

**Joint meeting of South Staffs Water Customer Challenge Group (CCG) and  
Cambridge Local Water Forum (LWF)  
Held at the Kettering Conference Centre, Kettering  
11am, Monday, September 23rd, 2013**

**MINUTES**

**Members:**

|                   |                                    |
|-------------------|------------------------------------|
| Yve Buckland      | Independent Chair                  |
| Gemma Domican     | Consumer Council for Water         |
| Richard Franceys  | Consumer Council for Water         |
| Elinor Cordiner   | Drinking Water Inspectorate        |
| John Thompson     | SSW Charitable Trust               |
| Tom Marshall      | Lichfield District Council         |
| Greg Marshall     | Environment Agency                 |
| Bernard Crump     | Consumer Council for Water         |
| Andy Baxter       | Coors Brewery                      |
| Ian Butterfield   | Natural England                    |
| Colin Greator     | Lichfield District Council         |
| Julie-Anne Hogbin | Anglia Ruskin University           |
| Brian Jackson     | Wilbraham River Protection Society |
| Jean Swanson      | Cambridge City Council             |

**Attendees:**

|                   |  |
|-------------------|--|
| Keith Marshall    | Acting Managing Director, South Staffs Water         |
| Rachel Barber     | Customer Services Director, South Staffs Water       |
| Matt Lewis        | Regulation Director, South Staffs Water              |
| Steve Morley      | Compliance Director, South Staffs Water              |
| Annalise Lister   | Customer Communications Manager, South Staffs Water  |
| Sir James Perowne | Non-executive Director, South Staffs Water           |
| Karen Baxter      | Communications Office                                |
| Julian Denney     | JD Associates – Co-ordinator of the Assurance Report |

**Apologies:**

|                  |  |
|------------------|--|
| David Wurr       | Consumer Council for Water                             |
| Adam Lines       | Environment Agency                                     |
| Richard Thompson | Environment Agency                                     |
| Nigel Borrell    | Countryside Properties                                 |
| Doreen Ryan      | Cope   |
| John Bridge      | Cambridge Chambers of Commerce                         |
| Paul Hammett     | National Farmers Union                                 |
| Martin Baker     | Wildlife Trust   |
| Mandy Smith      | Cambridgeshire County Council                          |
| Iain Page        | Environment Agency                                     |
| Caroline Owen    | Scotsdales Garden centre                               |
| Rachel Talbot    | Citizens Advice Bureau                                 |
| Mark Robinson    | Cambridge University Environmental Consultancy Society |
| Barbara Julye    | South Staffs Water                                     |
| Ray White        | Walsall CAB  |

1. A private session between members of the two groups was held at the start of the meeting.
2. **Apologies**

Noted above. Rachel Barber reported that Catherine Lund has stepped down from CCG as she is no longer working at Spirit Pub Company.

### **3. Review of minutes and actions from last meeting**

The minutes from South Staffs CCG meeting on July 25<sup>th</sup> were agreed as a true record.

The minutes from Cambridge LWF on September 10<sup>th</sup> are to be amended confirming the “vanilla version” of the Cost of Capital

The acceptability research and draft business plan have both been signed off by the joint task group. The Company thanked the task group for their time. Richard Franceys said that the inflation figure of 3% being used for acceptability testing and the draft business plan consultation was not representative of recent experience and he believed 3.3% should have been used, the extra 0.3% being equivalent to £2.40 over five years.

**Challenge:** If a fair representation of inflation is not used when customers are asked about their acceptability of the plan, will the views expressed be distorted?

Finally a comment from Nigel Borrell was raised by Steve Morley in his absence. The current minute implies that there is a possibility that additional funds for capital expenditure in South Staffs may result in lower spend in Cambridge. Nigel wished to state that this issue could just as equally be the other way around.

The minutes were agreed with the above amendments.

Actions and matters arising:

- a) Responses to Davy Jones’s challenges have been circulated. A meeting of the CRTG has not been held so far, and one needs to be arranged. It was noted that Julian Denney has since been appointed to write the assurance report.
- b) The Company confirmed that “hard to reach” customers and Watersure customers will be included in the acceptability testing, and more detail surrounding this approach would be included later in the meeting.

### **4. Review of the challenge logs for both South Staffs and Cambridge regions**

#### **Agreed that:**

- The three separate challenges from Cambridge around profits should be formed into one overall challenge on fair profits.
- The challenge from South Staffs on the timeline and issuing of documents should be looked at again to better reflect the group’s comments.
- It should be made clearer that the introduction of a social tariff is “zero cost” to the company and customers as a whole, with most customers paying extra to cover the cost of the subsidy for those who qualify. The company should also consider putting this in the business plan for transparency in order to make a commitment to introducing a social tariff. In addition that the reference to introduction post 2020 was incorrect, which the Company confirmed; it should have stated pre 2020.
- The CCG encouraged the Company that the Charitable Trust scope should be extended to Cambridge.
- The EA confirmed the positive movement of the Company on the Eels passage.
- The challenge made by Cambridge LWF on fair returns should be made more formal.

- There was a challenge made at the September Cam LWF regarding the spend required if Cambridge were to achieve a leakage level of 10MI/d which has not been included
- All of the challenges from both areas are to be compiled in to one list.

Following a question from Julie-Anne Hogbin on South Staff's energy prices and whether the CCG's challenges around this could be applied to Cambridge, Steve Morley said if research showed strong customer support for investing in renewable energy, then the company would look at it. Keith Marshall added that the company needed to continue to focus on promoting water efficiency as a way of not using energy, due to the high pumping costs in South Staffs.

Ian Butterfield expressed concern that the figures given in the draft business plan on possible biodiversity spend would result in customer feedback that the cost was too high. The figure included the cost of the eel passage, which was disproportionate to the overall package; he would prefer to see a list of separate costs on environmental projects.

**ACTION:** To await the feedback on proposal 2 of the DBP consultation.

John Thompson said he felt that the challenges should include that the work of the charitable trust should be spread to Cambridge; Keith Marshall said this was in the early stages of consideration.

**ACTION:** The company to feedback to the group when it has more information on the question of the charitable trust being spread to the Cambridge region.

## 5. Governance issues

**a) CCG Assurance Report update.** This item was moved to the private session for CCG/LWF members only at the end of the meeting.

### **b) Independent Review of Investment progress**

Andy Baxter said that Mike Reid had been asked to review investment on capital items. There were two major issues:

- i) Is the investment warranted? Andy Baxter said the CCG task group had concluded that yes it was. Mike Reid had been given access by the company to its investment needs, which had shown this was to be the case.
- ii) The issue of quantifying costs as it was a significant sum over a long period of time.

Andy Baxter said his quandary was over whether the costs were correct, and he felt further discussion was needed on this. Keith Marshall confirmed that the Company used Industry tools and consultants to arrive at solutions and cost estimates. Past experience shows that prices are usually underestimated prior to commencement of formal tender and delivery of projects.

Rachel Barber confirmed that the company is currently digesting Mike Reid's challenges, and that the list of investments is still work in progress, with some schemes set for AMP7; the IO+ tool is being used to help identify investment needs and the investment team is due to meet in early October to confirm the position. At the next meeting the Company would be in a position to confirm the investment programme and respond formally to the challenges provided in Mike Reid's report.

Richard Franceys noted that over the AMP period, the investment spend figure had increased from £169m to £191m and he asked what proportion of that would be in Cambridge and what would be the impact on customers. Keith Marshall confirmed South Staffs was one business going forward, that there would be only one capital fund which would cover both regions and priorities would be made across the one business. Elinor Cordiner also noted that some of the capital costs were to be spent on projects which were strongly encouraged and the DWI would expect to see such work carried out.

Yve Buckland stated that Ofwat had said in its CCG Workshop on September 9<sup>th</sup> that it was looking for bills to be reduced; the cost of capital could range between 3.1 to 4.6% resulting in a reduction of £11 to £25 on total household bills (including sewerage). But Matt Lewis said that whilst SSW's cost of capital were at the high end of this range, he did not consider a reduction £25 to be feasible. given our already high efficiency position.

Bernard Crump pointed out that if the company believed the capital spend was absolutely required and that the company was operating at an absolute level of efficiency, then shareholders' dividends would need to be reduced. James Perowne said this would be a major topic at the October board meeting.

**Challenges:**

- To produce a list of investments linked to outcomes and detailing how much is being spent in each region and the impact on bills.
- Variations to the unit capital costs should be looked at, and how such variations would affect the programme.

**ACTION:** The Company to confirm the investment programme and respond to the Challenges made through Mike Reids report.

## **6. Customer research and consultation progress**

Rachel Barber gave a presentation on progress with the long term strategy and draft business plan consultations and the acceptability testing.

- The long term strategy consultation has now closed. It produced only one response, which was from CCWater.
- Letter/emails/press releases/posters had been sent out about the DBP in both regions. It was also being publicised through IVR messages and Twitter in South Staffs. Nearly 500 responses had been received up to a week ago.
- Acceptability testing is being carried out among 1,000 customers across both regions, with results due back during week commencing October 6<sup>th</sup>.

Gemma Domican and Bernard Crump pointed out that research by CCWater had found that a satisfactory level of customers who accepted the business plan was about 70 to 75%. Yve Buckland said Ofwat would expect CCGs to judge whether the number of customers agreeing that a business plan was acceptable was sufficient if the figure was only around 60%?,

**Challenges:**

- Has the DBP been publicised to businesses?
- How will the Company deal with those customers who do not find the plan acceptable?
- What will the company do if the plan is not accepted by 70-75%.

**ACTION:** A joint task group meeting will be arranged following receipt of the results to discuss the findings.

## **7. Outcomes and Measures update**

Steve Morley presented a paper that outlines the performance commitments and incentive triggers for each of the five outcome areas with associated rewards and penalties.

In general, members felt that customers would not be willing to pay extra on their bills (a reward to the company) for achieving targets that have been based upon average performance over the previous three or five years and that targets needed to be more stretching, while not being unachievable and unrealistic. There was a view expressed by members of the CCG that penalties and rewards should be reconciled at the next AMP, to prevent the a 'yo-yo' effect on bills.

### **Challenges:**

- Where reference is made to 'Agreed programme' – key milestones should be identified so delivery can be assessed.
- Generally Targets should be challenging, deadbands should be realistic.
- Not convinced that rewards and an increase in customer bills are acceptable.
- Happy for lower financial penalties if more likely to be triggered.
- Investment grade rating is not an effective measure would prefer knowing where the Company raises its debt from and the associated rates..
- Why should there be a reward attached to asset serviceability, which is an Ofwat requirement?
- There needs to be clear definitions surrounding the measures.
- Where long term is referenced these are usually reputational and should be referenced as such.
- MZC performance target should be 100.0% - this therefore requires clear explanation as to why a target is being set lower.
- Can the company use what it has learnt from working with housing developers in Cambridge on grey water schemes more?
- That rewards only be given for achieving leakage targets if there is a strong mandate from customers in favour of this.
- That the penalties and incentives proposed be benchmarked against other companies.
- How do you make this system acceptable to customers?
- How will you test customer acceptability of any incentives?
- A clear and deliverable catchment management plan be devised.
- Encourage further customer research of the targets etc.

### **ACTION:**

- The targets and deadbands to be reviewed by the Company. A task group from the CCG could discuss this area further prior to the next CCG
- Further discussions to be held over the use of MZC figures as a measure for water quality targets.
- The company to discuss the penalties and incentives further with the board, in particular to ask the board to reconsider asset serviceability with a view to making it a "penalty only" performance standard.
- Yve Buckland to discuss the leakage targets with Ofwat's new liaison officer for SSW/CW.
- For the group to reflect on the paper to see if they have a different view on penalties and incentives.

- Company to consider how it will test customer acceptability of incentives.

## 8. Progress of the Final Business Plan

Keith Marshall and Matt Lewis led a presentation on the business plan.

Keith Marshall said that the group will be fully updated on whether the proposed recommendation of a +2% price increase will change following the October board meeting.

The Company spends 20% of its operating costs on energy and is currently in discussions with energy companies to provide a better informed view of energy costs for the AMP6 period. Julie-Anne Hogbin asked if it was fair to Cambridge customers to pay such a large sum on energy if the cost was due to the topography of South Staffs, but Keith Marshall said the purchasing power of the combined company should also be taken into account.

Yve Buckland said that the group needs to have a long, hard look at the proposed bill increase at a time of economic downturn, and when Ofwat is expecting below inflation figures from water companies.

### Challenges:

- How can the group be confident in figures being provided, when the Company has previously outperformed on profit forecasts?
- The benefits of the merger must be made clear to Cambridge customers.

## 9. Discussion of the merger savings of £500k, from 2015

To prompt discussion a paper was circulated to the group regarding the merger savings. In addition, items suggested by members were:

- 1) To spend it on leak reduction measures.
- 2) To use it reduce bills for senior citizens.
- 3) To pay for debt advisers to work within the company.
- 4) To support debt advice work of Citizens Advice Bureau and similar organisations.
- 5) To use it to benefit the community, for example, to assist disadvantaged children.
- 6) To pay for a showcase environmental project.
- 7) To apply for match funding from, for example, the EU, to attract investment into the region (possibly for an environmental scheme).
- 8) To pay for public water bottle refill schemes.
- 9) To spend it within the Nature Improvement Area in the West Midlands.
- 10) To pay for the installation of a photovoltaic energy system at Seedy Mill.

Gemma Domican asked if there was any customer feedback on the issue, to which Rachel Barber responded that in the pilot acceptability study, which was only a small sample, respondents preferred that all customers benefited and would like the money taking off bills.

In answer to a question from Bernard Crump about the Charitable Trust, John Thompson said the Trust last year spent all of its £150k budget and was given additional funds by the company. Bernard Crump said he would strongly support the extension of the Trust to the Cambridge region.

**ACTION:** To wait for the results from a question on this issue in the acceptability research and for schemes which are of benefit to customers to be sought and discuss further at the next meeting.

**10. Any other business**

None.

**11. Closed item**

A discussion followed excluding SSW representatives. An update on the CCG Assurance Report was given by Julian Denney on this session.

**12. Next meeting**

This will again be a joint meeting, to be held in Kettering, date and time to be confirmed.

The meeting closed at 4.15pm

