

**South Staffordshire Water
Customer Challenge Group (CCG)
Held at Green Lane, Walsall**

Tuesday, June 18th, 2013

MINUTES

Attendees:

Yve Buckland	Independent Chair
Rachel Barber	Customer Services Director, South Staffs Water
Matt Lewis	Regulation Director, South Staffs Water
Barbara Julye	Head of Customer Engagement, South Staffs Water
Stephen Kay	Non-executive Director, South Staffs Water
David Wurr	Consumer Council for Water
Adam Lines	Environment Agency
Gemma Domican	Consumer Council for Water
John Thompson	SSW Charitable Trust
Tom Marshall	Lichfield District Council
Greg Marshall	Environment Agency
Bernard Crump	Consumer Council for Water
Andy Baxter	Coors Brewery
Mike Turrell	Director of Water Quality, South Staffs Water
Paul Martin	Head of Overground Asset Management, South Staffs Water
Alex Martin	Head of Water Strategy, South Staffs Water
Caroline Cooper	Network Strategy Manager, South Staffs Water
Scott Reid	ICS
Amanda Borrmann	ICS

Apologies:

Catherine Lund	Spirit Pub Company
Elinor Cordinor	Drinking Water Inspectorate
Ian Butterfield	Natural England
Ray White	Walsall Citizens Advice Bureau
Colin Greatorex	Lichfield District Council

1. Welcome

Stephen Kay was welcomed to the meeting. He said this will be the only time he will attend a CCG meeting, as Sir James Perowne will be acting for both Cambridge and South Staffs regions in future.

2. Apologies

Listed above.

Rachel Barber also said Ralph Tennant had resigned from CCG, as he was no longer a member of the Federation of Small Businesses. Tom Marshall asked if Ralph's successor could be approached to join CCG. Rachel Barber said that was possible, but there were only three meetings left before the business plan is submitted. David Wurr said he was uncomfortable with the number of people who had dropped out of CCG, but the group was in a rock and a hard place as it was very late to ask someone to join. No decision was made to seek a replacement for Ralph Tennant.

3. Review of minutes and actions from last meeting

The minutes were agreed as a true record.

Actions from the last meeting:

1. Tom Marshall asked if a joint meeting with Cambridge Water Forum had been arranged. Rachel Barber said that at the last Forum meeting, volunteers had been asked to attend a joint meeting, but because of their heavy workload, it had been agreed to hold this meeting later in the year. Yve Buckland said the Cambridge Group felt they are running behind the CCG and would have to accept much of the process that has been done by CCG. She said they also needed to think about the best way to handle the two groups – the Forum might become a shadow of CCG, talking about Cambridge issues.

Bernard Crump said there was an issue around the £500k cost savings made as a result of the merger of SSW and Cambridge Water as the company has said it will not be available to spend until April 1st, 2015, so there was more time to think about how best to use it. But, he said he felt there were still some issues around the one business plan for South Staffs and Cambridge and he struggled to see how the group could manage without at least one joint meeting before it is submitted.

Stephen Kay proposed that a joint meeting be arranged at a venue halfway between Walsall and Cambridge or that a video conference be held. In answer to a question about the level of participation among the Cambridge Forum, Yve Buckland said there were a number of very good attenders and participants. David Wurr said he felt there was a strong case for getting everyone in a room together and Yve Buckland responded that she would take that as a strong push to have a joint meeting in July. A number of CCG members expressed willingness to travel to a meeting.

2. Bernard Crump expressed surprise that Davy Jones was not at the meeting and Yve Buckland said she had not heard from him. Rachel Barber said that the contract was in place for Davy Jones's work and the company has paid the first part of it, but the contract was directly with CCG. (This was also discussed later in the meeting).

Challenge: Davy Jones to be asked where within the timeline he is with the work he is doing.

Matters arising from the last meeting:

1. Rachel Barber said a meeting should be set up of the Outcomes Task Group and the Customer Research Task Group and Gemma Domican had provided information on benchmarking of affordability.
2. Matt Lewis said the company spends £25-30m each year in this region, but some areas have been re-prioritised, such as the spend on meter installations, due to the poor housing market, and as a result of efficiencies made in maintenance, which means money is being reinvested elsewhere, for example, at Seedy Mill treatment works.
3. Greg Marshall said he had been unable to review the customer research choice cards.

4. Governance issues

- a) Yve Buckland said she had not seen an update on the assurance report. Rachel Barber suggested the group could appoint a representative between the group and Davy Jones; she was uncomfortable with the idea of the company acting on behalf of the CCG as Davy Jones is working for the group. Yve Buckland said that his report would be for the CCG, but the contract management is a matter for the

company. The group needs to see what he has written and to assess whether and how much additional work is required.

Rachel Barber said that Davy Jones's report should define what needs to happen before December 2nd and Matt Lewis said the customer research and the interim report from Davy Jones, which is a reminder of what has been done so far, would show up gaps for the business plan.

- b) Yve Buckland gave a report on the companies' and chairs' workshop held by Ofwat on May 13th. She said she had learnt little from it, but Ofwat had stressed how important the CCG process was and that the assurance report would be crucial, but Ofwat was unable to tell CCGs what criteria they are looking for in the reports. Broadly, Ofwat says a good report will demonstrate what has been challenged and they must be independent, knowledgeable and evidence-based. Two examples of good practice had been given: Bristol Water, which very much mirrored what was being done here by CCG and Southern Water which was more about how their CCG group was changing the company culture. There was a heavy emphasis on assurance and also on how the challenge process was being carried through.

Adam Lines said the "golden thread" was being able to link what customers want with what CCG is suggesting. A lot of what they call "good practice" is probably just standard practice, he said. Bernard Crump added that Regina Finn is expecting dissent to be evident in the assurance reports.

Rachel Barber had also attended the workshop and during breakout groups a lot of companies had mooted the idea that there would still be life for CCGs after the final determination, though perhaps in a different format. Tom Marshall said that otherwise there was a danger that the CCGs would be like male black widow spiders – done away with after they had performed their function.

Yve Buckland also said there was a lot of talk around Ofwat outsourcing regulation, which was an interesting concept.

Items 5 (review of company performance 2012/13), 6 (Ofwat price review methodology) and 7 (long term strategy – formerly SDS) were all postponed to a future meeting due to shortage of time.

8. Outcomes and measures update

Rachel Barber reported that the Outcomes Task Group has now met three times and in May had shared their suggested outcomes with the board, whose members had broadly agreed with them. The Cambridge group has also set up a task group, which shares some measures with CCG, but its members have identified different outcomes. Matt Lewis said the board had recommended a revision of the Cambridge outcome on community relations.

9. Introduction to the investment drivers for 2015-20

A presentation on key areas of investment for AMP6 was given by Matt Lewis and the project managers. Matt Lewis said this was a warm-up session ready on what will be presented to the July CCG meeting and he hoped the draft business plan would highlight some of the choices to be decided upon.

Challenge: Yve Buckland asked why it was highly likely that there would be an uplift in spending.

Matt Lewis responded that the presentation, including the slides on customer priorities, would show some emerging issues. He said results from customer research showing the

number of customers who would list water hardness as a priority had been the biggest surprise. The company had carried out a “bottom up” review, identifying issues of concern to customers and then putting those issues through internal modelling and risk assessment processes to create a list of key investment areas.

In answer to a question from David Wurr, Rachel Barber said there would be more information available at the next meeting on what the likely outcomes would be when using certain amounts of money.

Challenge: Tom Marshall asked if the company is taking its carbon footprint as seriously as it should. He added that a lot of work has been done with photovoltaics and that there are some very generous feed-in tariffs available.

Challenge: That the company has brought forward new investment expenditure information for the 2015-20 period, not previously given to CCG for consideration.

Yve Buckland said that SSW had said it was a company that did not need to invest and that the challenge had come from the environment, but now new information was being brought to the table and Gemma Domican agreed, saying this was all new spend information. Matt Lewis replied that the Streetly flood in 2011 and two closures of the main A38 trunk road last year following trunk main failures were both a wake-up call for the company, added to which the fact that service reservoirs were not ready when faced with a drought last year made the company nervous.

Rachel Barber said there were still choices to be made and that the executive team would be taking the information to the board the following week. Some issues had only just emerged and there had to be a trade-off against other options.

Alex Martin spoke about nitrate removal sites which are deteriorating in performance and escalating in running costs. Two rural groundwater sites where nitrate levels have increased are of particular importance to the drought management plan and the company wants to use them in a different way and use them more often, but this will be a big investment. Adam Lines said this may be feasible if it was something that was only used every 25 years. David Wurr commented the nitrogen referred to had not come out of bags, but was almost certainly from ploughing around the time of the First World War.

Paul Martin spoke about strategic reservoirs, saying the company is concerned about ones in strategic locations at Barr Beacon and Outwoods 1 near Burton-on-Trent. These were both built in the 1880s and are still in operation but are getting to a tipping point where they need to be refurbished or replaced.

Yve Buckland said this seemed to have come out of the blue; she had not been aware of these sorts of risks when investment plans were looked at before Christmas. Rachel Barber responded that this was part of a package of emerging issues that had only come to the fore within the last few months.

Yve Buckland said she wished to have her surprise put on record and Gemma Domican said she accepted this was new investment, but the fact that CCG had only just heard about it meant they would not have the opportunity to discuss it at a meeting.

Matt Lewis said the cost to replace both reservoirs would be about £11m or £6m to refurbish them both. He said there were choices to be made: to spend zero, to spend £11m, or the company would recommend spending about half that amount [on refurbishment].

Caroline Cooper spoke about trunk mains maintenance; traditionally the company tends to be reactive to this and waits for the mains to fail. But customers have said they want the company to maintain services and some online panel research, which had only been seen yesterday, had indicated they were a little bit more willing to pay to have services managed before they become a problem. As a result, the company now wants to carry out more condition surveys and maintenance. Currently, the spend on trunk mains maintenance is £1.5m [per year] but the preferred option was to increase this to £4.5m. Adam Lines said the National Environment Programme is included in this and this is a statutory requirement, so he did not see that as a trade-off.

Mike Turrell spoke about water hardness, saying the company receives an average 35 complaints about this each year. But, research has suggested both domestic and business customers are concerned about the issue, though only domestic customers were willing to pay to make water less hard. Of the 19 water zones within the supply area, 18 are moderately hard and one is classed as hard, however, the company would campaign to highlight the benefits of hard water, though, water hardness was not an investment driver for the company.

Challenge: Yve Buckland said the CCG needed to be assured that the expenditure was necessary and necessary within the given timeframe.

John Thompson said a lot of company buildings are listed, and he hoped that within the environmental considerations effective provision is made for their maintenance, although progressively is phasing these buildings out.

10. Willingness to Pay research update and presentation and the role of Mike Reid from Monson and the approach to review the investment needs of the company

Scott Reid presented the results of the research and highlighted a number of the issues it covered. Regarding hardness of water, he said this matters more to business than to domestic customers and that about half of all customers (54% domestic, 49% commercial) felt the level of bills was about right. There was a real sense that customers do not like the idea of service going down, he said. Yve Buckland asked if there was any sense that bills should go down and service go up, if, for example, the company managed investments better, but Scott Reid said, in terms of questions following UKWIR guidance, this was not the case.

Tom Marshall said that he felt that the graphs were telling him that if he was a member of the board he would be very satisfied with these results, because if water hardness is the thing customers are most annoyed about, then SSW should give itself a pat on the back.

Bernard Crump said the graphs showed the steepest asymmetry he had ever seen between willingness to pay and willingness to accept – the figures are usually much closer, not 500% different. Tom Marshall added that in fairly simplistic terms, the cost benefit analysis showed that people wished to maintain the status quo, to which Scott Reid replied that while he would not wish to pre-empt the cost benefit analysis, he could see SSW hanging the maintenance programme on the figures, but not the improvement programme.

Scott Reid said the results had concluded that a figure of £9.80 [per year] was how much householders are willing to pay for the delivery of the maximum improvement programme. But David Wurr said that £3.92 of this sum was the cost of improving water hardness, and as the company has said it will not be doing this work, would the figure of £9.80 alter? Scott Reid said this amount could be taken off, but so could any of the items listed that went to make up the £9.80 total.

In answer to a question about the sewerage part of the bill, respondents in the research showed very little difference in what they would be willing to pay to SSW for water if the sewerage costs to Severn Trent went up, said Scott Reid.

A final review of the research has been carried out by Prof Ken Willis of Newcastle University, and, said Amanda Borrmann, he has asked for a little more technical detail in the report, but is otherwise happy with it.

Stephen Kay said he would not expect Mike Reid to say the investments referred to were not needed, but the board needed to show the risks and would be assessing these against customer bills.

Challenge from Yve Buckland: To articulate to the board the challenge from Ofwat about customers facing a difficult time with their incomes going down while profits have gone up.

Yve Buckland said there was a balance to be struck. CCG had heard that customers do not want services to deteriorate and she suspected they will feel they have invested a lot already.

Challenge from Yve Buckland: How to improve investment and services without increasing bills.

John Thompson said social tariffs were also presenting a challenge and the Charitable Trust was also facing an increase in the number of people finding themselves in difficulties.

Stephen Kay said that at the end of the day it was the board of directors who took the risk, and if a child died [as a result of company actions] it would be the directors who would face corporate manslaughter charges, though he added that he did not wish to over emphasise that. But Yve Buckland said it was not just that people might die if the company did not spend the money, but how it ensured people did not die.

David Wurr requested as much advance warning as possible of all of the papers ready for the next meeting, as the group was almost certainly going to have to raise questions then with Mike Reid. Bernard Crump asked if the company was intending to start consultation after the July 25th meeting or after next week's board meeting. Rachel Barber said it was hoped the company would share information with the CCG after the board meeting.

Challenge from Yve Buckland: To set up a business subgroup to look at the consultation document.

11. Any other business

Request from Martyn Spreight of Developers' Voice: Yve Buckland said this matter had been raised by Mr Spreight right across the country. Bernard Crump said the issue would be being discussed at a meeting he was attending next week, and he hoped to give CCG some feedback following that. Stephen Kay said this may be an issue for areas of high growth and it would be useful for Mr Spreight's report to be circulated to the Cambridge region.

Rachel Barber said the timetable would be updated for the next meeting in July. Davy Jones is to be invited to the next meeting..

Closed item

SSW members then left the room for the remainder of the meeting.

Next meeting: July 25th at 12pm. Venue to be confirmed.

The meeting closed at 5.30pm.

Challenges arising in the meeting

- Davy Jones to be asked where within the timeline he is with the work he is doing.
- Why is it highly likely that there would be an uplift in spending?
- Is the company taking its carbon footprint as seriously as it should?
- That the company has brought forward new investment expenditure information for the 2015-20 period, not previously given to CCG for consideration.
- To assure CCG that the above expenditure was necessary and necessary within the given timeframe.
- To articulate to the board the challenge from Ofwat about customers facing a difficult time with their incomes going down while profits have gone up.
- How to improve investment and services without increasing bills.
- To set up a business subgroup to look at the consultation document.