

14 JUNE 2017

THE GREAT NORTHERN HOTEL, PETERBOROUGH

MEETING NOTES

PRESENT:

For Environment Agency (EA): John Giles
For Customer Council for Water (CCW): Robert Light
For Environment Agency: John Giles and Melissa Lockwood
For National Farmers Union (NFU): James Copeland
For the Customer theme: Joseph Surtees (StepChange),
For the Environment theme: Professor Mark Reed (Newcastle University), Chris Barnard (Ouseburn Trust),
Anna Martin (GroundWork)
For the Communities theme: Mary Coyle (Independent member), Jo Curry (Changing Lives); Lesley Crisp
(Citizens Advice)
For Economic Impact theme: Steve Grebby (CCW)
Water Forums Independent Author: Sarah Young

For the Company: Heidi Mottram, Claire Sharp, John Devall, Ceri Jones, Louise Hunter, Richard Warneford,
and Elaine Erskine

PhD Student: Fiona Calder

Ros Shedden (Water Forum Secretary)

NOTES AND ACTIONS

Members met with the Chair and the Water Forum Secretary without the Company

1. Welcome and apologies

Mary Coyle (MC), Independent Member, welcomed everyone to the meeting. MC said Jim Dixon (JD), Chair, and Melanie Laws (MJL) Vice-Chair had sent their apologies. JD was unable to attend the meeting due to a family medical issue; his wife was being discharged after major surgery on the day of the meeting. MJL had a long-standing appointment and was unable to Chair in his absence. Members agreed that MC should Chair in their absence.

MC introduced Professor Mark Reed, who was attending for the first time.

MC said CCWater's Bernard Crump, Colin Wilkinson and Graham Dale, and Natural England's Stephanie Bird-Halton and John Torlesse, along with five independent members Sarah Glendinning (Confederation of British Industry), Richard Powell (Chief Executive of the History of Advertising Trust, Robert Leng (Essex Chamber of Commerce), Caroline Taylor (Essex Community Foundation and Iain Dunnett (New Anglia Enterprise Partnership) had given their apologies.

Members noted that, despite more apologies than usual, 13 members were attending and their coverage across the work themes was excellent.

2. Notes and actions of the last meeting (30 March 2017)

Members approved the notes of the last meeting of the Forums subject to actions on matters arising being covered later in the meeting and some amendments. Notes on the actions are held in the action log in the Appendix 2.

3. Papers review

Members had received the following papers for information:

- 3.1 Update from the Chair
- 3.2 NWG CEO company update
- 3.3 Members' updates
 - A. Diversity workshop notes
 - B. Programming workshop notes
- 3.4 Regulatory update
- 3.5 Customer engagement update

MC asked members to identify any topics they wished to raise with the Company; the debate on these topics is summarised in items below, ie Question Time (item 6), Members update (item 7) and Annual Performance update (item 9). In addition, all Forum members' challenges have been captured in the Forums Challenge Log in SharePoint, and meeting actions are recorded in the Action Log in Appendix 2 of this paper.

4. Water Forums communication

Sarah Young (SY), Forums Author agreed a communication protocol with members, to ensure efficient working together. When SY sends an email request, all to respond as quickly as possible, even if that is to say 'no comment' or 'I will not have time to review this by the deadline'.

SY had provided members with two draft Forums' position statements, on:

- 4.1 Company 2016/17 performance report
- 4.2 Company's 2016/17 Our Contribution report

Members' views on the position statement are recorded in 4.1 and 4.2 below; members' discussions on company performance and its publications are recorded in item 9 below.

4.1 Position statement on Company's 2016/17 performance

The Company had presented its performance at a Forum sub-group meeting on 5 June, and had provided a paper into this meeting (14 June). Members met in-camera and worked with SY to develop the draft position statement. Members agreed that the draft statement was succinct and had captured the discussion on 14 June.

Members agreed the statement as final and said it should be published within the Company's Annual Performance Report document and on the Forums' web page.

4.2 Position statement on Company's 2016/17 Our Contribution report

The Company had provided an early draft of its Our Contribution report to demonstrate to members what it was trying to achieve. Some members had responded to SY, and she had produced a draft statement.

Members agreed that the draft statement was capturing the correct material and messages. Members agreed that the statement could be finalised.

SY went on to inform members that the Water Forums draft web pages were ready for their review. SY said she would email the link to members for review and signoff.

5. Company members joined the meeting

MC welcomed Company members to the meeting.

6. Question time

Members brought several areas of discussion to the table, including:

- Sustainable urban drainage (SUDS) - in its CEO update paper (3.2), the Company described a SUDS project (Killingworth and Longbenton flood alleviation scheme) where, instead of additional pipes and tanks, the water would be "stored in the natural environment". Members asked for more clarity. The Company confirmed that this scheme was using natural ponds, not concrete boxes. Members asked that the Company make this clear in its communications. Members also asked for more information on this scheme in a separate 'leaflet'. Members noted that they had not seen enough waste water items at the meetings; they also requested some waste water type visits, eg an AAD plant and a SUDS scheme. The Company agreed to set up these visits, it said it would also arrange for an item on its recently launched 'Rainwise' initiative.
- Sewer flooding - in its CEO update paper the Company said its sewer flooding performance had continued to improve, but not at the speed it would like. Therefore, it was giving this "additional attention". Members asked for more clarity. The Company said this was through a mixture of measures including capital investment. Members asked that information on this was brought to a future meeting.
- Drinking Water Directive - in its Regulatory Update Paper (paper 3.4 - section 3.1) the Company had said the key change in the revised Directive would be the move to a "risk-based monitoring approach" and "it is anticipated that the impact would be low. Members asked for more clarity on this. The Company said that, as it had very few drinking water quality issues, and it had a good reputation for transparency and timely, appropriate action it was well placed for a risk based approach. That was why it considered that it would have a low impact.
- Drinking Water Directive - this section also discussed the DWI new water quality measure, Compliance Risk Index and members did not understand how this was related to the Directive. The Company apologised and said these were actually two different things. The Compliance Risk Index proposal was important because the old measure, Mean Zonal Compliance, was not a fair measure across companies. It averaged the drinking water quality performance of zones where there were thousands of customers with those that may only have tens of customers. This gave something called "the small zone effect" where one sample failure in a small zone could affect overall drinking water compliance by an inordinate amount. The Company welcomed the DWI proposal.
- Micro-plastics - members referred to a recent report in the public domain where it is claimed that the environment could be being polluted by micro-plastics associated with water companies sewage treatment works filter media. The media could be degenerating and coming out in the discharge from the works. The Company said there was no clarity on this at the moment, it was a new theory and research was ongoing. In practice the effect should be tiny. With regard to micro-plastics from cosmetics and cleaning products however, there are currently no waste water processes which can remove these - they must be eliminated at source.
- Our Contribution - in its 'Our Contribution' report the company discussed its contribution towards limiting greenhouse gases, citing practices such as AAD and gas to grid. Members challenged and said the Company was possibly not counting some other significant contributions. The Company said it would work with members on this before the final draft was produced.
- Retail switching - with regard to market opening, Members asked if the Company knew if small businesses had been able to switch between companies. Heidi Mottram (HM) said yes there was evidence of activity, however this was low - about 1-2% of eligible businesses. Companies still needed to work to improve customers' awareness. HM said the last awareness survey across companies showed NWG had significantly higher awareness than others - the Company would circulate this to members. HM said, with regard to large companies, there had been a lot of tendering activity.

7. Members' update

Members had attended several Company briefings, workshops and customer engagement events – these were noted in paper 3.3. Members' views on these activities are summarised below.

Performance Report and Triangulation sessions on 5 June 2017:

Members said these sessions were both good, they had allowed open discussion. The Company was open to taking advice and listening to opinions - it was a really engaging day. Members looked forward to seeing how their feedback made a difference to the process.

Elaine Erskine (EE) thanked members for their challenge and advice on Triangulation, the Company agreed it was a great session and it had taken 36 actions away. EE said the Company was planning a customer engagement workshop, where it would bring everything together.

Customer engagement events:

Members said the customer engagement events were generally good and positive, and practically everyone attending engaged and participated. They made the following specific observations:

- One member had observed a workshop where there had been lots of discussion where the moderator had not corrected some misconceptions, members said they were concerned and challenged that the whole outcome of a session risked being flawed. EE said that feedback from the member who observed this had been taken on board immediately and that misconceptions were clarified at subsequent workshops.
- Members asked if the Company could ask workshop participants what they thought about the process and what they thought would be best practice. EE said this was a great idea and that moving forward the Company could include this on the feedback forms.
- Trust workshop – members liked how the Company warmed up participants, to enable them to focus on the subject; although they were not sure the workshop itself worked, however it was a good try.
- Our Finances Explained – members said “congratulations!” This was a fantastic start to the conversation - it gave the Company nuggets of information, eg where the Company was talking about 'my bill' customers would prefer their real bill. Members said the analogies used to help customers understand were good.
- Members said some conversations were 'strange', eg for service perception and measures, some customers were not aware of the service - they took it for granted; some thought it was good. This session had good engagement but was a little too long, it lacked the pizzazz of some other events. Perception of value for money (vfm) - customers didn't know what they were paying and had no reference point with which to compare vfm to. Comments that customers take some things that the company focuses on for granted, so for them 'non-interruption of service' is not a priority because they do not have a problem with that today.
- Water Catchment workshop in Ipswich – members said this was really good, it captured a lot of information and actions. Members are interested to see how the comments will have an impact on the Company's plans.

Other information:

Members highlighted three external pieces of work that will be of interest/have an impact on discussions:

- EA and Natural England's WISER Report, which they hope to launch late June/early July.
- HM Treasury's work on debt advice.
- Using the Innovation Festival to talk about finding 'Invest R&D Funding' so that ultimately customers could benefit.

8. Business Plan Update (see also paper 8.0)

The Company had provided a paper outlining its PR19 assurance arrangements.

Members noted that the Company would update them throughout the review, a dashboard would be provided and update monthly. All assurance reports would be placed in the Forums information system.

9. Annual Performance Report (see also paper)

Leakage - members asked the Company for its views on its leakage performance.

John Devall (JD) said that 2016 was an extremely challenging year in both operating areas; the Company had, with difficulty, managed to meet its target in the Northumbrian area - but had not been able to recover enough in Essex & Suffolk and had failed this target.

JD said this was unacceptable and the Company was developing an action plan to manage leakage, learning from what had happened in 2016. It agreed to go back to the Forums with its plans and progress.

10. Tapped In – An Ofwat view on Customer Participation (see also Ofwat publication, Company paper and presentation slides)

The active involvement by customers in the **design, production, delivery, consumption, disposal** and **enjoyment** of water, water services and the water environment in the home, at work and in the community now and in the future.

Claire Sharp (CS) said the Company had looked at its approach with the Corporate Culture Group who were the consultants that Ofwat had used to produce their Tapped In Report.

CS said the Company was very active within the community and lot of participation type of activity had been done or was underway. However, Ofwat was looking for 'working to scale'. The Company saw there were opportunities to bring all its initiatives together, and also to work with additional partners; this had the potential to bring more value. Members challenged - what was meant by "to scale", and how could it be measured? CS said this was a good challenge; the Company was working on this and would come back with a proposal on how to measure it.

In the Company's draft response to Ofwat on its 'Tapped In' publication it had set out case studies under Futures, Action, Communities and Experience. Members thought the Company was carrying great work. However they challenged over the placement of some studies in their document, Water Rangers could be a better example of work in Communities. The Company agreed to consult with members further and review the document.

On encouraging customer engagement, Professor Mark Reed said he was about to publish a paper about the various types of participation that are theoretically possible and how, therefore, to increase participation.

Members noted that lots of customers do not want to be 'active participants', or even to be 'educated' about water and sewage. He therefore challenged the Company to think about how to move the work forward against this backdrop, suggesting, for example, that Water Rangers is described in terms of being about the environment in general rather than sewage/pollution.

Members commented that active participation required there to be a win-win, so challenged the Company to consider this. He reflected that this challenge was summarised in the Finances Explained meeting he attended, where he heard customer comments such as 'I'm on Direct Debit so I don't get involved'.

Members then split into three working groups to debate, challenge and advise the Company on its engagement and participation principles – notes were collected from each working group – the company will feed back on how these fed into its customer participation approach.

11. Regulatory finance discussion (see also paper)

Ceri Jones (CJ) presented the principles of regulatory finance.

- Inflation - CJ described the different measures of inflation, RPI, CPI and CPIH. He also said that Ofwat was likely to change its treatment of inflation; moving away from a five-year prediction to an in year adjustment.
- Bills - CJ described the differing pressures on bills. He said the overall effect should be downward, which should result in increases of less than inflation. In this climate the Company would be able to propose some long-term resilience measures. CJ also said there would be a choice of bills going down in 2020 to 2025 and then back up, or steady bills across both periods.
- Outcome delivery incentives - members asked the Company to quantify their impact on bills. CJ said the impact was very small - roughly £15m pounds would be added to the Company's regulatory value in 2020, this would pay out £15m to the Company over 20 years. This is very different to some other water companies who have rewards added to revenue within the period. In fact NWG's approach has the least impact of all companies. Members asked if this might change in the PR19 review. CJ said the current arrangement was agreed and locked out, however the Company would have to decide what to do for the period 2020 to 2025.
- Debt – members asked about the cost of debt to customers. CJ said debt was generally short-term and therefore recovered over time. The most unrecovered debt was on rented properties and there was an initiative, the Landlord Portal which was beginning to address this. However, the impact on customers remained high, at about £18 per year.
- Nationalisation - members asked, with regard to recent press coverage of Labour's Manifesto, what was the logic behind the calculation of the claim that there would be £100 annual saving to customers if the water industry was nationalised? Members challenged on this; they said the Company would need a clear precise answer for customers on this question. The Company agreed, and said it would provide this.
- Ofwat's move to in-period correction on Weighted Average cost of Capital (WACC) - members asked if companies might borrow on a shorter term if there was an in year correction, and could this affect programming of construction works. CJ said this new approach would not change behaviour. To have too many loans needing renewal at one point in time would be far too risky. Borrowing needed to be long-term across a mix of time-scales.

With regard to making financial matters transparent, members made the following observations:

- Provision of financial information – members challenged the Company to look at the way other organisations provide this type of information - however they recognised that other services are generally competitive and do not need to.
- Members challenged the Company to find a simple description for each concept (eg for paying interest, profits, dividends). Members noted that the use of analogies worked, eg the analogy to mortgage worked well with some customers. However care must be taken in their use - some people cannot get mortgages (there is a generation who are renting) or pensions - possibly an analogy of depreciation to the early termination of a phone contract could work. The use of the pie chart was also good.

12. Next steps

The next Forums meeting will be held on 18 September 2017. In the interim, customer engagement is ongoing; the Company will notify and invite members as events are set up.

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