

Trust Beyond Water 2020/21

A statement from the Bristol Water Board

Bristol Water was formed in 1846 under an Act of Parliament with a ground-breaking and ambitious aim to bring, fresh, clean drinking water to the area we serve. This ambition was essential to the health and wellbeing of all and not just for the few. The Board of Bristol Water continues to carry forward this vision of a water company doing what it can for the communities we serve.

This statement is published a few days before our birthday on 16 July, marking the 175th anniversary of the passage through Parliament of the Bristol Waterworks Act. We have marked this milestone by reflecting on the philanthropic purpose of our founders including Francis Fry, Sir John Kerle Haberfield and Dr William Budd, whose connection of public health to clean drinking water was ground-breaking. In marking this occasion, it was a reminder that solving the challenges faced by society, climate and ecological emergencies, still depend on local community-based solutions. We have published a new social history of Bristol Water, to reinvigorate our story for future generations [on our website](#).

The Board believes that Bristol Water must continue to make a significant contribution to these societal challenges now and for the long-term. We can only do this if we are highly regarded by our customers because of the high levels of service and performance we provide, and demonstrate our role within our local communities. We have celebrated this occasion in a number of ways, with our stakeholders through an event planning the future of resource efficiency in Bristol, with our communities such as refurbishing the playground at Chew Valley Lake, and with our employees such as through planning a new vegetable garden so we can learn local water efficient and sustainable food growth skills together. We have a number of further events planned as part of our social contract.

Highlights in 2020/21 include:

1. In 2021 we are celebrating 175 years of customers' trust in Bristol Water.
2. We lead the industry in leakage: our performance is the lowest level of leakage we have ever achieved.
3. The CMA determination reflected the proposals in our amended PR19 business plan: the CMA recognised that small companies like Bristol Water have a higher cost of finance, but also deliver value to customers.
4. As many families wrestled with the challenges of home learning, we launched "The Foundation", a brand new learning portal for KS2+ with over 50 learning resources aimed at engaging young people protecting our water resources and environment.
5. Our transformation continues to improve both efficiency and service performance.



It's what we're made of.

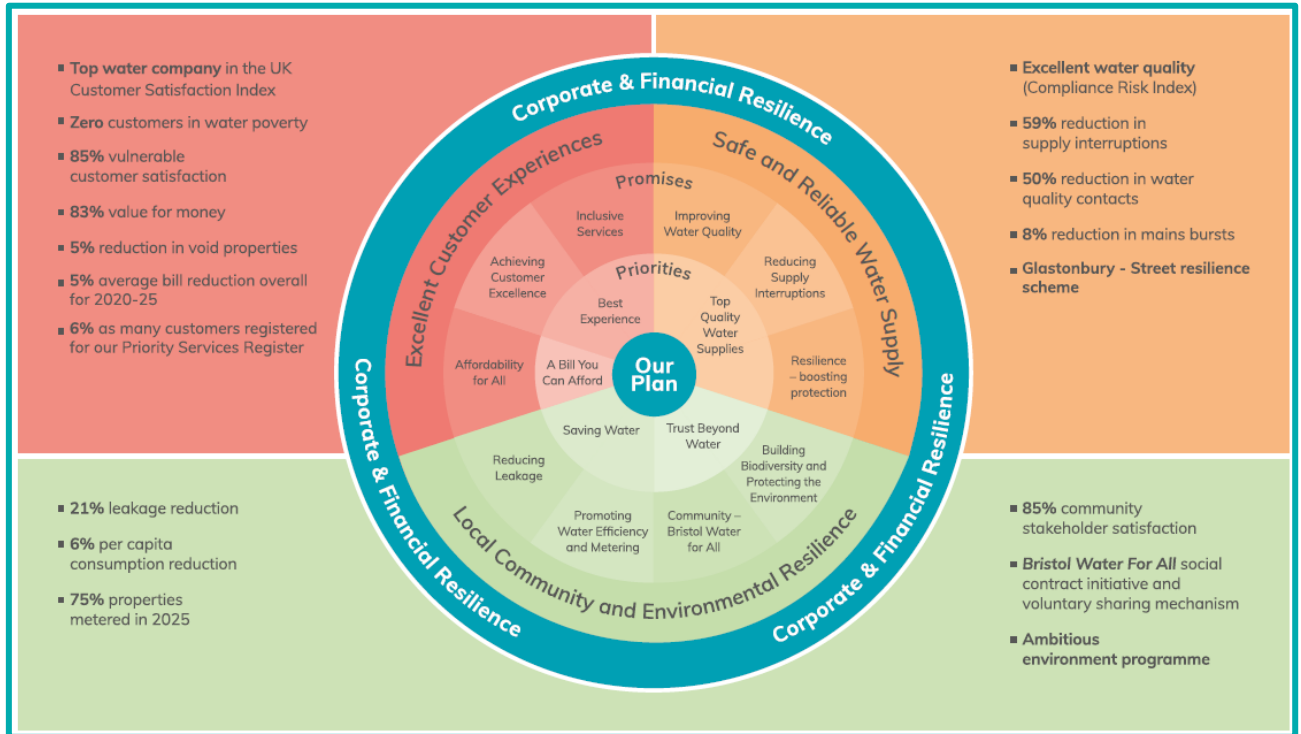
On 3 June Pennon Group announced that it had acquired the Bristol Water Group, which meant a change in the shareholder representatives on the Bristol Water Board. In advance of the review of the acquisition by the Competition & Markets Authority, there are no changes to the Bristol Water strategy or plans. Pennon made it clear in announcing the acquisition that the Bristol Water brand, values, history, heritage, performance and culture were key to their future plans for Bristol Water and Pennon's wider strategy.

Our corporate governance statement which sets out how the Board will consider our **social purpose**, and through this all stakeholders benefit from a high performing local water company that meets the need of customers and society:

"To have a positive impact on the lives of our customers, our communities, our colleagues, and on the environment"

2020/21 was a challenging year for the whole of society. It was challenging for Bristol Water, but was successful overall. Given the public service nature of our activities the Board recognise the dedication of our colleagues and supply chain that ensured water services kept running despite COVID-19. We did this in a way that was safe for both staff and customers, whether they were at our works, working in the local area or supporting front-line services in the office or at home. Our plans for 2020/21 required a transformation of both service levels and our efficiency for delivering this, which saw a restructuring of our entire organisation. The c12% efficiencies targeted in our business plan necessitated a pay freeze and a restructuring of c10% of our workforce through redundancies, retirements and careful management of our workforce. The majority of the restructuring affected head office roles, and included a 30% reduction in the executive team that reflects maturity in the transformation of the organisation. Whilst essential for our long-term resilience, it was important to the Board to achieve these changes sensitively, and the delay to our original timetable caused by COVID-19 was part of this, whilst also ensuring we could maintain resilience of cost and service delivery for future years.

Our plans for 2020-25 are based around the priorities, promises and outcomes shown overleaf, which summarise what the delivery of our purpose entails.



Performance against our plan

Our 2019/20 performance was categorised by Ofwat in its service delivery report as one of the four “better performing” companies in the water sector and the only company having no deterioration or in the bottom 25% of the industry in one of the performance aspects Ofwat considered. This reflected the stages of our transformation necessary to deliver our 2020-25 plan. Despite this strong platform, we recognised that we had much more to deliver. Our water quality compliance remains stable without major events during 2020.

One aspect of performance where we lead the industry is in leakage. In 2019/20 we had delivered a leakage level of 37.0MI/d, a record low level 7% below our target of 40MI/d and 10% below the previous record low. In 2020/21, despite a cold winter that resulted in mains repairs exceeding our target, we managed to reduce leakage by a further 4.1% to 35.5MI/d. The three-year average reduction of 6.9% is ahead of the 6.1% target and reflects good progress against a very stretching 21.2% reduction by 2025. An international review of our leakage approach in the year found that our leakage system was very well managed and the best amongst the UK companies in the survey.

Supply interruption performance in 2020/21 was disappointing and worsened to 30.3 minutes compared to a target of 6.5, and the 9.3 achieved in the previous year. We knew when setting the target that a single incident could result in the whole year target being

missed. There were three exceptional events in the year, at Rose Green Road (6.7 minutes), at Lawrence Hill (11.6 minutes) and an incident at Yate caused by a third party damaging our main (7 minutes). Excluding these major events, underlying performance would have beaten the target. The innovations introduced previously such as tankers that can inject water into the network, state of the art network monitoring and most importantly the way that people across Bristol Water work together is delivering a strong underlying performance. When we do have a major incident, the great relationship we have with local authorities and local resilience groups helps us to provide the best service we can and maintains customer trust and understanding. We review each supply interruption to identify the root cause, and are targeting areas where investment can reduce major interruption risk, but this cannot be avoided entirely particularly where third party action is involved.



This is the first year of the new Customer experience measure, C-MeX. Whilst we just missed our ambition of being ranked in the top 5 companies in the industry (there are 17 in England and Wales), 6th place still represents an improvement on the 8th place we achieved last year, in what we expect to be a very competitive field. Alongside this, our customer complaints (per 10,000 customers) fell by 20% to 58.9. This is lower than the industry top 25% (from the prior year) of 87.3, a level that we had set ourselves as a stretching target to beat for this year. The 94% level of satisfaction with the service we provide on our household customer survey is the highest we have ever received during the 12 years of conducting the survey. This performance was supported by our reorganisation to form a “customer hub”, a structure which provides a focus on customer excellence throughout all our operational activities. A highlight for our team was the opportunity to share our approach at a CCW industry event, after they highlighted our industry leading complaint performance in the annual complaints report. Next year we will build on this with the next phase of our transformation with a partnership with Boston Consulting Group to deliver a revolutionary digital “Customer Lead Intelligent Operations” approach to achieving customer

excellence through smart data that links assets, operational work scheduling and customer interaction together.

We always strive to meet individual customer needs. Our target for vulnerable customer satisfaction was set at 85%, 5% above the baseline for customers as a whole historically achieved. We achieved 82% vulnerable customer satisfaction with our priority services in 2020/21, which whilst not meeting our stretching target was still a good platform for future improvements. Customer comments from this survey will help us improve further. Customer value for money satisfaction was 83%, 8% higher than the previous year and beating the target of 80%.

A target to reduce per capita consumption was not met this year, which we believe represents a switch from non-domestic to domestic consumption as people had to work from home. This has no detriment to customers and we agree with Ofwat to consider what incentives are appropriate over 2020-25 as a whole. The other main target impacted by COVID-19 restrictions was on metering, which only increased by 1.3% over the last 12 months to 60.3% against our 67.7% target. Despite these challenging times, at the end of March our water resources were in a strong position with reservoirs 96% full despite a dry March.

We continue to offer a wide range of social tariffs support. Social tariffs increased by c1,400 to 20,419, ahead of the target of 18,774. Despite this the fall in incomes under COVID-19 increased water poverty from 0% to 0.6%. We use the detailed neighbourhood information our tool provides to target our social tariffs and support to aim to return water poverty to zero in the area we serve.

Referral of PR19 to the Competition & Markets Authority

We made the very hard decision in February 2020 to ask for Ofwat's PR19 determination to be referred to the Competition & Markets Authority (CMA). We had gone to significant lengths to avoid a third consecutive reference to the CMA, and it is of grave concern and disappointment that it could not be avoided. The case took a significant amount of management focus (and took longer than we expected), but we succeeded in delivering both transformation and service improvements despite this challenge. Mel Karam delegated many of the normal roles of the CEO to Laura Flowerdew as deputy CEO, so we could give the CMA process the critical attention it deserved. We were pleased that the CMA recognised that our areas of dispute with Ofwat concerned a narrow range of technical judgements, and in the round the CMA decided to reinstate the bill levels, revenues, cost allowances and regulatory incentives that we proposed in our amended PR19 plan. The outcome is that we can now finance the plan resiliently for the long term. It was important that the CMA recognised that small companies like Bristol Water have a higher cost of finance, but also

deliver value to customers. The CMA recognised, for instance, the high performance and low cost of our approach to leakage.

We are now in the process of reviewing our long term strategy that will affect our plans after 2025. This will build on the progress in delivering our 2020-25 promises, our social contract, and our Resilience Action plan. We publish annual updates on our progress on resilience as part of our mid year performance report, and have provided a further update as part of this report.

Purpose, Values and Culture

Our social contract is the way we will deliver our social purpose. In January 2019 we launched our Social Contract, the first published by a water company. The social contract sets out how we are accountable for the social promises we make as we deliver our purpose. The social contract includes engagement with stakeholders, employees, customers and the Bristol Water Challenge Panel in order to agree a set of initiatives that go beyond our core water supply role to how we deliver value for society for the long term. Providing a view from the Bristol Water Board at our discussion sessions, and reporting views back to inform all Board decisions is a key part of how we ensure that our purpose is being delivered for the long term, and this is reflected in the strategy, values and culture of Bristol Water. Jim McAuliffe is our non-executive director who has specific responsibilities for this process.

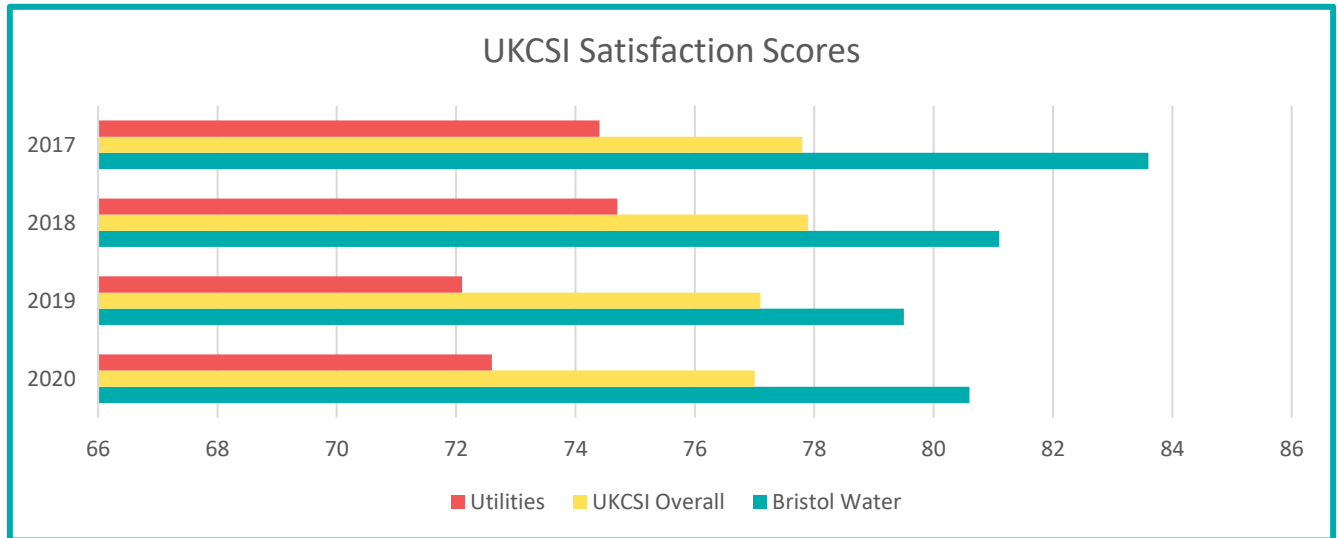
The transparency within our approach is also important. Our [social contract benefit and transparency report](#) published in December 2020 sets out the delivery and outcomes. We have also published the [social contract forward programme for 2021/22](#) following consultation with customers, employees and stakeholders. We published a [guide to our social purpose](#) which sets out our approach and how it delivers our 2020-25 outcomes.

We have a voluntary sharing commitment that demonstrates our commitment to our social contract, based on the additional financing cost of our small water only company. The measures used to assess our success are referenced against both customer experience (being in the top three water companies that Ofwat regulate compared to the UK Customer Service Index rankings) and community stakeholder experience (being above a 75% baseline for community stakeholder satisfaction). Both triggers for our commitment have been met and so no voluntary sharing is required.

- Based on 2020/21 performance, benchmarking by the Institute of Customer Services gave us a UKCSI score of 80.6. Compared to the July 2020 national UKCSI survey, this places us as the top water company included in the survey, just ahead of Dwr Cymru with 80.1. We were second behind Octopus Energy with 80.9 for top utility. Trust and ethics component scores rank similarly highly. Our score is equivalent to 33rd on the list of all organisations. The January 2021 national UKCSI survey showed a similar

pattern. A priority for next year remains to improve customer perception of individual service elements, building further on our sustained strong performance as a local community water company.

- Our local community stakeholder satisfaction survey showed 88% satisfaction.



It was challenging to deliver many of our social contract initiatives during COVID-19. Some of our plans for school visits, community environmental action and public events had to be put on hold whilst social distancing rules apply. We took the opportunity to take our educational activities on-line, with the launch of the [Bristol Water Foundation](#) education and careers site.

We also used our social contract framework to build on the “Citizens for the future” summit that we held last year, by focusing discussions with our Youth Board on our role. This reminded us of the importance of active engagement with the community on water and environmental issues, which is a commitment we have made through the Bristol One City plan, including through the Resource West initiative. As this is a partnership approach across utilities, we continue to seek new contributions and funding to deliver water efficiency as part of wider community resource efficiency and wellbeing activities.

To be completely honest, I did not hear about Bristol Water before this...I hadn't seen any social media posts, seen any adverts or been visited at my school.

Since researching Bristol Water, my impression towards the company has become more positive. This is because of the environmental work the company does is really impressive, and I had no idea they did any of it

Engagement with the Youth Board confirmed the support for the next generation of citizens on the social contract. For the Board the importance of diversity and inclusivity was of particular note, which is aligned to the key themes we are considering as we review the strategic objectives for Bristol Water.

 <p>Reduce environmental impact</p> <ul style="list-style-type: none"> • Greater use of renewable energy • Sustainable packaging: reusable, recyclable, avoiding single use plastic • Fewer imports and more UK produced products – but fear companies will continue to produce offshore to cut costs and make more profit • Anecdotal example: loyalty points/rewards for green consumer behaviour 	 <p>Ensure diversity and inclusivity in the workplace</p> <ul style="list-style-type: none"> • Ensure there is no discrimination in relation to gender, race, sexuality, those with a disability, LGBTQ+ • Expect equal pay • Protect global employees from being exploited e.g. unfair pay 	 <p>Adopt new technologies to operate more efficiently</p> <ul style="list-style-type: none"> • Increased automation and use of AI technology • Less face to face interaction and more digital communications e.g. social media
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The area we serve is a diverse set of communities, and it is important to current and future employees, as well as our customers, that we are inclusive in the way we meet individual needs. Our culture and values as an organisation require respect in order that we are trusted, and we are currently less diverse than the communities we serve (31% of our workforce is female, 3% identify themselves from an ethnic minority background, and 3% of our workforce is under 24 years of age). Our social contract plans for apprenticeship schemes, graduate placements and internships will help to address this imbalance.



In March 2021 we ran a weeklong ‘open mic’ session on diversity, equality and inclusion (DEI), which formed part of the ‘starting the conversation’ phase of a DEI roadmap, which started on employees sharing their stories through a series of blogs. The week contained a mix of keynote external speakers, training pilots, discussion groups on key issues with agreement on participation in action groups to develop our strategy. The events culminated in an open board session where Board members shared their stories and had an open discussion on DEI with employees. The feedback fed into the Board review of our long-term strategy.



Alongside employees we also take soundings from a wide range of organisations. We are currently considering updating our existing strategic objectives to reflect our progress, new technology and innovation and the changes in societies expectations. Our stakeholders agree that, given the strength of our services and current performance, the environment, diversity and the potential for new technology can best be delivered by the water sector working in local partnerships with others.

“Having worked with Bristol Water, I know that they take their environmental and social responsibility very seriously and have done great work with protected species and school children for example. I also know that they are working hard to ensure that they better represent the diverse community they serve, via their workforce and supporting vulnerable customers..”

Local stakeholder comment from the annual stakeholder survey

We engage with stakeholders directly, but also through an annual independently series of in-depth interviews, which includes business customers. 82% felt Bristol Water compared well with other utility providers, up from 55% in 2020. We are conscious that we have greater identify with Bristol than other areas, inherent in our name, and that affects stakeholder perception of our community impact. Stakeholders recognise that size sometimes appears to limit our ability to communicate as effectively about the full range of our activities and to make changes, in particular for environmental challenges, as quickly as both we and our stakeholders would like.

“The feedback I get from consumers of Bristol Water services is that they feel very well informed and happy with the communications they receive from the company” (local council)

“They are pretty nimble, partly aided by their size. Bigger companies are slow to move or act which is not the case with Bristol Water” (other utility)

Employee engagement remains a priority if we are to deliver our purpose and objectives. Undertaking the scale of transformation and reorganisation at a time of COVID-19, whilst also having to impose a pay freeze, was not something we wanted to do in combination and was not without tension. By the end of the year the uncertainty we faced had lessened, and whilst it was unfortunate that during the process some staff took part in a day of strike action, we were able to resolve this fairly without disruption for customers.

Transparency, engagement and assurance

As well as the transparency of delivering our purpose through our social contract, another key priority for Bristol Water has been transparency on performance. In December 2020 we again published a mid- year performance statement for the first half of 2020/21, reflecting

the challenges we were facing to deliver the challenging targets we set ourselves. This report included direct comparisons of our performance to the rest of the industry, reflecting our ambitions. Our interactive performance summary available on our website at the mid-year and year-end continues to help to promote easily accessible and transparent information on both our performance and future plans.

The Board takes transparency seriously and is responsible for supporting management in the decisions made. No decisions during 2020-21 were reserved for shareholders and no Board conflicts of interest were noted.

The Bristol Water Challenge Panel (BWCP) continues to play an important role in providing a supportive challenge on our performance and customer engagement. One of our non-executive directors, Jim McAuliffe, provides direct access to the Board independent of management to ensure the importance of this role is reflected at Board discussions.

COVID-19 response

Last year we reported on the rebate with Wessex Water for NHS staff who would otherwise have a higher water bill because of the additional washing the vital service they were providing would entail. We also reported on how we protected the Bristol Nightingale hospital with state-of-the-art quantity and quality monitoring with our partners ATI and Inflowmatix. Our response to COVID-19 continued to be effective at supporting customers and society at this difficult time. The Board asked the management to get independent assurance on our response, which provided positive feedback on the identified early planning (in January 2020), liaison, staff criticality, IT provision for home working, incident team and communications as strengths. Despite this, such reviews identified continuous learning as risks changed. Similarly we managed to retain water quality sampling in all zones throughout the year, without being able to enter customer properties as usual. Our team came up with a range of novel solutions, such as creating a sampling pack so customers could undertake their own lead pipe monitoring so we could be ready to restart services as soon as circumstances allowed.

Although most other water companies decided not to furlough staff, we took the decision that this was a suitable option for some of our staff and was the right decision financially for a business of our size at the time, given the uncertainty of the impact on our finances. We kept a skeleton staff from both the Recreations team and the Metering team to provide response when needed, with the rest of these two teams furloughed until these areas could safely resume. In addition, a small number of staff requested to be furloughed for personal reasons, either to provide family support or for medical reasons. As a Board, we decided to voluntarily return the furlough payment to the Government before the year end, once the uncertainty of the overall impact of COVID-19 on the business had been resolved. Our actions were prudent on customers' behalf, but also fair.

The full impact of COVID-19 will take some time to emerge. Our vulnerability action plan and range of social tariffs will continue to provide direct support as customer circumstances change. Our involvement in local recovery plans, such as through the Bristol One City Economic Recovery plan, will make sure we are in the best position to contribute to wider community recovery action.

Environment

We continue to manage our water resources and protect the environment carefully. Our catchment management work continues to be more successful than we had hoped in protecting the water quality in the Mendip Lakes. Our raw water quality activities removed 155kg P that would have otherwise affected the environment compared to the 109kg target. This was delivered through the Mendip Lakes partnership with local landholders and partners.



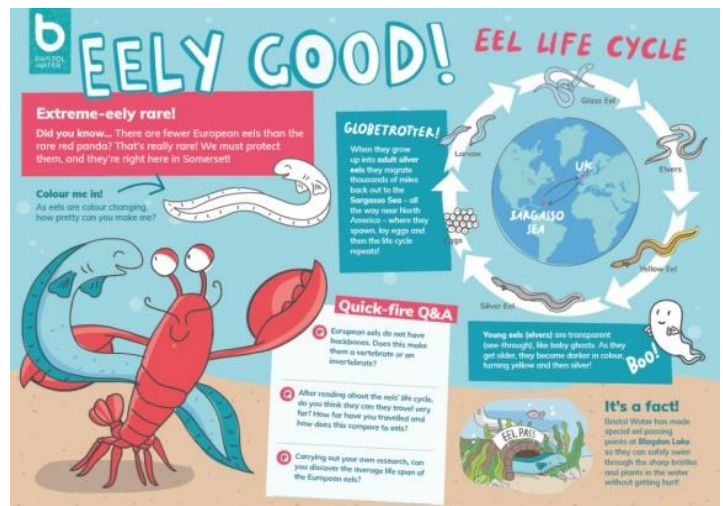
We have a good working relationship with the Environment Agency. We had no schemes due for delivery in the year, reflecting the relatively positive impact we already have. Our pollution events are usually limited to the impact of water and sediment from mains bursts running into watercourses, there were 7 of these in 2020 (up from 3 in 2019), with all except one self-reported. Our work to prevent invasive species also continues, and we have been helping to breed and protect the endangered native white-clawed crayfish.

Our operational carbon emissions were 20.8kt CO₂e, a 13% reduction on the previous year and a 52% per capita reduction since 2015. We will be publishing our draft routemap of scenarios to net zero in July 2021. As part of West Country Water Resources we are working with others to produce a regional water resource plan.

Innovation

Like many activities this year, our innovation work has been strongly influenced by the pandemic. Reprioritising our activity, in light of COVID-19, has been a good demonstration of the company's agility. We were unable to run the planned innovation event which would have seen the next cohort of innovators join our incubator, however, this did not stop our internal innovators responding to the pandemic with great impact and imagination:

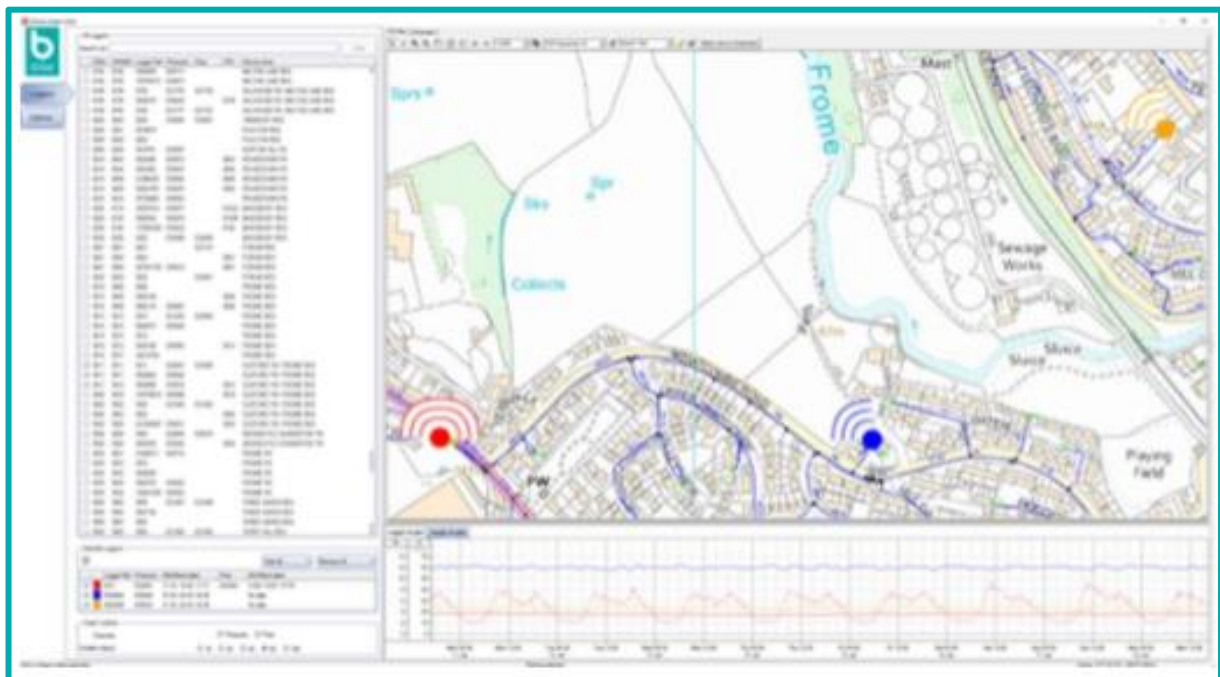
- As many families wrestled with the challenges of home learning, we launched "The Foundation", a brand new learning portal for KS2+ with over 50 learning resources aimed at engaging young people protecting our water resources and environment.
- When the Nightingale Hospital situated at University of West England was rapidly built, the water supply requirements changed overnight and water quality and operational teams had to consider how to guarantee quality and security of supply. ATI donated a number of 'inline monitors' – the same smart grid technology deployed in our industry-leading field lab – enabling us to closely monitor the status of the water supply to the hospital.
- NHS staff had to follow new uniform laundering guidance for infection prevention which instructed them to wash uniforms separately; not on a full load; and at a higher temperature. To support our key workers we collaborated with Wessex Water to offer a bill rebate of up to £50 for more than 5,000 NHS frontline workers who were metered and would have experienced a bill increase due to these new requirements.



The first round of Ofwat's new Innovation Fund ran across January and February and winners were announced on April 2021; Bristol Water is a partner on 3 successful bids – CathmentLIFE led by South East Water, Reservoir water community monitoring for algal associated risk assessment with Dwr Cymru and the UK Water Innovation Centre of Excellence.

We entered a number of bids of our own, including to scale up Resource West and the Inline monitoring we used at the NHS Nightingale hospital, which were not chosen for the first competition. We entered a number of revised projects based on the feedback we received, alongside new projects into the first main Water Breakthrough Challenge competition. These projects covered new ways of introducing choice for both household and business customers, building on our existing advanced technology and our excellent customer experience approaches.

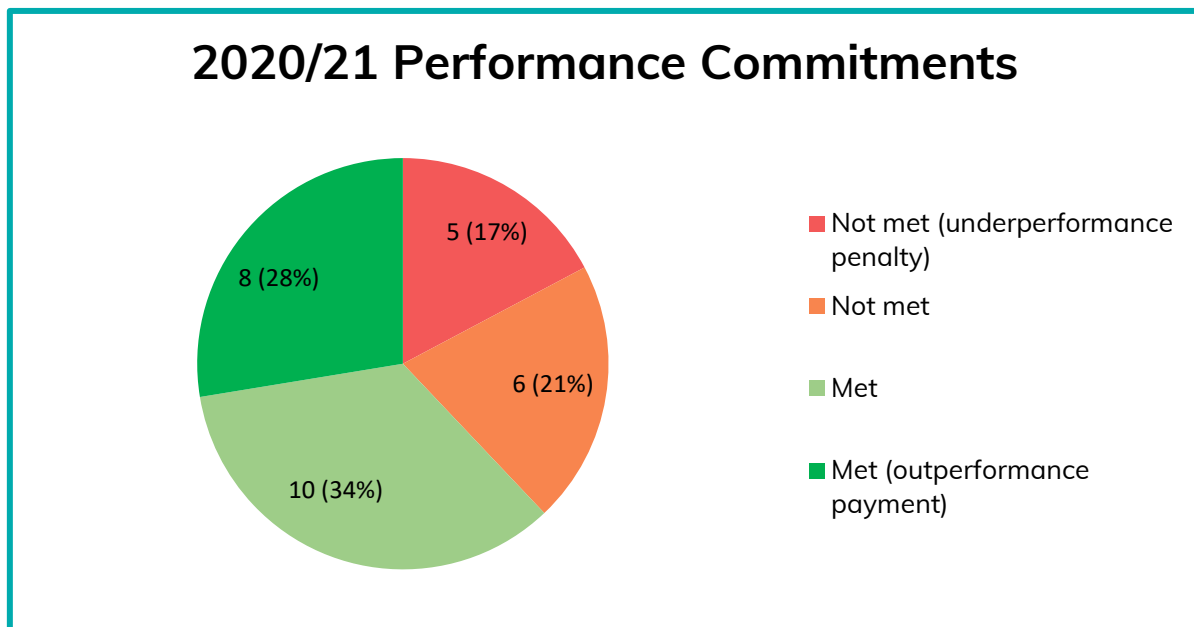
A key innovation over the last year has implemented a smart water network. We have developed ways of visualising key geographic information and working their use into our daily operational activities. The GIS Events and Loggers (GISel) application pulls Smart Network data from various sources together into a map-based application environment. Our Incident Officers can now visualise not only the location of loggers but see their reading in near real-time. This ensures our response and information for customers is as accurate as possible.



To support this process we have greatly increased the number of logging devices permanently fitted in the network and also invested in new mobile loggers that our teams can deploy at short notice to aid back-office analysis of on-going events.

Overall incentives performance

Of the 19 outcomes with financial incentives, 8 had financial rewards (including anticipated rewards for C-MEX and D-MEX) and 5 had underperformance penalties. Of the total of £1.6m of penalties, Ofwat have agreed to set aside the £0.2m of PCC penalty for now to review the overall impact of COVID-19 across 2020-25. Excluding the acknowledged risk of supply interruptions, and the short term impact of weather on mains repairs in January and February 2021, the business continues to perform well and meet its fundamental obligations.



Wholesale expenditure was c4% above the amount assumed by the CMA, which are one off transformation and COVID-19 additional costs. By the end of the year the annual run rate of costs after delivering efficiencies was in line with our 2021 delivery plans.

Financial Policy

Our dividend policy takes into account the base assumptions included in our regulatory determination, adjusted for outcome incentives and cost. There are a number of other adjustments that are considered included gearing levels, financial ratios and that fundamental regulatory requirements are met.

Despite this gearing increased slightly during the year from 66% to 69%, because of the impact of lower revenues, despite lower expenditure. The regulatory dividend of £5.9m in

2020/21 is below the £6.3m justified by our policy, with the lower return to shareholders than justified carried forward to future years.

The significant impact on business revenue due to COVID-19 was balanced by the increase in measured domestic household revenue, leaving little revenue variation to that assumed when we set charges. This meant our financial resilience and cash flows were better than we anticipated when considering our financial viability risks last year. The outcome of the CMA process reduces significantly the risks to our financial viability and now provides sufficient headroom for normal cost and incentive variation.

Executive remuneration detail is set out transparently in our annual report. A key feature is that our annual bonus scheme for all staff contain the same set of company metrics for customer, cost and corporate objectives, together with a weighting towards company metrics from personal objectives that increases with seniority.

Markets

We are proud of our performance as a wholesaler in the business retail market. We have been consistently amongst the top performers and in 2020/21 had the 3rd highest Market Performance Score and the joint highest operational performance score as a water wholesaler. We also had by far the highest R-MEX (retailer measure of experience) survey score. This approach stems from the culture and values we have as a local water company – we try and meet individual needs rather than solely meeting minimum market expectations. We expect this to continue to improve with our customer hub improvements.

Our developer services performance (D-MEX) is expected to be 8th place, compared to our target of 5th, and is likely to earn a reward in this incentive mechanism compared to the industry median.

Conclusion

Our transformation continues to improve both efficiency and service performance, with the key priorities of customer and community experience. Our corporate and financial resilience have proved to be sufficiently robust despite the challenges and uncertainties at the start of the year to show continued progress against our plans. We look forward to the future with confidence that our people will allow Bristol Water to be recognised as a leading water company.