

Trust beyond water - 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.

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 high levels of service, and is highly regarded by its customers and within its local communities. Building on our excellent trust with our local communities and customers, we want to be regarded as a leading organisation known to excel at customer service and experiences in an innovative and efficient way.

We have built on this further over the last year - in January 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. Our Social Contract will evolve as society does and we learn from experience, so through a set of mechanisms and initiatives we build partnerships and relationships to make it meaningful for our customers and stakeholders.

2018/19 performance

2018/19 saw a significant improvement in performance for Bristol Water, following a challenging 2017/18 that had a number of major events occur. Even though we performed well in the Willsbridge burst, Clevedon precautionary boil water notice and freeze-thaw events, we still learnt from these situations. Where there were events that could have caused significant disruption to customer supplies during 2018/19, we avoided such circumstances through improved resilience planning and customer-focused operational delivery. The response of our people is the key, with a culture that focuses on the end customer impact, such as deploying alternative water supplies in anticipation of, rather than in response to, interruptions to supply.

2018/19 saw the transformation of the Company continue. There were challenging weather conditions – but we maintained supplies to customers. Summer 2018 saw a 30% increase in demand at the peak, with the resulting change in pressure in the network seeing a continued high number of mains bursts, however it is encouraging that the level of bursts reduced compared to the previous year. Having delivered the Southern Resilience Scheme in March 2018 it was used to its full extent in 2018, with water from the River Severn being transported as far south as Cheddar through the new infrastructure, protecting water resources in the Mendip Reservoirs in case of a dry winter. The extra pumping and treatment incurs additional operating costs, but illustrates the resilience of supplies that we have despite a dry winter and then amongst the hottest and driest summers on record.

We have also transformed our leakage delivery, following our performance in the previous year, where we unfortunately missed our target. We beat our actual leakage target of 44MI/d with a record low level of 41.7MI/d, which is likely to be industry leading. Significant extra resources were deployed to find and fix leaks, which places us in a good position to deliver a further 15% reduction by 2025.

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.

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Although we managed to reduce customer complaints by 19% over the previous year as our operational performance improved, the customer experience was still not to the standards that we set ourselves. By the end of the year performance had returned towards acceptable levels following a significant focus on making sure each customer receives the service they have the right to expect from us. In January 2019 we maintained our position as the top water company in England in the UK Customer Satisfaction Index “UKCSI” survey. We also had the highest Net Promoter Score of any utility, which emphasises the esteem we are held in as a service provider by our customers. Our own customer satisfaction survey showed an increase to 89% from 87% last year, although this still fell short of our very ambitious 93% target which remains our aim. Another important milestone was achieved in February 2019, when we were awarded the Institute of Customer Services “ServiceMark” accreditation. This covered the whole of Bristol Water, recognising our organisational commitment to customer excellence as well as our strong UKCSI performance.

For water quality, we are once again likely to be one of the best performers in the industry on the Drinking Water Inspectorate’s Compliance Risk Index “CRI” measure, achieving a record low score of 0.032 in 2017 and an expected score of 0.746 in 2018. We take this aspect of our performance very seriously – full compliance (a 0 CRI score) is extremely hard to achieve and delivering low scores every year will be challenging as the standards we are measured against are exacting in order to ensure public health and public trust in their water supply is maintained for the long term. We achieved a record Mean Zonal Compliance water quality score of 99.99%, which is the historic measure for the sector.

We delivered our PR19 Business Plan for 2020-25 to Ofwat (the economic regulator of the water sector) in September 2018. It was a plan we are proud of, as we have built customer support for a stretching and ambitious plan that will see us targeting industry leading leakage and supply interruptions performance as well as a 5% reduction in customer bills. This support was derived from undertaking our largest ever programme of customer engagement, with over 37,000 customers giving us their views through 50 separate studies and research events. Ofwat’s initial assessment of our plan was fair and measured. We were pleased that the quality of our customer engagement was recognised, and that there was a clear line of sight from our engagement to the outcomes targeted in our plan. In our response in April 2019 to Ofwat’s initial assessment of plans, we provided further evidence through our improved performance this year that we can deliver our plan, which was Ofwat’s most significant concern.

In January 2019, Ofwat improved our assurance status under the Company Monitoring Framework from “prescribed” to “targeted”, a status that had resulted from the 2014 price review. Trust in our reporting of data and information is something that the Board has taken specific steps to improve and this achievement is an important step forward for Bristol Water. For both the business plan and the Company Monitoring Framework, it is important that trust in Bristol Water from our regulators and national stakeholders matches the level of trust we achieve in the communities we serve.

Our strategy recognises the importance of our stewardship of the environment to delivering trust beyond water. A good example during 2019 was our rewetting of a tributary of the River Chew which was severed in 1956. Although not a scheme required by regulation, we worked with a range of partners to move our river compensation discharge to recreate 500m of river habitat. We received excellent publicity in the national media as a result of this improvement.

Social Contract

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experience, so through a set of mechanisms and initiatives we build partnerships and relationships to make the framework meaningful for our customers and stakeholders.

The Social Contract is a framework through which our customers and stakeholders can hold us to account for the wider benefits we promise to provide to our communities. The contract reflects our social purpose to have a positive impact on the lives of our customers, our communities, our colleagues and the environment, beyond the delivery of pure and reliable water.

Our Social Contract aligns the legitimate role of profit and reward for shareholders with the well-being aspects of our purpose. We have changed our corporate governance as part of the accountability and transparency it will deliver. One of our new Non-Executive Directors, Jim McAuliffe, will act as a link between the Board, our customer forum, the Bristol Water Challenge Panel and our employee forum to ensure our initiatives and performance against our social purpose remains at the heart of Board decisions. We are building the initiatives and the ongoing process so that our approach will be fully in place for 1 April 2020.

We ran a number of launch events for this important initiative, including a discussion event at Bristol Zoo with a mix of national and local stakeholders. At a time that trust and legitimacy in privately financed public service providers are under national scrutiny, we have been pleased to be able to provide leadership in making a positive case for companies such as Bristol Water, who are privately financed and with a strong social purpose.

As an example of our activities during 2019, over 30 of our staff spent a day with our neighbours at Bedminster Down School, providing a mix of education on water quality and water efficiency, as well as promoting science, technology, engineering and mathematics “STEM” and water industry careers. We also ran our Youth Board initiative for a second year, with practical water efficiency ideas emerging from the process which are now being developed in practice. We had 20 young individuals who live in the Bristol Water region join the Board, which allowed their voices to be heard at an executive level.

A key part of our Social Contract is to work in partnership with other organisations with similar aims. We strengthened our links through establishing our sponsorship with the Bristol Green Capital Partnership, who have over 850 members and a focus on sustainability in Bristol aligned to the UN Sustainable Development Goals. This builds on our existing work with City to Sea and the Refill campaign, as well as our popular Water Bar. The Water Bar is a free to use, pop-up tap water bar, which helps to reduce plastic waste at festivals. We are proud that it has won multiple awards since its inception, such as the ‘Big Bang Award for Innovation’ (Utility Week Stars Awards 2018) and Community Project of the Year (Water Industry Achievement Awards 2018). We have also been building our Resource West partnership to promote resource efficiency, with other local utilities such as Bristol Waste and Bristol Energy. We provide regular updates on our social contract on our [website](#) and on [social media](#).

Transparency 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 2018 we again published an independently assured and verified mid-year performance statement for the first half of 2018/19, 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, mid-year and with our Business Plan helped to promote easily accessible and transparent information on both our performance and future plans. The

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Bristol Water Challenge Panel continues to play an important role in providing a supportive challenge on our performance and customer engagement.

People

In January 2019 our Health & Safety strategy was adopted by the Board. It identifies key areas of focus for our journey to 'zero harm'. Overall we have seen a 20% reduction in accident numbers this year, which is a fantastic achievement, but there is still a lot of work to do to realise our aims. 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 will 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. We have pledged to become a Social Mobility Employer and are targeting our Social Contract initiatives as part of meeting this commitment.

Governance

The Board anticipated that at a time of challenging performance and when the legitimacy of the water sector is under national scrutiny, it was essential that there was no ambiguity that customers' interests are at the heart of our business, and it should always be clear that this is the case. A step of particular significance is for reporting of leakage performance, a measure that can benefit from improved technical data as well as operational performance. The Board has committed to ensure that our outcome incentive payments for 2015-20 are calculated without taking into account technical adjustments that could benefit the incentive calculation. We report our actual level of leakage to reflect the latest and most accurate data, but calculate financial incentive adjustments without taking any benefit from the updated information. As part of our commitment we reduced customer bills by c£1.2m in 2019 to reflect our leakage performance this year, rather than waiting until 2020. This provides an example of how the Board is accountable for both how we are seen to deliver, as well as what we deliver.

The Board has seen significant change in 2018, with the recruitment of three new Independent Non-Executive Directors (“INEDs”), as well as the appointment of Laura Flowerdew as CFO. Both the Board and the executive management team have a stronger and more diverse set of skills than previously, and we believe this has contributed to our improved performance. The Board has full responsibility for all aspects of Bristol Water, and we commit to delivering the social aspects of our purpose, and considering legitimacy and fairness. As well as our Social Contract, our dividend and executive remuneration policies help to ensure we continue to deliver fair returns and pay that reflects our success as an organisation. The new Board sub-committee on Health and Safety emphasises the importance of this aspect of wellbeing to our success as an organisation. All of our sub-committees are chaired by INEDs with specific experience relevant to each committee.

The Board has ensured that the Company’s purpose (reflected in the Social Contract), strategy and values are now well established, and that the culture of the Company reflects the needs of all it serves. Throughout our history, the people at Bristol Water have been proud to go the extra mile to deliver for our customers, our communities and for each other. Our purpose is important to the people who work at Bristol Water and is reflected in our values. The values reflect a commitment as how we will work as an organisation.

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 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.



We continue to engage with both customers and stakeholders on key aspects of our strategy as we deliver against this ambition. Both our PR19 Business Plan and Social Contract were informed by extensive customer engagement, including through our customer forum. We also engaged extensively with developers and water retailers operating in the business market, through both surveys and our popular engagement days. Our work to help ensure the business retail market operates successfully was noted by the market operator, MOSL, in its Annual Market Performance Report¹. Bristol Water were the only wholesaler (out of 15) to be in the upper quartile for both of the key wholesaler performance statistics, being top performer on one measure and second best performer for the other.

As well as direct engagement, our annual survey of businesses and stakeholders found that satisfaction increased to 75% in 2019 from 72% in 2018

Environment

Our catchment management work has been more successful than we had hoped in protecting the water quality in the Mendip Lakes. A 14% reduction from the baseline means the water quality can be assessed this year as “improving” for the first time. This is despite hot dry weather conditions that would normally be expected to be conducive to algal growth. 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 11 points in 2018/19, compared to our target for a net gain of 1 point on this index. The main contribution to this improvement was from the restoration of a tributary of the River Chew, re-wetting 500 meters of watercourse to create new habitat for a wide range of wildlife, including for the endangered European Eel. We received significant coverage from the national media for this initiative.

¹ <https://www.mosl.co.uk/files/content/201920%20Annual%20Market%20Performance%20Report.pdf>

Innovation

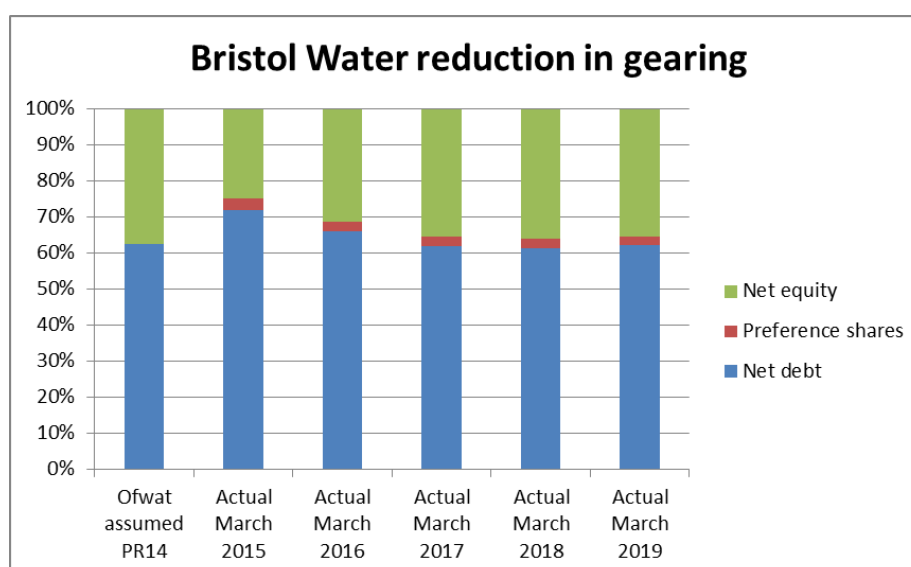
We were pleased that Ofwat recognised our approach to innovation as an area of high quality in our PR19 plan. We built on this during 2018/19 with the launch of our incubator for entrepreneurial organisations who can help us meet the challenges of building trust beyond water – “The Workshop”. As part of The Workshop we are taking ambitious start-ups and giving them open access to our business in a way not normally possible, including access to data, business leaders and expertise. We also ran a major Open Innovation event to encourage collaboration across sectors, with participation from leading innovators in other sectors and utilities. In line with our values, staff provide many of our future innovation ideas and are rewarded for them through our ‘Brainwaves’ scheme.

Financial policy

The Board has been supported through this time of change by our investors, with iCON Infrastructure embedded as the main shareholder. They have committed to not taking any dividends out of the Bristol Water Group over 2015-20 as part of the transformation of the organisation. This has reduced gearing (the level of debt a company has as a proportion of its regulatory capital base), as well as allowing additional and necessary expenditure as required. Although we delivered efficiencies overall in 2018/19, operating expenditure was significantly higher than expected due to one off costs, such as to reduce leakage and due to the hot and dry summer weather.

Our debt levels are currently in the range 60-65%, consistent with notional company leverage. This has allowed us to remain comfortably within our key financial ratios. Gearing has fallen from 75.1% in March 2015 to 64.6% in March 2019, or 62.2% excluding preference shares. Debt/RCV gearing at 64.6% is close to the 62.5% notional gearing Ofwat assumed for the industry at the 2014 price review. This reduction in gearing allows us to provide assurance of our financial viability to a range of adverse scenarios over at least the next 10 years, analysis which has been independently confirmed. We currently maintain a Baa1 investment grade rating, albeit, with a negative outlook.

Financial viability



The reduction in gearing has been achieved through the Board’s implementation of a conservative dividend policy following PR14, with shareholders’ support, to build equity and

thereby increasing financial resilience. So far in the 2015-2020 period, our expenditure outperformance (0.9% of assumed net equity) has been offset by underperformance on outcome performance incentives, such as for leakage and metering. Interest costs have been slightly higher than assumed when price controls were set, but in-line once taking into account the higher level of debt at the start of the period. Dividend yields have been an average of 1.7% against the 4.0% Ofwat assumed for 2015-2020, which would have been 3.1% if adjusted for our cost and outcome performance and level of gearing. This demonstrates the commitment of the Board and Bristol Water's shareholders to provide a fair financial framework that supports the delivery of the long-term ambition and objectives.

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. The pay award for 2019/20 applied to all staff including Executive Directors and the executive management team.

Legitimacy and “putting the sector back into balance”

We set out in this summary all the steps we are taking to deliver our social purpose, including our Social Contract and a fair use of resources for the long-term benefit of customers, employees, other interested stakeholders and shareholders. We also set out the retention of equity within Bristol Water through dividend payouts lower than justified by current performance for customers. We set out measures in our PR19 Business Plan, including our Social Contract, which we believe evidence shows will maintain trust in our delivery for customers and the environment for the future. We are pleased that our approach has been recognised to have influenced the wider debate across utilities and providers of essential public services. We intend to continue to have a leading role in this important debate. As well as our own actions, we have made positive proposals building on our experience to Ofwat, DEFRA and National Infrastructure Commission consultations and calls for evidence concerning the future regulatory and market framework for the water sector. We publish our consultation responses on our website, alongside blogs to make the topics accessible to a wider audience.

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. We will continue to be transparent about our transformation as we encounter any challenges to our ambition to be a leading water company across the range of performance and social measures that matter most to our customers.