Joint meeting of South Staffs Water Customer Challenge Group (CCG) and Cambridge Local Water Forum (LWF)

Kettering Conference Centre, Kettering

Friday 15 November 2013

Present:

Yve Buckland	Independent Chair
Elinor Cordiner	Drinking Water Inspectorate
John Thompson	SSW Charitable Trust
Greg Marshall	Environment Agency
Bernard Crump	Consumer Council for Water
Ian Butterfield	Natural England
Colin Greatorex	Lichfield District Council
Brian Jackson	Wilbraham River Protection Society
Jean Swanson	Cambridge City Council
David Wurr	Consumer Council for Water
Steve Grebby	Consumer Council for Water
Nigel Borrell	Countryside Properties
John Bridge	Cambridge Chambers of Commerce
Rachel Talbot	Citizens Advice Bureau
Adrian Page	Group Chief Executive, South Staffordshire Plc
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
Julian Denney	JD Associates – Co-ordinator of the Assurance Report
Mike Reid	Monson Engineering
Amanda Borrmann	ICS Consulting
Lisa Gahan	ICS Consulting

Apologies:

Gemma Domican	Consumer Council for Water
Richard Franceys	Consumer Council for Water
Tom Marshall	Lichfield District Council
Andy Baxter	Coors Brewery
Julie-Anne Hogbin	Anglia Ruskin University
Adam Lines	Environment Agency
Richard Thompson	Environment Agency
Doreen Ryan	COPE
Paul Hammett	National Farmers Union
Martin Baker	Wildlife Trust
Mandy Smith	Cambridgeshire County Council
Iain Page	Environment Agency
Caroline Owen	Scotsdales Garden centre
Mark Robinson	Cambridge University Environmental Consultancy Society
Ray White	Walsall CAB

1. **A private session between members of the forum was held at the start of the meeting.**

2. **Apologies**

   As noted above.

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

   The minutes from the Joint CCG meeting on September 23rd were reviewed.

   John Thompson requested one amendment to Minute 9, to highlight the fact the Charitable Trust had last year spent all of its £95,000 budget, and additional funds of £55,000 given by the company (South Staffordshire Plc) to meet increased grant expenditure. This was amendment agreed.

4. **Business Plan**

   Before starting, Rachel Talbot reflected that the acceptability research had not recognised that implicit in current bills is the cost of both collecting debt and subsequent write off of debt. Her view was that if the questions relating to uplifts in bills to fund debt issues had been placed in this context, a different response would have resulted from customers. The Company accepted this was a fair observation, which would be recognised in subsequent research affordability and debt.

   Rachel Barber then introduced the presentation stating that it would provide the members with the latest position of the plan and address specific issues raised by member since the last meeting in September.

   Bernard Crump asked if the company had a view on whether the K factor would be negative for next year's bills, 2014/15 in light of a lower cost of capital, lower power costs and merger savings. Rachel Barber replied that the agreed K factor for 2014/15 is already negative, at -0.6% and noted Bernard's challenge. The Board would review this specific issue in light of its Business Plan proposals.

   Colin Greatorex commented that the company's suggestion that the view that the merger savings should go back to customers in the form of lower bills, rather than invested in other projects was pre-emptive. Matt Lewis and Adrian Paige assured the CCG that no decisions on how the merger savings would be used had been made at this stage. The suggestion that it reduces customer bills in 2015/16 was for illustrative purposes only and the Company welcomed the views of the members later on the agenda.

   Matt Lewis then provided the CCG with an update on the key elements of the plan and revisions since the draft in September:

   - Bills will rise in real terms by £2.00 (+1.5%) over the five year period from April 2015 to fund the required uplift in maintenance of the company's assets and rising energy costs. This would follow the 75p (-0.6%) reduction in April 2014.
   - Costs were higher than previously advised as a result of a better understanding of the requirements of the National Environment Programme, the need to include

a retail margin, the need to fund Open Water and the higher costs of permits to work in the highway.

- Costs and therefore bills were lower than previously advised as a result a reduction in the Weighted Average Cost of Capital to 4.8%, the likelihood of lower power costs as a result of discussions with energy providers and specific utilisation of the merger savings.
- This resulted is a net reduction relative to the draft proposal of circa 0.5%, to 1.5%, with household bills increasing by £2 in the five year period, rather than the £3 in the draft plan.

It was noted that the despite the proposed bill increase, which was lower than its draft plan consulted with customers, bills will remain significantly below the industry average and that of its neighbouring water and sewerage companies by 2020.

Ian Butterfield asked if the company should postpone giving the merger savings back until 2017. Bernard Crump commented that any postponement would mean the Company would have to give a higher sum amount in 2017 to take account of inflation. Adrian Page concluded that it might be possible to hold bills flat for two years, and then increase them by 2% over the remaining years.

Bernard Crump also asked the company to confirm its weighted average costs of capital and was informed it would equate to a vanilla rate of 4.9% across all price controls. He commented that it would be likely that the Consumer Council for Water would be critical because this included a small company premium.

Dame Yve Buckland questioned what would happen if the Company did not receive the small company premium? Adrian Page indicated this was difficult to reply to this question at the stage. The Company would need to look at the overall determination in the round.

Acceptability research findings

There was then a discussion around the interpretation of the acceptability research findings. The company was challenged by the CCG to be clear on the difference between acceptability including and excluding inflation.

Innovation and management of assets

Colin Greaterox stated that it was important that the need to replace assets was given the correct weight in the business plan. John Bridge commented further that keeping assets to the end of their life was often not cost effective as maintenance costs may be high.

Ian Butterfield said he was concerned about the lack of innovation in the plan and the Company's ability to look forward. He commented further that "when you sweat your assets, you are not looking to buy new ones until you have to". He challenged the Company to monitor the market to ensure it obtained the best value. Bernard Crump supported this challenge as did Elinor Cordiner.

Keith Marshall said it was not accurate that the Company did not look forward and referred to the fact the company had recently installed an ABB synchronous reluctance motor and drive on a borehole at Somerford Pumping Station by way of illustration. This had delivered a 6% reduction in energy use, greater reliability and lower maintenance costs. As a result of this successful implementation, the Company is now actively searching for other potential sites where similar technology could be installed. If older, less efficient, boreholes are targeted, then energy savings of 10-15% may be achievable. This strategy is long-term in nature, but every improvement will help to manage the impact of increasing energy prices implicit in customer bills.

Jean Swanson pointed out that Stephan Kay (former Managing Director and current Non-Exec Director of the Company) had told her of his support for the need for greater maintenance of the current assets in both regions.

Dame Yve Buckland concluded that she and the CCGs in both regions had been through a journey as this plan developed. Her observation was that if "the Company continue to sweat it's the assets, it will fall over". The CCG have been assured that the uplift to expenditure is necessary and the Company must deliver accordingly.

Affordability

David Wurr said that whilst he accepted prices were low at the company, he felt comparisons with other companies are misleading. He would like to see the Company increase its effort for struggling customers. He said he fully supported the proposal put forward by John Thompson.

Rachel Barber stated that the Company had not drawn a line under the social tariff issues even though it was the least acceptable part of the draft plan. It would be reviewed in detail in 2014.

Bernard Crump asked what the headline bill would be for non-household customers. Matt Lewis confirmed it would be very similar to the % change for household customers, albeit possibly a little higher to recognise the cost of introducing competition for non household customers.

Quality regulators view of the plan

Steve Morley confirmed the Company had put forward six investment proposals to the DWI in the summer, five in the South Staffs region and one in the Cambridge region. The need for five had been supported by the DWI, with the sixth one being commended.

The Environment Agency had also provided comments on the environmental proposals in the plan. While it was broadly in agreement it was noted that proposals for low flow in rivers, catchment management and the back loading to the RBMP were commended rather than fully supported. However, Greg Marshall said the Environment Agency took on board the fact that investment in environmental schemes needed to be balanced with customer views and affordability concerns in general.

Finally Bernard Crump said the role of the CCG was to ensure investment took into account factors longer term factors such as the water framework directive and how customers might ultimately benefit from them. Keith Marshall replied that the Company did undertake such an approach and specifically one proposal in the South Staffs region had been withdrawn because of the possible impact of the water framework directive.

Outcomes

Rachel Barber said the company proposes five outcomes supported by customer research and 20 measures of success. Of these, seven had financial implications which could impact on customers' bills from the first day of the next review period, 1 April 2020. The remaining outcomes had reputational implications for the company.

She noted that Ofwat had encouraged companies to include rewards as well as penalties, as this was seen as a more effective approach to delivering customer value.
Greg Marshall noted that there were two different regional leakage targets and these were based on a three year rolling average.

Steve Morley then gave an overview of the performance commitments and incentive triggers being proposed by the company.

It was noted that action plans for the following areas - catchment management, water re-use in the Cambridge region, community activity and engagement, biodiversity and customers in debt - would be developed with members of the CCG over the next three months.

Brian Jackson asked for more to be done practically in mitigating the effect of water abstraction on low flow rivers. He said this had not been mentioned as a success or an outcome. He suggested increased co-ordination with the Environment Agency would be beneficial in the medium to longer term. He said it was disappointing that more emphasis had been placed on reducing leakage rather than on increasing flows in rivers. He said the fact the Little Wilbraham River ran dry for four months of the year was indicative of much bigger problems in the aquifer. Keith Marshall said a number of low flow rivers schemes had been prioritised and adopted by the company and these would be delivered during the next AMP. He recognised that while there was a desire to always do more it was not always possible to deliver.

Greg Marshall said in his opinion the company should have done slightly more. He agreed with Brian in that a better measure of success would have been a percentage increase in low flow reductions. He said this would incentivise the company more to perform better in this area, rather than focus on the NEP. Keith Marshall said the company is committed to working more closely with partners such as the Environment Agency.

Finally John Bridge said the company needed to be clear on what the trigger was for the windfall profits and how this would be shared with customers. Adrian Page suggested a 50/50 split between customers and shareholders but suggested this would be clarified and reviewed every year.

Rachel Barber updated the CCG on the company's retail plan. She said over the next year the company would focus on improving its communications with customers, implementing a digital strategy and preparing for market reform.

Merger Savings

How should the company invest the merger savings? Customer research indicated that customers would prefer the savings to come off customer bills.

Dame Yve pointed out the company was in an unusual situation, and was keen to try and help customers. The challenge was whether to take the savings off bills as customers suggested or invest the savings for the benefit of customers who were in financial difficulties.

David Wurr commended the work of the existing charitable trust but pointed out that it was far less generous than the Severn Trent Trust Fund which serves 7.5 times as many customers yet provides 22.5 times as much support for those in need.

The company should be encouraged to collaborate with Anglian Water and Severn Trent water.

Managing customer expectations

It was noted that the company would need to agree messages, timings and Q&As around the publication of the business plan on 2 December 2013.

5. Acceptability Research and Draft business plan consultation – presentation

Lisa Gahan and Amanda Borrmann from ICS Consulting game a presentation to the CCG on the acceptability research they had conducted on the draft business plan.

A discussion what held around which acceptability figures should be quoted in the business plan. 82% of customers felt proposals to increase the bills by 2% in real terms over the five year period were acceptable. This reduced to 59% when the effect of inflation was added to the cost of the bill. Lisa Gahan recommended the company use the 82% (real terms) figure based on guidance given by government methodology in the Green Book.

Steve Grebby pointed out that 59% acceptability was below the CCWater threshold. Colin Greatorex said the discrepancy between the figures highlighted that 23% were confused by inflation.

The CCG challenged the company to:

- Present and give equal weighting to both figures in the business plan
- To ensure that the company took on board the acceptability findings and ensured the business plan accurately reflected these findings

6. Outcomes, measures, rewards and penalties

This was discussed earlier on the agenda.

7. Merger Savings - £500k – options and research findings

John Thompson gave a presentation to the CCG on how the merger savings could be used. He pointed out that giving hand-outs to customers was not always the most effective way of helping customers to manage debt and strongly recommended the company work in partnership with other organisations, such as the CAB to offer debt advice. He said Wessex Water only accept social tariff applications from people that come through an advice organisation.

CCWater was keen for the company to use the money to enter into SLAs with advice agencies to gain assurance that work is being done to reduce incidences of debt. Rachel Talbot commented that the Coventry CAB's relationship with Severn Trent water was a good model to follow.

It was also pointed out that the company is proposing to extend the Charitable Trust into the Cambridge region.

On behalf of the CCG, Dame Yve challenged the company to clarify which of the following options, or combination of options it was looking to progress:

- Option 1 - use merger savings to assist charitable trust or fund a SLA with an organisation such as the CAB
- Option 2 – reduce bills
- Option 3 - use some possible of the K abatement from this year to do something around affordability

She also questioned whether the £500,000 needed to be used purely for issues of affordability or if some needed to fund environmental activities and highlighted the fact customers in debt would benefit from being as water efficient as possible to reduce their bills.

8. Challenge log

Bernard Crump queried whether the investment proposed by the company added up to the £190 million put forward in the business plan. Mike Reid from Monson said he had reviewed the investments proposals put forward by the company as was comfortable with them.

Specifically the uplift to invest in sample lines was challenged. Elinor Cordinor said it was not for the DWI to comment on how frequently the company replaced sample lines but the objective is to ensure customer confidence at all times in water quality and that failures as a result poor conditioned sample lines is not acceptable.

Dame Yve said the final challenges for the company would be:

- Finalising the business plan
- Progressing a social fund
- Agreeing how to invest merger savings
- Reviewing environmental commitments

The Company acknowledge these as fair.

9. AOB

No items were discussed.

10. Closed item. CCG discuss assurance report

The discussion followed excluding SSW representatives.

11. Next meeting

To be confirmed.