supplied only their water.

EE said the Company had, however, made it clear that it was a measure for the Northumbrian Water (NW) operating area only, and it could separate out the NW results from the ESW results.

On Base Costs (Slide 18-22) , MJL noted that the WF viewed asset health as highly important.

On enhancement costs (Slide 29) which captured the scale of the financial challenge, members challenged on the increase in bills over that which had been presented at the 18 November 2022 meeting, from 20% to 32%. AB said yes, the list of enhancement items had increased, this PR was a mammoth task to cost.

Members asked the Company to show the increase to the total bill, ie water and wastewater together. ESW customers would also need to see their total bill. AB said he and EE had spoken to Anglian and Thames customer research people on this, as it would be particularly important for the acceptability testing. The requirement for testing on total bills was in the Ofwat draft methodology. The companies also needed to consider how to approach the Open Challenge sessions to achieve a total service approach. The bills information was not yet available but was not far away from being so.

On enhancement approach (Slides 30 - 37), MJL said the approach seemed reasonable. Members noted two areas, nutrient neutrality and river monitoring, where the Company had said there could be different ways of achieving at least as good an outcome with potentially lower bills and other possible benefits. It was important that the Company prepare a paper on the costs and benefits of each approach. The understanding of the value of catchment solutions was needed to inform the national debate. **Challenge: Company.**

Members noted that the language in the media and to customers on this would have to be right. On nutrient neutrality there were currently many voices, building companies, farmers, all blaming water companies and each other, when actually the problem is caused by all of them. The sooner the Company could start its consultation, the better.

AB gave updates:

- On nutrient neutrality, the requirement was in an amendment to the Levelling Up Bill and was going through Parliament. The amendment required companies to address nutrient neutrality at the treatment works. It had been slightly changed, increasing the size of the works it applied to; this was a minor change and would only make a minor difference to bills. There was an ongoing industry-wide process to achieve an amendment to the Bill to allow catchment-based solutions.
- On river monitoring, the Company had sent numerous scenarios to DEFRA, which was working on this. This was the area that was most likely to be successful, however there were so many scenarios the Company was unable to make a judgement on the possible outcome. Helpfully, a number of environmental NGOs had realised that, although increased river monitoring was needed, some of the proposals were not good. Also, there was currently a debate on who would carry out the river monitoring, although wherever the responsibility would lie, customers would probably be paying the bill.

In its presentation, the Company had referred to customers wanting best value. Members noted that it would be wrong to run ahead with that premise. The cost of living crisis had caused people to not be able to make best value decisions for their own households. **Challenge: Company.**

Members noted that in its PR19 submission, the Company had proposed enhancements to reduce flood risk and had not been successful. Was this included in the current submission? AB said the real advantage for PR24 was the existence of the Drainage Water Management Plan (DWMP), which was not available at PR19. Need for uplift in sewer capacity could be through the DWMP process and a solid case could be made. The other process which the Company could use was Climate Change Adaptation, where one of the items was flooding resilience, eg extreme weather disruption in an Storm Arwen-type event.

On the important area of Asset Health, AB said the Company had submitted a paper to Ofwat, which would be circulated to members. AB said the paper highlighted a serious problem. Over previous AMPs the water sector had not been adequately funded to a sustainable level of asset maintenance. This had been because Ofwat had continuously based its allowances on previously underfunded AMPs. The Company was looking at what was right for customers and wanted to take some steps this AMP to address the issue. However because this was more discretionary, when consulted on additional investment, customers might not agree to what the Company was proposing. Fundamentally this would be a challenging discussion with Ofwat.

MJL noted that as the Company carried out its the customer engagement, it would be important for customers to understand these kind of big picture issues.

With regard to the overall 32% rise in bills combined with the cost of living crisis, members asked where the high level discussions were taking place. Presumably decisions would have to be made on this.

AB said the Company had been trying to engage as a group of companies with DEFRA, the EA, and Ofwat. Part of the problem could be that a number of companies did not yet know what the impact of statutory enhancements would be for them, so were not yet into discussions with their boards and ICGs.

AB said from an affordability perspective, maybe companies could focus on those customers who were in water poverty. There was also debate on the national Social Tariff, which would be one of the big levers which companies could deploy, although this was currently planned for 2026. The Company was trying to bring this timeline forward. Affordability testing would be done with and without inclusion of the Social Tariff.

MJL said some people who in the past could manage but, because of the cost of living crisis, could now be teetering on the brink of Water Poverty. How the Company could help these people would need to be challenged in the affordability task and finish group in early 2023. **Challenge: Company.**

Members also noted that the cost of living the debate brought back the issue of not including inflation into costs, and that the way companies talked to customers about inflation had now become a much bigger issue.

AB agreed and said the Ofwat guidance on talking to customers on inflation was prescriptive. Economic forecasts were showing inflation coming down in AMP8, so there could be less of a problem.

Members said the presentation was a good reference document, and asked the Company to maintain an up-to-date version at an appropriate frequency. **Action: Company.**

MJL said the WF would decide in its meeting review how to provide an early response to the questions that were asked of it in the presentation. Also, early in 2024 the WF would need to finalise how it would approach its assurance questions through its task and finish groups. NS added, on the customer engagement piece, Question 8 needed to change to 'does the plan listen to and meet the needs of its customers by building on high quality and effective research and engagement throughout the process'. This was the broader catch-all question with its seven elements. Without this, the piece would not capture broadly enough whether the strategic purpose was right, whether the designing suitability of the research is right and so on.

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