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Minutes of the nineteenth meeting of the Water Forum

Severn Trent Centre, Coventry

12 September 2016

Present:

<i>Chair</i>	Gill Barr
<i>Consumer Council for Water (CCWater)</i>	Bernard Crump, Christina Blackwell
<i>Environment Agency</i>	Greg Marshall (for Bill Darbyshire)
<i>Natural England</i>	Ian Butterfield
<i>Independent Members</i>	Nick Baker, Rish Chandarana

In attendance:

<i>Severn Trent Water (STW)</i>	Tony Ballance (Director, Strategy and Regulation), Shane Anderson (Head of Economic Regulation), Harriet Towler (Outcomes Manager), Heather Nunnerley (Customer experience and Journey Leader), Hayley Burdett-Ward (Secretariat), Min Grimshaw (Head of Asset Strategy) (afternoon session only), Neerja Upadhyay (Business Planning Controller – infrastructure) (for Current Issues agenda item).
<i>Future Thinking (for presentation of research)</i>	Andrew Williams, Anna Appleford [redact from public version]

Apologies for absence:

Bruce Laughton (East Midlands Councils), Richard Butler (CBI), Karen McArthur (Independent), Steven Wade (Independent).

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1. Welcome

The Chair welcomed attendees to the nineteenth meeting of the Water Forum. The Forum welcomed Greg Marshall from the Environment Agency, to his first meeting for PR19 in place of Bill Darbyshire (who had previously sent apologies), having been involved in PR14.

The Forum welcomed two new independent members:

- Dr Nick Baker, who is on the Board of the Market Research Society and would focus challenge on STW's research plans; and
- Rish Chandarana, who works for a large engineering consultancy and would use his expertise in capital project appraisal and transactions to focus his challenge on STW's proposed expenditure to deliver customer driven outcomes.

It was noted that both members were joining the Forum in an independent capacity, unaffiliated to their current employers.

The Chair reported that two further independent members had been appointed, bringing expertise in community engagement and environmental economics, and would be joining at future meetings. The Chair thanked Water Forum members for providing recruitment support over recent months including, Bernard Crump, Bill Darbyshire and Richard Butler for their help with interviews. The Chair also thanked Beth Oldershaw (STW) for facilitating the recruitment process which was conducted independently of STW.

The Chair provided an update on recruitment and noted that, with all independent roles filled, the appointment of local authority members continues to progress. The Chair and Forum discussed that, in line with the revised terms of reference and role of the Forum, its focus for new member recruitment would be to bring specific expertise in challenging targeted areas of Severn Trent's plan (for example, financial inclusion), rather than its previous model which had sought democratically elected members who were representative of its area. As such, the Forum was now considering members who held officer roles, as opposed to Councillors. Discussions regarding membership are being progress with the West Midlands Combined Authority (WMCA), East Midlands Councils and Powys (which substantially covers Severn Trent's area of supply in Wales).

The Forum noted that good progress had been made on recruitment and a strong team had been formed, who are all looking forward to working together.

The Chair thanked Councillor Bruce Laughton of East Midlands for his continuing contribution over the last four years, as he has stepped down from the Forum.

Action:

- The Chair to discuss with the authorities named above with regards to recruitment.

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2. Governance

Members were invited to make declarations of interest:

- STW reported that it was a corporate member of CBI West Midlands, this declaration was noted.
- Bernard Crump reported that he was a remunerated member of the CCWater Board, this declaration was noted.
- Christina Blackwell reported that her husband was an employee of STW, this declaration was noted.
- Ian Butterfield reported that he was a member of the Trent Rivers Trust, who currently have a contract with STW, this declaration was noted.
- Rish Chandarana reported that as part of his other employment, he was involved in other utilities transactions; these could, in future, create a conflict of interest. The Chair requested that any specific concerns be raised as they arise, and the Chair in turn will discuss with STW. This declaration was noted.

The Forum reviewed the minutes from its meetings on 03 June 2016. The Forum approved these minutes.

The Forum reviewed the actions from previous meetings. The Forum requested that item 18.5 (an introduction to econometric modelling) be tabled at an upcoming meeting. Item 18.7 would be concluded over email with a proposal from STW.

The Forum noted that the actions were in satisfactory position.

The Forum discussed its role in relation to STW's performance against its current performance commitments. The Forum discussed that it was important that it had a clear understanding of STW's performance in order to: understand the extent to which STW was delivering against its current commitments to its customers; and inform its challenge of STW's proposals for performance commitments in 2020-25. However, it also recognised that accountability for STW's performance, and the integrity of the data reported, lay with STW's Board and Audit Committee respectively.

In light of this, the Forum agreed that it should continue to monitor and challenge STW's current performance, and particularly where STW was proposing changes from the Final Determination, that STW should demonstrate that this was consistent with customers' views. However, in doing so, it would be important that the Forum took a proportionate and risk based approach. In order to achieve this, it was agreed that:

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- STW would provide updates on its performance at the full and half financial year, in line with its reporting to the City;
- if a Forum meeting did not coincide with these announcements, a written brief would be sent to Forum members, who could escalate issues at the next meeting;
- the ST Audit Committee Chair would be asked to provide an annual update to the Forum on its view of STW's assurance activities; and
- STW's regulators (DWI, the Environment Agency and Natural England) and CCWater (as the statutory customer representative) would be invited to give the Forum their views of the company's performance throughout the year.

The Chair also requested a standing agenda item for discussion to include other new and key issues arising, noting STW's request that these issues should be for challenge and information only.

The Forum reviewed and confirmed that they were content with the Terms of Reference.

Action(s):

- Action 18.5 to be scheduled for a future Water Forum meeting.
- Action 18.7 to be completed via email.
- Future agendas to include standing item for issues arising.

3. Current Issues

STW presented an update on issues in relation to the current regulatory period (2015-20).

Following challenge by the Forum at its June meeting, STW provided an update on action being taken to improve performance against those commitments reported as being 'red' (or off track) at financial year end.

The Forum noted these updates. In the case of STW's performance commitments in relation to carbon emissions (water), the Forum requested more detailed information about how STW proposed to bridge the shortfall in performance.

The Forum noted the draft submission to Ofwat in relation to the application of its 2015/16 performance against ODIs and the application to charges in 2017/18.

The Forum noted the commitments made by STW in its preliminary results announcement in relation to totex outperformance.

CCWater provided an overview of its 'Water matters' annual research into customer satisfaction with the water industry. The Forum discussed how this research – particularly the net promoter score - compared to STW's own tracking research. It also discussed areas where customer awareness of some issues had, on the basis of the research, changed over the year. The Forum noted that this research could help to inform where behavioural economics could be applied in future – for example, reducing sewer misuse.

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Action(s):

- STW to circulate a detailed explanation of actions to improve the WE1 – Carbon Footprint Performance Commitment.

4. Outline Plan for PR19

The Forum discussed a draft set of working principles, drawing on its discussions from the previous meeting. The Forum welcomed the principles but requested a greater prominence for the concept of ‘customer first’ as well as constructive challenge.

STW presented their approach and delivery plan, and set out how proposed Forum meetings had been aligned to STW’s processes and internal decision making for PR19. The Forum noted the proposed outline agendas and that these would develop further following its November planning session.

One member questioned how STW approached contracting for major investment in each AMP and in particular smoothing investment so that there was not a lag in the early years of the AMP, followed by a spike. STW responded that its Group Commercial directorate were aware of this risk, and pursued a procurement strategy that sought to smooth out peaks.

A member of the Forum highlighted that assurance of the plan had been a significant challenge for PR14, and further improvement would be needed for PR19. STW responded that its assurance framework was under development, and would become more prominent in the later stages of the plan.

The Forum also reviewed proposals for sub-working groups to support the work of the Forum. Whilst the Forum agreed the coverage was appropriate, one member challenged if membership of the market research sub-group should be broader. The Chair agreed that further consideration would be given to how it could be ensured that all members were able to feed into the content, interpretation and use of the research, whilst ensuring the sub-group did not replicate the full Forum.

One member questioned how broader stakeholders would be involved in the development of STW’s plan, and whether they should be invited to join sub-groups. STW agreed to consider potential options.

Action:

- STW to revise draft working principles in time for November meeting.
- STW to develop approach to broader stakeholder engagement.

5. Outline Market Research Plan

STW presented an outline of its market research plan and process, but noted that it was a strawman which it expected the content of to be developed with challenge from the Forum

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over the next two years. STW noted that it had sought to respond to an initial challenge from the Chair to ensure that there was a link to the company's strategic framework.

The Forum questioned the use of risk in the proposed process and how STW's own ambition would shape the development of outcomes to be delivered. The Forum discussed that, as STW developed its plan, there would be elements that were driven by customers, some driven by external constraints (for example, the prevailing economic climate), some driven by STW's own strategy and some by statutory requirements. It emphasised the need for STW to be transparent about what is discretionary and would be mandatory.

The Forum noted the time constraints on some aspects of the research, particularly the use of willingness to pay and other valuation techniques which would be required to inform cost benefit analysis and investment optimisation, and that the company would begin procurement shortly.

STW invited a research agency which had recently undertaken a new piece of qualitative research to start its PR19 process to present the outcome to the Forum. STW explained that historically, its research programme had tended to be driven by the areas of service that it wanted customer views on. To initiate this process, it had wanted to understand what mattered to customers first, and then relate its services to that.

The Forum thanked the agency for attending. The Forum discussed the outcome of the research. It noted the importance of ensuring that where a prioritisation exercise had been undertaken as part of the qualitative research, that this should not be interpreted as a quantified outcome. The Forum also considered that further insight could be drawn from the research by restructuring the outcome.

Action:

- STW to consider options to restructure the outcome of research.

6. Update on 'Big Challenges'

STW provided an update on its 'Big Challenges' process for PR19. They highlighted the approach being taken, which would seek to ensure that all interested internal and external parties were consulted. STW also emphasised the importance of providing robust evidence around the need case to address the challenges.

The Forum noted this update.

7. Meeting in private

The Forum met in private to discuss, amongst other issues, its preferences for items at the November meeting.

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8. Deep Dive into Leakage (Post-Meeting)

Following the meeting, STW provided a 'deep dive' into how leakage had been measured. This had been prompted by questions from Forum members at the June meeting regarding the difference between real losses in leakage and those changes driven by methodological and data changes.

STW set out the complexities involved in calculating leakage, and accounting for losses from its network – particularly where not all of its customers were metered. STW also reported that leakage was an area that Ofwat were considering as part of its convergence project. The Forum discussed a number of challenges relating to calculating leakage and in particular:

- whether the further roll out of meters would lead to a more accurate measure;
- how changes in methodological assumptions and data were assured each year; and
- whether alternative measures, for example, resource efficiency/input into distribution would prove to be better or complementary measures.

The Forum noted that these would be important issues to revisit in the future as performance commitments are discussed.