

## Trust Beyond Water 2019/20

### A statement from the Board of Bristol Water

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.

Society and the expectations of the public we serve has changed a great deal over the last 175 years. Solving the challenges faced by society, including both resilience and the legitimacy of utilities and public services, will depend on local community-based solutions. This is why Bristol Water is on a journey to transform itself. The Board believes that the Company continues to make significant progress in a number of areas and continues to deliver industry leading levels of service, and is highly regarded by its customers and within its local communities.

Last year we updated 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 Bristol Water 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 beyond the delivery of pure and reliable water.”**

### Performance for customers

In the last few years the Board has been looking for a dramatic improvement in the performance of Bristol Water. We brought in a new CEO who appointed a new management team to make this transformation happen. In 2018/19 we reported on a significant improvement in performance, but in 2019/20 the substantial benefits were seen. This improvement can also be seen during the year, with performance in the second half of the year showing an accelerated rate of improvement. This provides a strong platform to deliver our challenging 2020-25 plan that will make sure we are a leading performer across those service areas that matter most to customers.

Our leakage performance is a key example. We delivered an actual leakage level of 37.2Ml/d, a record low level 7% below our target of 40Ml/d and 10% below last year's record low. This is a level of leakage in our long-term ambition document we only thought we would reach in 2035 and is testament to the innovation and hard work of the Bristol Water colleagues and our supply chain who have delivered this fantastic achievement. Our

regulatory incentives were set on a different basis, using a five-year average calculation which does not take into account new information. Despite being behind target in previous years, we almost recovered this and ended 2015-20 with an average of 45.6Ml/d compared to the target of 45.4Ml/d.

Supply interruption performance in 2019/20 was equally as pleasing. Customer minutes lost per property were 11.1 against the target of 12, the only time we have beat this challenging target over 2015-20. One particularly challenging burst at Royate Hill in July contributed around 2 of the 4 minutes in that month, triggered by particularly dry and hot weather. It is worth noting that in the second half of the year we had a performance of 2 minutes per property of supply interruptions on the industry standard definition for 2020-25, which if repeated would beat our target for the next few years. This excellent performance has been delivered through investing in our network, innovation such as tankers that can inject water into the network, state of the art network monitoring and most importantly through the way that people across Bristol Water work together. New ways of working have meant that we often keep supplies running to customers when our pipes burst, when in the past supplies may have been interrupted. The number of mains bursts was also 16% below target – in part this is because the weather was benign, but also because of significantly improved operational performance.

We completely changed our supply chain contract for network maintenance and new connection activities on 1 October. Inevitably there were some teething problems as this was a major change, with some issues reinstating after works and some increase in customer complaints. However, this was quickly rectified and this new partnership with the supply chain will help us deliver both our service and cost challenges for 2020-25. We managed to reduce written complaints to around the upper quartile level of performance in the water industry. At 97% our customer satisfaction according to CCW is the highest in the industry.

Our water resources are in a strong position, and we entered the spring with our reservoirs 100% full with no likelihood of water restrictions on the horizon. The significant reduction in leakage has more than offset the impact of take up of metering remaining lower than expected. We continue to promote metering to customers with the aim of reaching 75% in 2025, from the current level of 59%.

Our performance on the Drinking Water Inspectorate's water quality metrics continues to be amongst the best in the industry, although 2019/20 was not as good as our record performance in 2018/19. As we improve leakage and supply interruptions, we also continue to reduce the already very low risks to water quality. In the short term we are in a position where we are being challenged to reduce our costs, but looking ahead to the future our knowledge and monitoring of our network has the potential to predict problems and fix them before they happen. This is a big ambition but is worth aiming for.

We continue to offer a wide range of social tariffs support, and we have again exceeded our affordability target by ensuring that none of our customers are in water poverty.

### **COVID-19**

Throughout its long history there have been many crises to be overcome. Bristol Water was set up because of the public health crisis caused by Cholera in the 1840s, with the ambition to provide a clean supply of water to everyone in Bristol. Covid-19 reminds us of the importance of a clean water supply at the time that the health and wellbeing of us all is at risk. As in the 1840s, the professionalism of our staff has shone through. Bristol Water has shown its resilience, supported by the Board and shareholders, to the financial and operational challenges that are emerging. We were proud to work with Wessex Water to offer a rebate to 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 accelerated our "Together for Good" community programme and the other initiatives within our social contract. Most importantly, we protected the Bristol Nightingale hospital with state-of-the-art quantity and quality monitoring with our partners ATI and Inflowmatix. The Board will continue to make sure we play our part as Covid-19 develops.

### **Referral of PR19 to the Competition & Markets Authority**

Ofwat published their PR19 Final Determination for 2020-2025 in December 2019. The Board considered the Final Determination very carefully, but made the very hard decision to ask for Ofwat's 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. Our areas of dispute with Ofwat concern technical judgements, rather than relating to the services we plan to deliver for customers and stakeholders, which we will continue to deliver, building on the excellent early progress made to date. However, the impact in our view of Ofwat's judgements was that we could not finance the plan resiliently for the long term. The CMA are expected to make their decision later in 2020, but whatever the outcome customers will get a good outcome of improved services for a reduced bill before inflation over 2020-2025.

### **Purpose, Values and Culture**

Our purpose is to have a positive impact on the lives of our customers, our communities, our colleagues and on the environment beyond the delivery of pure and reliable water. 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. We developed this further during the year. We held the first of our new Employee Forum's at which Mel Karam outlined the progress with delivering our social purpose. The leads for each social contract programme shared their ideas and over 50 staff volunteered to participate. We also held our second social contract customer forum, which

identified that vulnerability and the environment had increased in importance over the last year alongside the education initiatives that had been prioritised. Jim McAuliffe reported back to the Board on the success of both events, which informed the social contract forward programme for 2020/21 which we published in May 2020.<sup>1</sup> We published a guide to our social purpose which sets out our approach and how it delivers our 2020-25 outcomes.<sup>2</sup>

This social purpose is now reflected in our corporate governance code which sets out how the Board ensures the strategy, values, culture and decisions of Bristol Water have regards to the interests of those affected by our social purpose. Our social contract is continuing to evolve (as society does) and as we learn from experience, so through a set of mechanisms and initiatives we are building partnerships and relationships to make what set out to achieve meaningful for our customers and stakeholders. We recently published an update on the progress we have made in the evolution of our social contract.<sup>3</sup>

Some of the highlights included the installation of eight water fountains across the city of Bristol, bringing our total to ten. We have supported local school children through a career day, a range of mentoring activities and through our Youth Board. This work contributes to the achievement of our Social Mobility Pledge. Our cross-sector Resource West initiative to tackle resource efficiency challenges in partnership with others now forms part of the Bristol One City plan.

One of main areas of focus is the recognition that the next generation of citizens, customers and employees had the most interest in environmental and climate issues, but often had the least environmentally sustainable behaviour, such as the highest water use. Our research identified that this was due to lifestyle and housing. We ran a “future citizens / future employees” local stakeholder event at which a number of organisations made pledges to work on this theme together. This fed into our Resource West initiative, which seeks co-ordinated resource efficiency messages to communities. Our social contract initiatives also map into the Bristol One City plan, which sets out the long-term ambitions for Bristol include the response to the climate and ecological emergencies, where we play a specific role through the Environmental Sustainability Board. We see local plans such as this as a key future focus for the water sectors and its regulation.

There are two specific triggers the Board monitor carefully for our social contract. Firstly, based on the most recent business benchmarking survey we have for UKCSI in November 2019, our overall customer satisfaction score was 79.5. This places us as the top utility and top water company, just ahead of Dwr Cymru with 79.2. The scores for the trust and reputation elements are close to the scores of the highest scoring utilities for this component, but with our social contract we aim to improve this further.

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<sup>1</sup> [Social contract forward programme for 2020/21](#)

<sup>2</sup> [A guide to delivering our social purpose](#)

<sup>3</sup> [Social Contract 2019/20 Mid-Year Update Benefit and Transparency Report](#)

Secondly, we are currently achieving 89% stakeholder satisfaction levels, based on our broader impact on the local community. The survey found that stakeholders had great confidence in our core service, such as water quality. On our social initiatives, the most important factor was that we were enjoyable to work with, although the communication of the work we do was an area to improve. There was a strong sense that we were seen as innovative and this was becoming a differentiating factor from other utilities.

**“It often feels like a water company’s business is a bit dry and dull, but it felt like all the staff had a commitment to be a part of the community. Working with Bristol Water improved my view of them. It seemed that they wanted to build links and relationships and that the company had a clear vision of how it wanted to be more widely involved.”**

The Health & Safety of our employees and contractors is of equal importance to providing a clean, safe water supply to the public. We have established a very strong safety culture and look for continuous improvement, with the number of accidents c50% below a target looking to reduce accidents by 10% each year.

We not only took steps forward with our future plans and our operational performance, we also made big cultural improvements with the adoption of our values by all our staff. Our values are to be; Proud, Respectful, Supportive, Professional, Accountable, Ambitious and, underpinning them all, Trustworthy.



These seven values describe who we are and who we want to be for our colleagues, customers, the communities we serve, and our environment. The Board hold the executive to account in delivering against these values, as they reflect a personal commitment from the management as to how they will lead the organisation. They are critical to our success and essential to achieving our vision and strategic objectives. Our approach on values and its important to employee engagement featured as a case study in the CBI's "Great Job" report about solving the UK's productivity puzzle.<sup>4</sup>

### 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 2019 we again published an independently assured and verified mid-performance statement for the first half of 2019/20, 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 year-end and mid-year continues to help to promote easily accessible and transparent information on both our performance and future plans.

We have recently published a guide which summarises our outcomes and social contract plans.<sup>5</sup> We were pleased that Ofwat highlighted a number of Bristol Water good practice areas for Board Leadership, Transparency and Governance updated in January 2020, however we are determined to take the transparency on the actions the Board ensures that Bristol Water takes further. The Board takes this seriously and is fully responsible for the decisions made. Matters that are reserved for shareholders and conflicts of interest of areas of specific monitoring. No decisions during 2019-20 were reserved for shareholders and no Board conflicts of interest were noted

The Bristol Water Challenge Panel 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.

### Long-Term Strategy

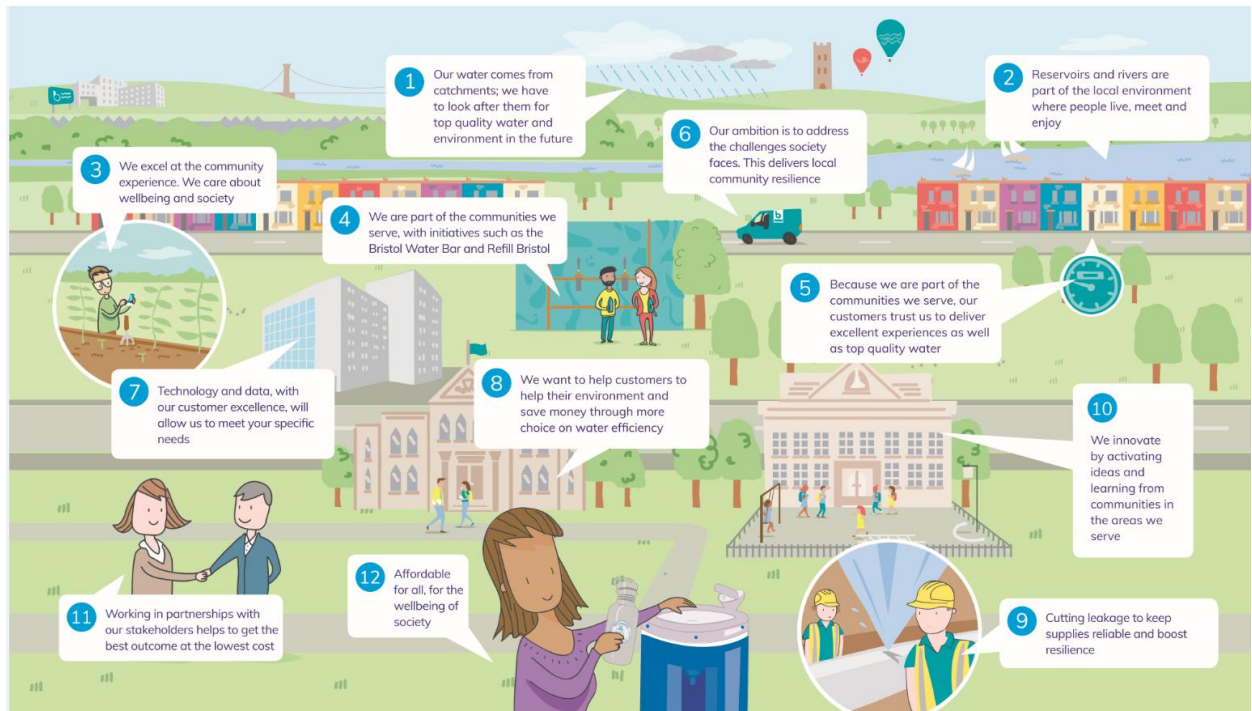
In February 2018 we launched 'Bristol Water...Clearly', which sets out our long-term ambition for our water services, local communities and the environment over the next 30 years to 2050. 'Bristol Water...Clearly' places customers and trust at the heart of how we continue to fulfil our responsibilities as a trusted owner and operator of local services critical to the communities that we serve. Our four objectives, as articulated in "Bristol Water...Clearly", are: (1) Excel at customer experience; (2) Leading efficiency; (3) Develop our

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<sup>4</sup> [Great Job: Solving the productivity puzzle through the power of people](#)

<sup>5</sup> [A guide to delivering our social purpose](#)

people and the business; and (4) Being trusted. Developed through engagement with our stakeholders and customers, 'Bristol Water...Clearly' sets out how we were changing and the changes in our business to come. The summary from this document sets out our mission for the future.



This statement of ambition has further developed with the recognition of how we deliver being as important as what we deliver. The summary of our social contract approach below formed a summary of this development.



As well as our extensive engagement on our social contract, a key development for 2019/20 was the implementation of a new approach to developer services charges. We engaged extensively with developers and water retailers operating in the business market, through both surveys and our popular engagement days. We continue to be one of the top performing wholesalers in the business retail market, according to MOSL statistics.

## Environment

Our catchment management work has been more successful than we had hoped in protecting the water quality in the Mendip Lakes. A 25% reduction from the baseline means the water quality can be assessed this year as “improving” for the second year in succession. Through working with the local landholders and partners, including through the Mendip Lakes Partnership, the frequency of algal blooms has reduced, which contributes to keeping long term water quality high and treatment costs low.

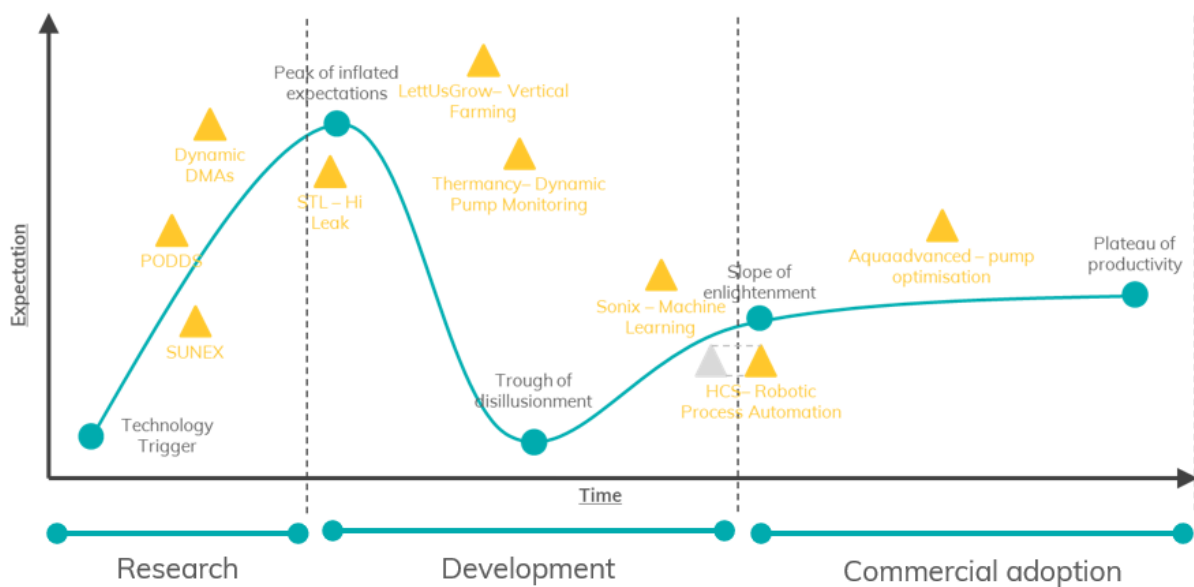
We use a Biodiversity Index to target a net ecological benefit for the land we own and manage. This increased by a net 2 points in 2019/20, compared to our target for a net gain of 1 point on this index. Challenges were faced from Ash dieback infection, which were more



than offset by hedgerow planting. We are promoting the use of the Biodiversity Index with other organisations as part of our social contract.

### Innovation

We continue to build on our innovation framework, holding a major regional event at the University of the West of England. We also published an 8-part series of podcasts with our partners to communicate water sector innovation to a wider audience.<sup>6</sup> Our innovation framework continues to help us track our current innovation initiatives against the main challenges we face.



A major achievement during 2019-20 was the implementation of IPSOS, which uses artificial intelligence to automatically schedule network pumping and storage. The operation of our control room changed to ensure a successful implementation of this state-of-the-art system which will significantly reduce our energy costs as well as improving monitoring and control. This takes our systems resilience to a new level.

We used our existing 'Brainwaves' staff innovation process to encourage ideas for how we could best respond to Covid-19.

### Returns and Financial Policy

Despite the improved outcome performance, returns on regulated equity (RORE) over 2015-20 were 4.7%, below the 5.8% assumed at PR14. Around 0.5% of this reflects exceptional costs in 2019-20 associated with the CMA reference and a water supply contract

<sup>6</sup> [Innovation: and endless pursuit](#)

arbitration. We have retained the dividend policy for 2015-2020 of no dividends being paid to ultimate shareholders. A small amount of dividend below the shareholder value earned has been retained to develop group activities, as well as for existing other long-standing group financial arrangements.

Despite this gearing increased slightly during the year from 64% to 66%, because of higher capital expenditure and exceptional costs associated with Covid-19 and the CMA reference (no element of which is shared with customers).

Financial viability during the time period of the CMA reference is being maintained with shareholder support. We reorganised Director responsibilities to reflect the challenges of the CMA process. We had to defer some elements of our transformation because of Covid, but this has been balanced by some elements of capital investment such as metering and new connections which we cannot incur during “lockdown”. A significant impact on business revenue is expected, in part because of changes in the market codes introduced by Ofwat. On-going financial viability will depend on the further development of these actions as well as for the longer-term the outcome of the CMA process.

Executive remuneration detail is set out transparently in our annual report. A key feature is that our annual bonus scheme for staff and for executive directors contains 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. Despite the financial resilience challenges faced we ensured that staff continued to receive the bonuses that our excellent service performance in 2019/20 had merited.

### **Resilience Action Plan**

In August 2019 we published an update on our Resilience Action Plan; this update introduced our “systems thinking” approach.<sup>7</sup> We consider systems thinking to be about understanding the whole context of a particular challenge with all its connections and interrelationships. This approach helps to identify the root cause of a problem, or source of an opportunity, enabling powerful, long term and cost-effective decision making.

We recognise the value that systems thinking can bring to our decision making and investments, particularly to the way we manage our resilience, and we already apply it implicitly in many of the ways we work. Our four business plan outcomes recognise this close relationship with our communities and make an explicit link between community wellbeing and resilience.

We have completed the actions due so far in our Resilience Action Plan, which we will report on in more detail as part of our Mid-Year Performance Reports:

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<sup>7</sup> [Bristol Water Clearly Resilient](#)

- Benchmarked approach against other organisations;
- Aligned our asset management systems to ISO15001; and we have
- Identified and developed the internal competencies we need.

## Markets

We are proud of our performance as a wholesaler in the business retail market. This goes beyond consistently being a high performing wholesaler (second in 2019/20) in the MOSL market performance statistics, to the relationship we have with retailers and developers. We believe the experience of retailers and developers with their water wholesaler is the most important step we can take in promoting markets. 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.

Our Developer services performance has not always been as good as our retail market performance. We have made significant improvements in timeliness and effectiveness of response recently and will continue to focus on this. The experience and relationships with developers have been very positive and we have an effective NAV and Self-Lay Provider market operating in Bristol. Although currently an area of regulatory debate, our engagement on income offset treatment and the new connection charging arrangements has been successful to date and supports the competitive market.

We publish technical information that makes it easier for developers and SLPs to understand our costs and approach to developer services. This does involve some technical language in our new charging arrangements document, which is not an issue for developers, but we are trying to balance technical and detailed information carefully. The key priority is to make costs certain and as fixed as possible, and developers are content that we have achieved this balance based on the feedback to date.

On water resources market development, we are working as part of West Country Water Resources (WCWR), with a focus on regional exports as well as resilience. We recently agreed an MOU with the other companies involved, which sets out how we will transition from a cost share for the initial work to a “beneficiary pays” approach consistent with a water resource trading market. We have offered the “Cheddar 2” reservoir plans through WCWR in case this water resource development has value to wider West Country exports.

We are also implementing more network monitoring and scheduling, which will lead us towards internal water resource optimisation which will assist with water trading.

We consulted on our Bid Assessment Framework (BAF), both for the original and the updated version in June 2019 reflecting Ofwat’s feedback in January 2019. We have published a simple water resources trading code to provide a link between the BAF and



It's what we're made of.

water resources market information, given that we have spare water to offer, albeit at relatively modest quantities. We have also provided further information our water resources webpage, to encourage bids from those interested in the water resources market.<sup>8</sup>

### Conclusion

It has been a ground-breaking year for Bristol Water. We have started to see the benefit of our transformation with improved performance – both in terms of our service to customers, but also improving the way the company is viewed more widely through delivery of our social purpose. The ability of the organisation and its people to respond during the most challenge of times that society currently faces gives us confidence about the future.

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<sup>8</sup> [Water Resources](#)