
24 MAY 2023

MEETING HELD IN PERSON IN PETERBOROUGH

MEETING MINUTES

PRESENT:

Chair and Independent Member: Melanie Laws

For CCW: Graham Dale and Janine Shackleton

For the Environment theme: Melissa Lockwood (Environment Agency), James Copeland (Vice Chair and NFU)

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

For Customer Engagement Panel (CEP): Barbara Leech (CCW)

Water Forum Independent Author: Sarah Young

Water Forum Independent Secretariat: Ros Shedden

Water Forum Independent Consultant: Martin Silcock

For the Company: Andrew Beaver, Louise Hunter, Ross Smith, Elaine Erskine, Andy Duff, Ben Wisniewski, Richard Seales, and Alex Marshall (Consultant)

Company Secretariat: Judith Huffee

1. Welcome, apologies and aims of the meeting

Melanie Laws (MJL) welcomed Water Forum (WF) members to the meeting.

Apologies had been received from Roger Martin (EA), Richard Powell (Vice Chair and Independent member), Nikki Stopford (CEP Chair), Karen Cooper (CEP Consultant), Iain Dunnett (New Anglia LEP), John Torlesse (Natural England), Sarah Glendinning (CBI) and for the Company from Peter Vicary-Smith (Independent Non-Executive Director)

Members had no interests to declare.

MJL said the aim of the meeting was for members:

- to hear their Independent Advisor's update; and
- to hear and challenge on the Company's Business Plan update, including progress on its Performance Commitments and Enhancement cases. Members would also be able to have a closer look at how the Company's 'Business Transformation' plans were progressing.

2. Minutes and actions from the last meeting

Members agreed the minutes of the 16 March 2023 represented a correct reflection of the meeting and there were no matters arising.

3. Independent Advisor Update

Martin Silcock (MS) had previously supplied WF members with a presentation to support his update.

MS summarised the objectives of his work to date (24 May 2023) and noted some key points (Slide 5).

Members noted:

- the risk on enhancement cases was high because they were regulatory and, if the funding cases were not accepted by Ofwat, the work would still have to be done;
- the most problematic enhancement element was the DWI's Compliance Risk Index (CRI) where the Company's performance was poor, also although its focus on operational procedures was essential, the CRI impact of this work would be small;
- long-term underinvestment in infrastructure had caused some of the CRI issues - the Company was focusing on both opex and capex to deal with the issues; and
- on Drinking Water Quality, customers were saying this was what they paid water companies to do, it was their day job.

Melissa Lockwood (ML) on WINEP big-picture issues such as extending Water Quality Protection Zones, said there were regulatory barriers, eg to nutrient neutrality schemes.

On repeat sewer flooding, members noted that the Company would probably not be proposing any bespoke Performance Commitments (PCs) but was considering other financial options on internal sewer flooding assistance to customers (Slide 25). Members debated on the benefits and issues regarding direct compensation to individual customers.

On efficiency assumptions, members noted:

- the definition was to be overwritten by Ofwat;
- it would be an important comparator which would measure the ambition of the Business Plan against other company plans; and
- if required it could form the basis for an appeal.

MS outlined some efficiency terms:

- Frontier Efficiency was productivity improvement measured against other leading companies and sectors;
- Catch-up Efficiency was the measure of requirement for lagging companies to catch up on the Frontier company; and
- with regards to wastewater, the Company was at or close to the Frontier, for water it would probably require some catch-up.

Members noted that companies could calculate their Catch-up requirements every five years when all companies' data could be seen and used (this was last done at PR19). Members also noted that, on efficiency, some companies would make assumptions which aimed to secure a good outcome on Ofwat's Quality and Ambition Assessment.

It was also noted that during his discussions with the Company, Martin had challenged it on its efficiency target and there had been some movement upwards – from 0.6% to 1.0%.

4. Customer Engagement Panel (CEP) update

Members noted that they had recently received a Company paper on Acceptability and Affordability Research.

Barbara Leech (BL) gave an update on CEP activities.

Members noted:

- the Acceptability and Affordability research, referred to in the above paper, was now well underway;

- the CEP had spent time continuously reviewing and challenging in ‘real time’ and believed it had a good understanding of the Company’s proposals and how it was operating in this space; and
- there had been some glitches on recruitment of participants, eg attendance, non-household, and the digitally excluded.

MJL and Simon Roberson (SR) said they had attended as observers the 12 May ‘Your Water Your Say’ event and said it seemed to have been well run. Specific issues had been addressed well by the Company, including the handling of the potential “going to jail” question, and a good response on where participants had issues of specific concern to them or to their local area of interest (where individual follow up was offered). However, the presentation on the issue around shareholder contribution and so on, while addressed in the session, could do with sharpening up – customers needed to be able to see how much shareholders were investing, and how much they were taking from the business and how they were focusing on supporting the most vulnerable, and their communities and customers in general. BL said practically every customer engagement session she had observed had included questions on Shareholder contribution. There had also been an underinvestment narrative.

5. Members’ deliberation

Members had previously been provided with a Company paper which supported Agenda item 8 (AMP8 Transformation) and the following Company background information papers for review:

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

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

6. General Company updates and questions

MJL welcomed the Company to the meeting. MJL said that, among other things, it was a good opportunity for members to hear an update on the Water Industry National Environment Programme (WINEP) and to have a discussion on executive remuneration.

WINEP

On WINEP, Andrew Beaver (AB) said the Company had submitted its nature-based approach to nutrient neutrality and, on Advanced WINEP the EA had rejected its approach. Negotiations were underway and the Company was making its case. The core WINEP approach was still being developed by the EA and the Company could possibly do things under this umbrella. On nature-based solutions, members felt that clarity was needed on what the actual legal obligations would be. Members noted that the Company had been clear that the nature-based option was least cost when compared to hard engineering, and the Company felt that the actual resulting solution could well be a mixture of the two. Members noted that they would be interested in customers’ appetite for nature-based solutions.

Water Industry executive remuneration

James Copeland (JC) said that there had been some significant press coverage regarding executive pay, including the receipt of bonuses where some CEOs had not taken their annual bonus. The Company was asked about the position for NWL.

Louise Hunter (LH) summarised the way that remuneration and the Company bonuses were calculated. She said that remuneration was of course handled independently from influence by the Executive. The Company had a Balance Scorecard comprising of several stretching measures against which performance was assessed

CMEX

LH noted that for 2022/23, the Company had finished in top place for its C-MeX (Customer Experience Measure) with a score of 83.74.

LH said customer service was a complex mix of the whole operational service. The Company would continue its focus, and extend it into other areas, eg developers.

Suffolk water resources

On its Suffolk water resources proposals, Andrew Beaver (AB) said the Company was becoming more optimistic of a positive outcome.

7. Business plan update

Andy Duff (AD) and Ben Wisniewsky (BW) gave a summary of progress on the Business Plan, this was supported by detailed presentation slides.

On PC Level (PCL) progress (Slides 2 - 6), members noted:

- on Incentive Rates for PCLs, not all of these had yet been received; and
- on Sewer Flooding Draft Incentive Rates – these had seemed low, and this had been raised with Ofwat recently in letter.

On Biodiversity and build of 'Credits' and reinvestment of Credits, AB gave summary of Company's perspective and how they could be 'spent' in the future, eg could be used for long-term management of environment and working in partnerships.

AD summarised the reasoning behind the Company's content of, and progress on Affordability and Acceptability testing (see slides 7 – 10).

Members noted that the de-briefing session on Affordability and Acceptability scheduled for 16 June would be important in bringing together the outcome findings of the significant number of sessions held during the last few weeks. MJL said that in the sessions she had observed there had been a range of views expressed, including more information required on what the Company would be doing to help reduce the bill impact of the investments needed, through efficiency savings and so on.

On non-household consumption, members said that they would like to see the assumptions of the impact of water saving measures on that sector. **Action: Company.**

On installation of Smart Meters and possible improved visibility of customers' lead pipes, AB said there would be some additional 'opportunistic' lead replacement. However, a more impactful effect associated with the planned mains replacement was expected.

Members noted that the Company had invested in the preparation of rigorous business cases, recognising that in some instances in PR19, the approach could have been strengthened, including assessment of the wider benefits of the proposals, and better cost forecasts.

On the production of the Water Forum Report, AD agreed to liaise with the WF on its needs and on the timetable.

8. AMP8 Transformation

Richard Seales (RSe) gave a presentation on AMP8 Transformation, the presentation was supported by detailed slides.

RSe said project's aim was to ensure that the business was set up to be successful in what would be unprecedented times (see slides 2 - 6).

Members noted the:

- scale of the challenge, in terms of cost, deliverability and need for speed;
- step-change required a large and early transformation;
- need to do things differently;
- need to attract delivery partners in a congested marketplace; and
- need for robust technical assurance.

RSe said this would be a huge challenge but also a huge opportunity. The key would be to have good and robust communications. The Company had a programme (Slides 8 - 10).

Alex Marshall (AM) gave an update on the Transformation progress, covering project definition, delivery, and implementation (see slide 13).

RSe then described the Company's 'Living Water Enterprise' initiative (Slides 14 and 15).

Members asked:

- Within the mechanisms, after developing relationships and training partners, how could the Company negate the risk of losing expertise? RSe said the Company would reach out to multiple resources. Also, co-location working would create a closer relationship. This could also affect local communities where benefits in terms of local employment and education could be felt.
- Could the Company improve how it deals with the 'local' issues? Janine Shackleton (JS) said the Living Water values could be enhanced further by adding a more explicit customer-centric focus. Also, the Company was doing good things in the community, which it should publicise. **Challenge: Company.**
- With regards to plans to work with Anglian Water, could the Company work with other companies? LH said the Company was already looking at 'opportunistic' activities, eg Apprenticeship schemes. The Company planned to raise this with others at its Innovation Festival in July.
- On the Pain/Gain arrangements with partners, how would this work? RSe gave examples.

Members considered that the Company would need to get the governance right and have a shared commercial agreement to elevate the relationships beyond previous AMPs. RSe said that this approach was already starting to work.

The meeting concluded with an in-camera review session for Forum members.