

Bristol Water Challenge Panel Annual Report 2015/16

BRISTOL
WATER
CHALLENGE PANEL

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FOREWORD

Welcome to the 2016 Annual Report of the Bristol Water Challenge Panel

On behalf of the members of the Bristol Water Challenge Panel, it is with enormous pleasure that I publish the first annual report of the work of our Panel. Water is essential for life; whether for drinking, washing, cleaning or carrying out other tasks. Our Panel carries out an important role on behalf of its customers, we scrutinise Bristol Water on how well it listens and acts upon customer priorities and preferences when devising strategy, planning its business and delivering its services.

We are independent and have been established to provide assurance on the quality of customer engagement and how this is reflected in the Company's corporate decision-making to Ofwat, the economic regulator of water services.



I was delighted to be appointed as Independent Chair of the Bristol Water Challenge Panel in April 2016 and thank my predecessor Charles Howeson for the work he carried out in establishing the Challenge Panel. Since joining, I have focussed on strengthening the governance of the Challenge Panel in the following ways:

- Firstly, I have expanded the membership of the Challenge Panel in order to reflect the diverse customer-base of Bristol Water. A broader membership should better reflect the range of views held by customers and enable the Panel to interrogate robustly the actions and plans of Bristol Water.
- Secondly, I have carried out a skills audit of Challenge Panel members to assure ourselves that we have the right level of skills, experience and knowledge to perform the role of scrutiny through Panel meetings and meetings of the various sub-groups of the Panel.
- I have launched an evaluation process to ensure that reports

to the Challenge Panel are customer-focused, measure the impact on the customer experience, compare Bristol Water's performance with best practice, seek to be innovative and explicitly address ethical issues. By focusing on these criteria, I believe the Challenge Panel can assist Bristol Water to excel in customer satisfaction, pioneer new services and address emerging issues now and into the future.

- I am establishing good working relationships with executive and non-executive members of Bristol Water to ensure, firstly, that the views of customers remain uppermost among corporate priorities and, secondly, that there is a high degree of trust and respect between us. I am grateful for the frank discussions we have and pleased that the Board is open to learn from the perspective of the customer.
- Lastly, I contribute to the sharing of knowledge and experience with Chairs of similar Customer

Challenge Groups across the water industry. The input from Ofwat, the Consumer Council for Water, other regulators and stakeholders assists me in carrying out my role by broadening my understanding of regulation and emerging issues within the sector. This aspect of governance enhances the independence and performance of the Challenge Panel.

Looking forward, next year will be a time of even greater customer engagement. There may well be opportunities for the Panel to raise awareness on the subjects being considered. I look forward to reporting to you on these developments.

Peaches Golding OBE

Independent Chair,
Bristol Water Challenge Panel
September 2016

EXECUTIVE SUMMARY

The Bristol Water Challenge Panel provides assurance to the economic water regulator Ofwat that Bristol Water has incorporated the preferences and priorities of customers in its business plan for the period 2020 to 2025.

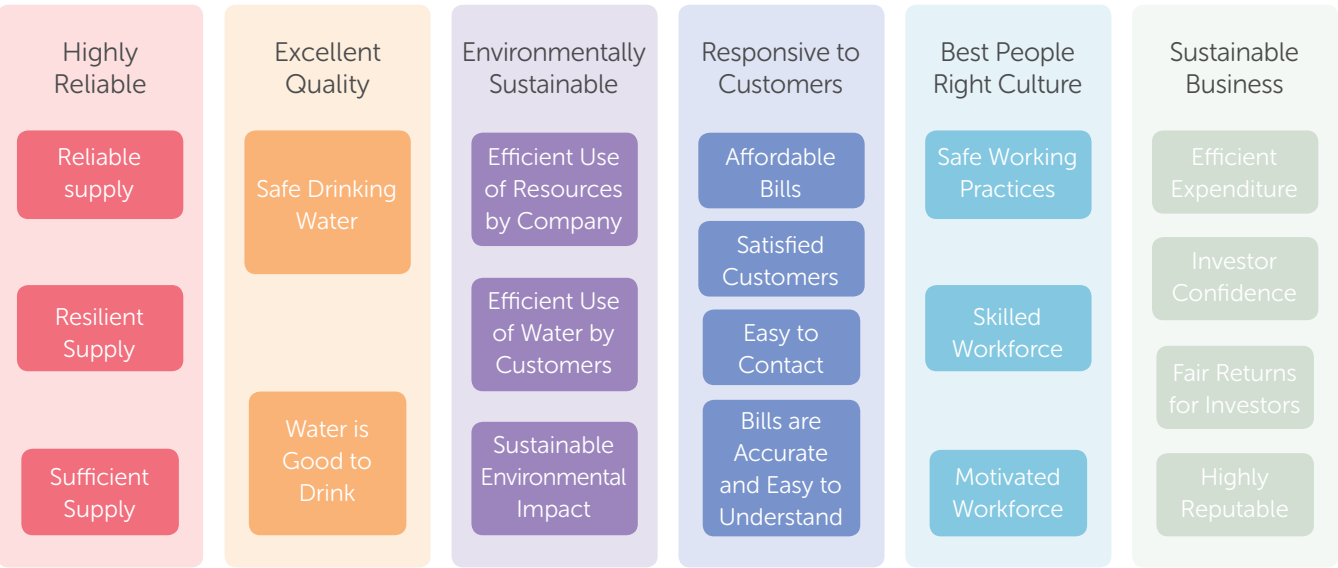
For 2015-20 Business Plan, Bristol Water identified the following Vision Statement and outcomes it wishes to deliver for its customers:

“to meet our customers’ expectations by providing an outstanding water service in a sustainable and affordable way”

The Challenge Panel is independent from both Bristol Water and Ofwat and maintains relationships with these organisations as well as other regulators of the sector. This report details the scrutiny and challenge provided by the Challenge Panel regarding the delivery, plans and proposals of Bristol Water.

The range of discussions taking place in Challenge Panel meetings match the first four of these broad headings and provide an opportunity to understand how

Bristol Water is taking into account the concerns and interests of its customers as it carries out its day-to-day activities and plans its future investments. The Challenge Panel records the challenges it makes to Bristol Water and receives comments back from the company on what has happened as a result of such challenge. This register, among other documents, provides an important part of the assurance the Challenge Panel gives to Ofwat on how well Bristol Water addresses and responds to its



In order to carry out such sensitive and technical assessments, it is essential that both the Challenge Panel and the company have mutual trust and respect and that the customer can be confident in the rigour of the challenges made.

customers, both present and future, and will be published in our final report in September 2018, which will accompany the Company's Business Plan.

In examining how the company carries out its day to day activities and how this performance compares to that of other companies in the water sector, the Challenge Panel questions and challenges the assurances provided by Bristol Water's Technical Assurer. In order to carry out such sensitive and technical assessments, it is essential that both the Challenge Panel and the company have mutual trust and respect and that the customer can be confident in the rigour of the challenges made. The detail of this important workstream provides assurance that Bristol Water has the right systems, processes and records in place to meet its promises to customers and plan its future services. This examination is carried out by a sub-group that reports to the Challenge Panel any challenges made to Bristol Water. A detailed analysis of the subset of indicators that raised concerns regarding the water service is provided.

The Challenge Panel is pleased to note that Bristol Water has

made a good start in delivering its commitments to its customers and in making progress from the prior reporting period. The Challenge Panel was satisfied the water supply is resilient and water quality meets the high standards required by the water quality regulator, the Drinking Water Inspectorate. However, we noted that in 2015/16 the company:

- was penalised for poor performance regarding the amount of time customers were without water through unplanned interruptions;
- performed better than expected regarding the amount of water that leaked from its pipes
- recorded fewer dwellings using water meters than anticipated.
- needed to do more work (at the time of the June 2016 meeting) on understanding how many of its customers were in water poverty
- needed to do more work on evaluating customer satisfaction.
- needed to do more work on measuring how easy it is for customers to contact the company by telephone.

Future activities to be carried out by the Bristol Water Challenge Panel are included in Focus for 2016/17. It is noted that the Challenge Panel

has a full programme of work for the coming year as the company approaches the date for submission of its finalised business plan in 2018. The Challenge Panel will review the technical assurances and changes made to it as a result of previous challenges. The focus of sub-groups of the Challenge Panel is also set out.

In the run-up to the production of the final business plan, the Challenge Panel will focus on how aware the company is of what its customers want and expect from the water company and how it has acquired and interpreted customer feedback in order to reach its performance promises for the business plan period. On submission of the final business plan, the impact made by the Challenge Panel through its scrutiny and challenge will be fully apparent in the company's business plan. The Challenge Panel will simultaneously submit its final report for the current five-year business plan.

INTRODUCTION



The independent Customer Challenge Group for Bristol Water is known as the Bristol Water Challenge Panel. The Challenge Panel's primary role is to monitor, scrutinise, challenge and report on Bristol Water's performance against the commitments set out in the final report of the Competition and Markets Authority dated 6th October 2015 and the Ofwat PR14 Final Determination of December 2014.

The Challenge Panel advises and challenges the company on its customer engagement policies and procedures and it examines how customer preferences and priorities

drives decision making and business planning for the next price review. The purpose of this report is to provide the Bristol Water Board, its customers and Ofwat, with the Challenge Panel's opinion on the company's progress in delivering its performance commitments in the first year of the 2015-2020 price control period. It also provides the Challenge Panel's opinion on the Bristol Water customer risk assurance plan discussed with the company during 2015/16.

The report also indicates where the Challenge Panel's focus will be in the next 12 months.

Back Row (L to R):

Dr Chad Staddon, Dr Mark Taylor, Mhairi Threlfall, Mike Bell, Michael Barnes, Ben Newby, Jeremy Hawkins

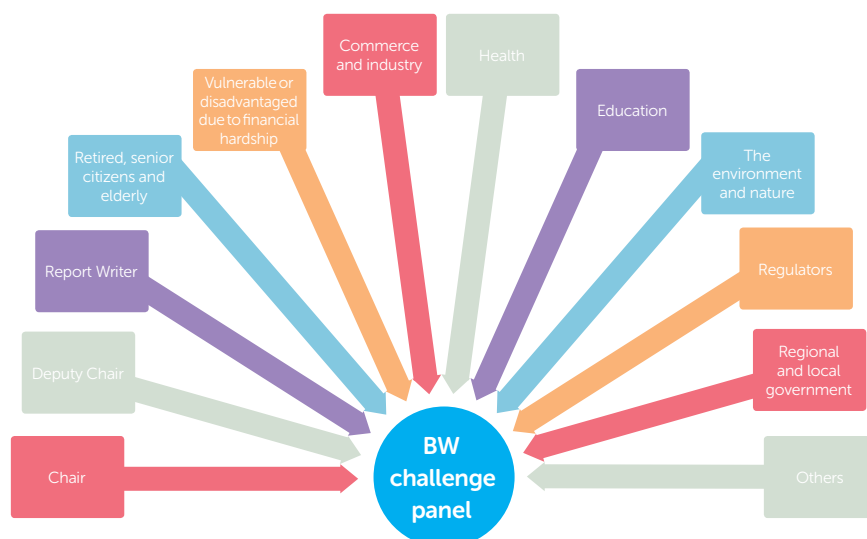
Front Row (L to R):

Dr Sally Birse, Sue Clarke, Peaches Golding OBE (Chair), Dani Emerson, Tom Kiedrowski, Tony Denham (Deputy Chair)

TERMS OF REFERENCE AND MEMBERSHIP

The Challenge Panel was established in late 2015 with an independent Chair and diverse membership representing various customer and stakeholder groups as follows along with their area of focus and challenge:

A list of the Challenge Panel members during 2015/16 is included in Appendix 3. The Challenge Panel membership has been broadened and extended in 2016/17 in order to increase its ability to fulfil the role set out in its Terms of Reference which is included in Appendix 1.



ACTIVITIES DURING 2015/16

The challenges of the Challenge Panel are an important part of the process of ensuring that the customers of Bristol Water receive good quality and safe drinking water and that Bristol Water provides the outcomes that the customer has stated they require.

The Challenge Panel recognises Bristol Water's assistance in organising and facilitating its meetings and in meeting its requests for information and access to key staff. The Challenge Panel has been given appropriate opportunity to scrutinise and challenge the company's policies and performance as presented. The process has been open and transparent.

The Challenge Panel met twice during 2015/16 and held one sub group meeting.

The key items discussed at these meetings included:

Main Meeting 17 November 2015	Sub Group meeting 25 November 2015	Main Meeting 1 March 2016
Easy to contact	Efficient use of water	Resilient Supply
Sufficient Water Supply	Affordable Bills	Affordable Bills
Affordable Bills	Satisfied Customers	Satisfied Customers
Efficient use of water		Efficient use of water
Satisfied Customers		

This brief record indicates the challenge to Bristol Water particularly on tariffs and bills. The full minutes of all meetings are published on the web page: www.bristolwater.co.uk/about-us/strategic-objectives/challenge-panel

The record of challenges made by the Challenge Panel members is as follows:

Meeting	Date	Number Raised	Cleared at meeting	Change made	Outstanding at 31 March 2016
Panel Meeting	17/11/2015	2	2	0	0
Sub Group Meeting	25/11/2015	7	1	1	5
Panel Meeting	1/3/2016	22	11	0	11
	Total	31	14	1	16

BRISTOL WATER'S REPORTING AND ASSURANCE PROCESS

Ofwat required all Water Companies to carry out an analysis of their Risks, Strengths and Weaknesses with regard to reported data during November 2015.

The Challenge Panel first had sight of the Bristol Water analysis at its first meeting in November 2015. Given the importance of the document to the work of the Challenge Panel in challenging Bristol Water proposals and the, at that time, recent change to the assurance requirements that Ofwat had imposed on Bristol Water by moving it to 'prescribed' status,

the Challenge Panel agreed to a sub group meeting to discuss the Risk Analysis in more detail.

The sub group met later that month and went through the plan in detail. They made numerous challenges to the plan all of which were accepted. This led to a considerably changed draft Assurance Plan

being distributed to stakeholders in January 2016.

The updated Assurance plan was presented to the main Challenge Panel in March and discussed in some depth. The final Assurance plan was published later that month.

The mechanisms of the plan were used in the preparation of the Bristol Water performance results which were reviewed by the Challenge Panel in June. Atkins, the Bristol Water Technical Assurer, provided the Challenge Panel with assurance that the company's reporting methodologies were generally sound and that they comply with the appropriate regulators' requirements. The Bristol Water Technical Assurer made several continuous improvement comments about the methodology and documentation used by Bristol Water. It is intended that the Challenge Panel will follow these up later this year once Bristol Water have had an opportunity to propose changes to their processes.

As a result of the Challenge Panel scrutiny and challenges and the assurance received, the Challenge Panel is satisfied that the reported performance of Bristol Water for 2015/16 has been correctly reported.



REVIEW OF BRISTOL WATER'S PERFORMANCE DURING 2015/16

The Challenge Panel review of Bristol Water's performance is aimed at continuing the delivery of good quality and safe drinking water to all customers, based around those customers' expressed preferences and priorities.

The challenges detailed below demonstrate that the Challenge Panel and Bristol Water working together ensure the performance of the company to deliver good quality and safe drinking water to all of Bristol Water's customers. It demonstrates the resilience of these water sources and provides confidence to the customer that their preferences and priorities are taken seriously by Bristol water.

In 2012 Bristol Water carried out research in which household customers were asked to rank, in order of priority, 16 different areas of their water service. These 16 service areas had been agreed by customers at previous research. The prioritised customer service areas were translated into a set of Outcomes with supporting Performance Commitments, which were enshrined in Bristol Water's Business Plan.

Each Performance Commitment includes targets for each of the 5 years of the period from 2015/16 to 2019/20. Bristol Water's performance against each Performance Commitment is measured and reported each year by the company. Each Performance Commitment was

assigned a financial or reputational incentive. The financial incentives may be rewards or penalties, along with limits on the rewards and/or penalties and neutral zones before the reward and/or penalty becomes active. Any rewards and/or penalties earned each year are accrued for possible payment at the end of the Business Plan period.

The Challenge Panel needed to understand the company's eligibility for any reward and/or penalty as a result of the performance achieved, and to challenge this as appropriate. The Challenge Panel was grateful for the expertise of the Environment Agency and Natural England in discussing the environmental outcomes.

The Challenge Panel challenged the company on how Bristol Water was to address the performance shortfalls in this first year and how to address any emerging risks to sustaining acceptable performance into the next and future years. It challenged Bristol Water to provide trend data and targets to enable the Challenge Panel to better understand whether or not the figures reported were acceptable and expected.

The Challenge Panel is pleased to report that the company has made a good start to delivering its commitments to its customers. It has met the great majority of this year's targets. The full details are in Appendix 2.

All Performance Commitments were reviewed by the Challenge Panel, who focussed on the Performance Commitments described below. The Challenge Panel has identified issues it wishes to draw attention to and will provide challenge to over the coming years.

The discussion on each of the 2015/16 Performance Commitment consists of a brief definition of the indicator; the units used; the previous year's performance; the previous year's rank order within the Water Companies [where known]; the reporting year's target; the reporting year's actual outcome and the rank order within the Water Companies [where known].

REVIEW OF BRISTOL WATER'S PERFORMANCE DURING 2015/16 CONTINUED.

Performance Commitment A1: Unplanned Customer Minutes Lost

Previous Year	14/15 Rank Order	Target 2015/16	Actual 2015/16
152.4 min/prop	21 out of 21	13.4 min/prop	15.5 min/prop

Detailed definition of performance measure: Total number of minutes that customers have been without a supply of water in the year, through unplanned interruptions, divided by the total number of properties served by the company in the year. This is expressed as minutes/property; thus low is good. Although Bristol Water's performance was a vast improvement on the previous year, they had not achieved the target and were outside the tolerance; thus the company received the maximum financial penalty. Atkins confirmed that the Bristol Water performance had been dominated by a few incidents. Upon challenge, Bristol Water confirmed that they had increased the number of staff called out per incident and were looking at ways of re-zoning its assets. They also confirmed that the improved weather was reflected in the improved operational performance as pipe bursts were 23% lower than expected. The completion of the Southern Resilience Scheme would also address this Performance Commitment. Atkins confirmed that the reporting appears robust.

Performance Commitment D1: Mean Zonal Compliance

2014	2014 Rank Order	Target 2015	Actual 2015	2015 Rank Order
99.92%	20 out of 21	99.95%	99.94%	18 out of 21

Definition of performance measure: Statutory indicator used by the DWI to assess overall water quality compliance across all water companies in England and Wales. Expressed as a percentage; thus high is good. The data is for the calendar year. This is a measure of the quality of water supplied to customers. Tests at Bristol Water's treated water service reservoir outlet showed a 99.8% compliance. The reduction in Bristol Water's performance was due to 5 failures of tests taken at customers' properties. These failures were due to deficiencies in the customers' internal plumbing system. This resulted in the company receiving the smallest financial penalty. Atkins confirmed that the reporting uses established industry methodology.

Performance Commitment F1: Leakage

Previous Year	14/15 Rank Order	Target 2015/16	Actual 2015/16
45.1 MI/d	7 out of 21	48 MI/d	44.2 MI/d

Definition of performance measure: The amount of water that enters the distribution system but is not delivered to customers because it is lost from either the company's or the customers' pipes. Leakage is measured in megalitres per day (MI/d); thus low is good. Note: due to the varying size of water companies the rank order is based upon the percentage of water put into the system and not the absolute quantity lost from pipes. Bristol Water had outperformed on Leakage but not sufficiently to gain a reward. Atkins confirmed that this was a well-established reporting methodology and that the reported figure was robust.

Performance Commitment G1: Meter Penetration

Previous Year	Target 2015/16	Actual 2015/16
45.8%	50.4%	47.3%

Definition of performance measure: The proportion of total properties of billed household customers that are charged for water on a measured basis. Expressed as a percentage; thus high is good. Bristol Water was below target as a result of less meter applications being received in 2015/16 due to lower bills as well as a delay in starting the metering on change of occupier. This was due to the Competition and Markets Authority referral. Bristol Water confirmed that they intended to improve the literature and communications to meter applicants as well as the information on the new change of occupier metering policy.

Performance Commitment H3: Biodiversity Index

Definition of performance measure: Bristol Water will carry out regular surveys at its sites to assess the level of biodiversity. This will involve quantifying the area of specific habitats available, together with their quality, importance and presence of significant species. The company will combine these measurements to create a quantitate "Biodiversity Index" for each of its sites and an aggregate Biodiversity Index for its overall landholdings. The Biodiversity Index calculation is: [Hectares of priority habitat or metres of linear habitat] x [status grade of this habitat]. This measure will be developed fully in the first year of 2015-20, following surveys the company has carried out since December 2013 and research it is now carrying out on the best way to quantify the Index. This is a new Performance Commitments and needs to be looked at in greater detail regarding the definition and the setting of the target. Atkins confirmed that the methodology is under development.

Performance Commitment I1: Percentage of Customers in Water Poverty

Previous Year	Target 2015/16	Actual 2015/16
2.5%	2.0%	0.4%

Definition of performance measure: Bristol Water has defined water poverty as the percentage of households within its supply area for whom their water charges represent more than 2% of their disposable income, defined as gross income less income tax. This is different from the definition used by the Government and organisations such as the Joseph Rowntree Foundation and CCWater – that definition relates to the percentage of customers for whom their water bill, covering water and sewerage charges, represents more than 3% of their disposable income after housing costs and income tax. Because Bristol Water does not have access to the housing costs used in the Government's definition, it has had to use an alternative definition, and it took advice from one of its main local Citizens Advice Bureau to determine how best to do this. Expressed as a percentage; thus low is good. At the time of the June 2016 meeting, Bristol Water stated that this Performance Commitment was still under development and there seemed to be a disjoint between perception (shown by customer surveys) and calculation (based on water bills being >2% of disposable income). Atkins confirmed they had not reviewed this Performance Commitment.

Performance Commitment J2: General Satisfaction from Surveys

Previous Year	Target 2015/16	Actual 2015/16
69% ¹	>93%	83%

Definition of performance measure: The percentage of customers responding to the company's annual household customer tracking survey who rate their satisfaction in respect of the company's service as excellent, very good or good. A high percentage is good. Whilst only 3% of responses rated the Bristol Water service as 'fairly poor', there was a 10% response of 'neither good nor poor'; and a 4% response of 'don't know'. Bristol Water acknowledged that they need to gain more insight into such responses as well as implementing a series of other initiatives to improve their performance. Atkins confirmed that they had identified minor gaps and weaknesses in documenting of the methodology which have been addressed.

(Footnote) 1. 69% for 2014/15 was based on a different methodology and a different question so this is not comparable to 2015/16.

Performance Commitment K1: Ease of Contact from Surveys

Previous Year	Target 2015/16	Actual 2015/16
95.2%	>96.5%	93.1%

Definition of performance measure: The percentage of consumers who consider that Bristol Water is easy to contact by telephone, based on responses to a monthly telephone survey. Thus a high percentage is good. Bristol Water confirmed that the main issue was with customers phoning the wrong number initially. Atkins confirmed that they had identified minor gaps and weaknesses in documenting of methodology which have been addressed. Subsequent to the Challenge Panel's June 2016 meeting, Ofwat published the Service Incentive Mechanism scores, a benchmark within the water sector of customer satisfaction and Bristol Water's J1 performance commitment. The Chair and Deputy Chair were pleased to note that Bristol Water received the fifth highest ranking among the 18 companies in the sector, a further indicator that the company's focus on providing excellent customer service compares very favourably with those in the sector. This matter will be fully discussed by the Challenge Panel at its September 2016 meeting.

FOCUS FOR 2016/17

The pace of the scrutiny and challenge provided by the Bristol Water Challenge Panel and its sub-groups will increase significantly in the coming year as Bristol Water seeks to identify its customers' preferences, priorities and concerns at this critical time in the business planning cycle.

In the development of its plan, we expect Bristol Water to present several scenarios of how it might invest in its water services in the lead up to the publication of its business plan in 2018. These scenarios will have varying degrees of risk and cost; that is, the level of risk the customer is willing to accept balanced against the cost of investment required by Bristol Water to maintain services to the high standards demanded by the customer. The aspects of these scenarios where customers can have an influence on the decision-making processes of the Board of Directors of Bristol Water will be presented to the Challenge Panel. The desired outcome of the Challenge Panel's activities should be the production by Bristol Water of a better quality of business plan, due to the quality of its customer engagement.

The Challenge Panel is pleased that Bristol Water's April 2016 customer survey found that 85% of customers rated the service they received as excellent, very good or good. This is a strong foundation from which the company can move towards to the next phase of work as outlined above. However, the Challenge Panel recommends that Bristol Water needs to have a better appreciation of why

7% of those surveyed rated the service provided as poor or very poor value for money. As the challenges of population growth, demographics and climate change alter what the future may hold for Bristol Water customers, we also challenge the company to be clear about customer acceptability

- based on an understanding of the issues
- grounded in the customers' trust and confidence in the water company and
- centred on mutually accepted behavioural changes that meet what may be required in the future.

In determining what great customer service looks like, we will be asking searching questions of Bristol Water

on behalf of its customers. We will focus our scrutiny on those areas where customer engagement can have the greatest impact on Bristol Water's corporate plans and investment decisions and we expect to see an evidence base for the decisions that Bristol Water makes, today and into the future. We will be challenging Bristol Water around the scope of its forthcoming customer research and methodology, alongside the work of the company's Strategic Support partner. Of the upcoming issues:

- the consultation on the cost of debt means we will be concerned with its impact on the vulnerability of customers and their ability to afford the service
- the publication of Bristol Water's

The independent Bristol Water Challenge Panel will scrutinise and challenge Bristol Water's business plan proposals

- on the company's awareness of what its customers want and expect from their water company and
- on how it has both acquired and interpreted customer feedback in order to reach its conclusions and set its performance promises.

resilience and drought plans will raise questions regarding the expectations of customers on Bristol Water's environmental performance and biodiversity

- the availability of indicators across the water sector will provoke discussions on comparability, corporate efficiency and innovation
- the customer engagement outcomes will inform what behaviours customers are willing to adopt or not and what this impact this may have.

The Challenge Panel will also review the changes made to the Bristol Water assurance methodology and documentation process. Among the key areas of focus will be:

- definitions used in the Biodiversity Index (performance commitment H3) and the percentage of customers in water poverty (I1)
- methodology used in the general satisfaction surveys (J2) and ease of contact (K1)
- operational performance regarding unplanned customer minutes lost (A1), mean zonal compliance (D1) and meter penetration (G1).

The Challenge Panel will keep track of Government policy and make representation where appropriate.

Among the key questions for our Challenge Panel and its sub-groups are:



Customer engagement and research

- How are customer outcomes measured
- Is it the right measure to achieve desired outcome
- How is innovation driven and communicated
- How can tests and experiments improve customer experience



Vulnerability and affordability

- What are the signals of vulnerability
- How does Bristol Water recognise these
- What effect does this have on customers of all types
- What partners are needed to improve the desired outcomes



Environment

- What constitutes a healthy environment for customers of all types
- How are customer views are measured
- How can innovation be driven and communicated
- What effects do environmental and biodiversity markers have and how does this affect customer behaviour
- What partners are needed to achieve the desired outcomes

CONCLUSIONS



The role of the Challenge Panel is to assure itself that Bristol Water engages its customers on the issues that can most influence in the delivery and planning of its business. By doing so, the Challenge Panel is a mechanism to encourage high performance, to stimulate relevant innovation and to prioritise operational efficiency. Having expanded the membership of the Challenge Panel, we feel we are better able to reflect the individual needs of customers in our local area.



The Challenge Panel is clear about how it establishes and retains its independence in assessing how well Bristol Water is taking on board the perspective of its customers.



We are broadly satisfied that Bristol Water understands where its performance regarding the promises it made to its customers in its Business Plan 2015/20 is and what improvements can be made. We welcome the addition of Strategic Partners to enable Bristol Water to regain momentum on testing, developing and submitting its business plan for the upcoming period starting in 2020.



The Challenge Panel looks forward its next deep dive regarding the technical assurances Bristol Water relies upon to demonstrate how well it is delivering the promises it made to its customers for its business plan from 2015. We also welcome the additional comparative performance data that will be available for the industry from Quarter 4 2016. This information may well provide additional stretch and ambition to Bristol Water for the upcoming business planning period.



The Challenge Panel notes the important work being carried out by Bristol Water regarding biodiversity and anticipates the receipt of its innovative methodology to assess the richness and diversity of plant and animal habitats in the sites that is manages.



Above all, the Challenge Panel plans to interrogate Bristol Water's plans to engage its broad and diverse customer base on issues relating to their priorities, preferences and expectations. These collected responses will feature large in determining the balance of risk and cost that the customer is willing to accept for the upcoming business implementation period from 2020.



APPENDIX 1: BRISTOL WATER CHALLENGE PANEL TERMS OF REFERENCE

Bristol Water Challenge Panel

Terms of Reference

Approved at the meeting of the Challenge Panel on 21 September 2016

1. Role

1.1. The Bristol Water Challenge Panel is an independent body that scrutinises and reports to Ofwat, the Bristol Water Board and its customers, on Bristol Water's wider engagement strategy with its customers and how this drives decision making in company performance and its future company business plans.

1.2. Ofwat defines the role of Customer Challenge Groups (CCGs) to "provide independent challenge to companies and provide independent assurance to us on: the quality of a company's customer engagement; and the degree to which this is reflected in its business plan."

1.3. As interested and expert stakeholders, the membership of the Challenge Panel will be well placed to consider the evidence of customers' views and the company's response. Wider consultation directly with customers will be achieved through representative pieces of customer research and open consultations. In carrying out its role, the Challenge Panel will compare the performance and plans of Bristol Water with that of other water companies and provide challenge to the company by using local, regional, national and international benchmarks in customer engagement.

2. Purpose

2.1. The primary purpose of the Challenge Panel is to act as an independent body to ensure that the customer voice remains at the heart of Bristol Water's decision making.

2.2. Ofwat states that "CCGs should focus on those issues that customer engagement is most likely to genuinely influence. We have provided more guidance on the issues that CCG reports should include and made it clear we do not expect CCGs to endorse a company's overall plan."

2.3. The Challenge Panel will provide independent reporting to Ofwat, the Bristol Water Board and the public on the performance of Bristol Water against its 2015-2020 Business Plans. It will do this by facilitating inclusive discussion in an open and transparent manner.

2.4. The Challenge Panel will challenge, comment and advise the company on its plans to educate, inform and consult its customers on the development of Bristol Water's 2020-2025 Business Plan. The panel's work will ensure that the outcomes and service levels customers expect from their water services are reflected in the company's plans as well as any incentives around delivering higher levels of service.

3. Activities

The work of the Challenge Panel falls into several main functions:

3.1. Delivery of the 2015-2020 Bristol Water Business Plan

- Monitor and challenge Bristol Water's delivery of its performance commitments (and any associated penalties and rewards set by Ofwat), charges to customers and data assurance processes to ensure a proportionate and transparent approach that involves customers in service delivery. The performance commitments are compared with others in the water sector.
- Understand and challenge the recovery of any underperformance and the use of any 'out performance' revenue from such mechanisms as incentives, outcome return on regulatory equity, etc.
- Challenge, monitor and input into how Bristol Water communicates with its customers on performance, how it interprets the responses from customers, and how this is reflected in its long term strategy.
- Provide an independent annual report to Ofwat, the Board of Bristol Water and the public on how Bristol Water has delivered against its performance commitments for the benefit of its customers.

3.2. Production of the 2020-2025 Bristol Water Business Plan

- Review, challenge and comment on the development of 2020-25 Business Plan in terms of representing the needs of both customers and the environment.
- Monitor, challenge and input into Bristol Water's customer policies, its ongoing research/engagement programme with customers to provide a robust, balanced and proportionate evidence base across its diverse customer base.
- Advise and challenge on the phasing of delivery of outcomes to maximise the affordability and acceptability of the overall business plan.
- Engage and challenge longer-term views around risk and resilience.
- Challenge regulatory compliance with regard to the environment from a customer perspective.
- Challenge Bristol Water to work with other water companies in areas of overlap for the wider interest of the customers, the environment and water resources in the Bristol Water area.
- Consider the trade-off between different levels of service and bill profiles; specific major schemes to improve service; to ensure the views of Bristol Water's customers are reflected in the business plan.
- Incorporate the diverse range of objectives as set out in 'Ofwat's customer engagement policy statement and expectations for PR19'.

3.3. Business and Domestic retail markets

- Review and comment on the proposals for the possible

Domestic retail market as they become available.

- Review the communication with customers.
- Respond to Ofwat (and other) consultations as appropriate.
- Monitor Bristol Water risk assessment programme where it imposes on customer priorities and preferences.

4. Membership

4.1. A Chair and Deputy Chair have been appointed to the group following a selection process. The Chair and Deputy Chair will each be paid a stipend.

4.2. Ofwat requires that CCG membership should reflect local circumstances and challenges and include a representative from the Consumer Council for Water (CCWater). Chairs should not represent particular organisations or groups of customers. The environmental and drinking water quality regulators should play a significant role informing CCG discussions and CCG reports should highlight any concerns raised about the ability of the proposed plan to meet statutory obligations.

4.3. The Challenge Panel will represent both Bristol Water's domestic and retail customers, with members invited from:

- CCWater
- Local Authorities elected representatives
- Natural England
- Avon Wildlife Trust and/or other environmental charities.
- Citizens Advice Bureau and/or other similar bodies dealing with vulnerable customers.
- Environment Agency
- Local Academia
- Local Businesses
- Other local customer representatives as appropriate

Independent members and charity organisations will be paid a day rate for attendance at meetings. All members will be reimbursed for reasonable expenses incurred in relation to their membership of the Challenge Panel.

The Environment Agency is a member of the Challenge Panel and is represented by Jeremy Bailey, National River Basin Management Service, National Operations. As a contributor to the Panel and its overall aims and outcomes the function of the Environment Agency as the statutory regulator and enforcing authority in respect of Bristol Water Company remains unaffected and it will continue to take all regulatory measures, as appropriate, under any circumstances, in accordance with its published guidance and policies.

4.4. The Challenge Panel will ensure that Bristol Water consults all sections of the company's customer base, including minority Ethnic groups, vulnerable and hard to reach customers.

4.5. Challenge Panel Members are responsible for fully participating in delivering the work of the challenge panel. Members are expected to attend all the meetings or send an appropriate substitute or provide input in advance if unable to attend. All members are welcome to attend any sub-group meeting. Topic specialists will be invited to

attend meetings at the discretion of the Chair to aid the members in their understanding of that topic.

4.6. Independent non-executive members of the Bristol Water Board are welcome to attend any meeting of the Challenge Panel or its sub group.

5. Meetings

5.1. Frequency

- Meetings of the Challenge Panel with Bristol Water will be held at approximately three monthly intervals, with a minimum of four meetings per calendar year. Additional Challenge Panel meetings will be arranged as appropriate depending upon the workload.
- Private meetings of the Challenge Panel without Bristol Water will be held at the beginning and end of each regular meeting. Additional private meetings of the Challenge Panel will be arranged as required.
- Between meetings, the Challenge Panel will be provided with information updates and/or asked for input by email.
- Bristol Water will provide telephone conference facilities for the use by members between the routine meetings to discuss urgent items as required.

5.2. Sub Groups

- The Challenge Panel may establish ad hoc sub-groups or task and finish groups to consider specific topics where it is considered by the membership to be beneficial to fulfilling the purpose of the panel.
- Each sub-group will usually be chaired by the Deputy Chair, its terms of reference will be set by the main Challenge Panel and meeting dates agreed with the Chair.
- Sub-groups will provide feedback to the next Challenge Panel meeting, including their recommendation for discussion by the main Challenge Panel. Decision making authority remains with the Challenge Panel.

5.3. Support and Administration

- Secretariat services will be provided to the Challenge Panel to enable the Challenge Panel to fulfil its role and functions in an independent manner.
- The agenda and papers (including the written results of actions from the previous meeting) for each meeting will be uploaded to a website hosted by Bristol Water, not less than five working days before each meeting. Members of the group will be provided with access to the website, and will be expected to have read all papers before the meeting.
- Minutes of the meeting will be taken and a draft checked by the Chair before being distributed no later than two weeks after each meeting.
- Confidential items will be duly marked in the Minutes for member's information and redaction.
- Bristol Water will provide a regular update on matters concerning the Challenge Panel work areas.
- Challenge Panel welcomes Bristol Water informing us about specific topics with a wider set of 'interested' third parties in preparation for our deliberations.

5.4. Agendas

The Chair, in consultation with Bristol Water, will determine meeting agendas. Standard items will normally include:

- Private sessions
- Minutes and matters arising from previous meetings
- Review of the Challenge Log outstanding items
- Quarterly update on the delivery of performance commitments
- Update of ongoing customer research and engagement
- Feedback from sub-groups

5.5. Meeting Evaluation

In its presentations to the Challenge Panel, the members would expect Bristol Water to report against the following four criteria:

- How it is customer led?
- Impact on customers.
- How it relates to Best Practice and Innovation within the industry.
- Ethical Issues, eg differing 'willingness to pay' methods, intergenerational concerns, etc.

Informal scoring of Bristol Water's presentations will be carried out as well as of the Challenge Panel's own performance at the meeting.

6. Governance

6.1. Ofwat states that "To build trust and legitimacy we would like to see an increased focus – by companies and the CCGs themselves – on CCG governance and funding process transparency."

6.2. Chair and Deputy Chair

- The Chair and Deputy Chair have been appointed following an open interview process.
- The role of the Chair and Deputy Chair is to encourage full, frank and inclusive debate, identify areas of consensus, summarise differences and distil possible solutions emerging or needing to be investigated further.
- The roles will be sufficiently independent from Bristol Water to be able to ensure they can challenge effectively, to give proportionate assurance to both Ofwat and Bristol Water customers.
- The Chair and Deputy Chair should ensure that they act independently of any affiliations with other bodies, such as parent organisations, and oversee the group in an objective manner.
- The Chair will have regular meetings with an independent non-executive member of the Bristol Water Board to provide feedback and assurance.

6.3. Members

- Members will be required to formally approve the Challenge Panel Terms of Reference.
- A work programme and protocol will be agreed with members of the group.

6.4. Role of Ofwat

Ofwat has stated that:

- "We will enable, inform and incentivise good quality customer engagement that puts customers at the heart of decision making. In keeping with our statutory duties and strategy, we will step in if required."
- "We will continue to provide clarity on our expectations regarding good quality customer engagement at PR19, including the roles that we, companies and CCGs have in delivering this."
- "We will host regular workshops with CCG chairs to facilitate the sharing of information, knowledge and good practice and help foster more CCG collaboration."
- "We confirm our commitment to publish early indications on the weighted average cost of capital and outcome return on regulatory equity"

7. Outputs

7.1. The principal published output will be the Challenge Panel's Independent report to Ofwat and the public to accompany Bristol Water's 2020 Business Plan. This report is expected to be published in September 2018.

7.2. Other published outputs of the Challenge Panel will be:

- Minutes of all main and sub group meetings.
- Annual report on the delivery of Bristol Water's commitments to its customers.
- Annual report on the operation of the Challenge Panel during the previous year.
- The Challenge Panel will submit a second independent report if Bristol Water does not achieve 'enhanced' status as a result of Ofwat's Risk Based Review of PR19 Business Plans.





8. Review of Terms of Reference

The Terms of Reference for the Challenge Panel shall be reviewed and agreed by the membership from time to time, including a formal review in light of any further information published in the Ofwat Methodology due to be published in December 2017.

APPENDIX 2: BRISTOL WATER PR14 BUSINESS PLAN OUTCOMES

The Outcomes that Bristol Water translated from 16 customer priority service areas were compiled into four key aims that the company had identified in order to deliver its vision.

In order for customers and stakeholders to monitor whether the company was achieving the desired outcomes, Bristol Water in conjunction with the Local Engagement Forum (the predecessor to the Challenge Panel), devised a set of Performance Commitments and associated targets for the Business Plan. These are shown below along with the results for 2015/16.

Aim	Outcome	Performance Commitment	Met 2015/16 Target
 Highly Reliable	Reliable Supply	A1: Unplanned Customer Minutes Lost	No
		A2: Asset Reliability – Infrastructure	Yes
		A3: Asset Reliability – Non Infrastructure	Yes
	Resilient Supply	B1: Population at risk from asset failure	Yes
	Sufficient Supply	C1: Security of Supply Index	Yes
		C2: Hose Pipe Ban Frequency	Yes
 Excellent Quality	Safe Drinking Water	D1: Mean Zonal Compliance	No
	Water is Good to Drink	E1: Negative Water Quality Contacts	Yes
 Environmentally Sustainable	Efficient use of water by the company	F1: Leakage	Yes
	Efficient use of water by the customer	G1: Meter penetration	No
		G2: Per capita consumption	Yes
	Sustainable Environmental Impact	H1: Total carbon Emissions	No
		H2: Raw water quality of sources	Yes
		H3: Biodiversity index	Yes
		H4: Waste disposal compliance	No
 Responsive to Customers	Affordable Bills	I1: Percentage of customers in water poverty	Yes
	Satisfied Customers	J1: Service Incentive Scheme	Yes
		J2: General satisfaction from surveys	No
		J3: Value for money	Yes
	Easy to Contact	K1: Ease of contact from surveys	No
	Bills are accurate and easy to understand	L1: Negative billing contacts	Yes

The key to the colour code is as follows:

Achieved target and likely to receive an Award
Achieved target
Did not achieve the target
Did not achieved the target and received a Penalty

Comments are provided in the main report where appropriate and also in the section on future focus area.

APPENDIX 3: CHALLENGE PANEL MEMBERS FROM NOVEMBER 2015 TO PRESENT

Members from November 2015 to March 2016

Organisation	Name
Chair	Peaches Golding OBE (replacing Charles Howeson from April 2016)
Deputy Chair	Tony Denham
Avon Wildlife Trust	Chris Giles
Bath University	Dr Danielle Wain
Bristol City Council	Mhairi Threlfall
Canal & River Trust	Mathew Wells
Citizens Advice	Sue Evans
Consumer Council for Water	Mike Bell
Consumer Council for Water	Michael Barnes
Environment Agency	Jeremy Bailey
Independent	Alex Hastings (joined September 2016)
Natural England	Dr Mark Taylor
North Somerset Council	Robert Cleland (replacing Deborah Yamanaka from April 2016)
Report Writer	Jeremy Hawkins
Social Enterprise Works	Karl Belizaire (joined September 2016)
The Story Group	Luke Hasell (joined September 2016)
University of the West of England	Prof Chad Staddon
University of the West of England	Dr Tabinda Rashid-Fadel (joined September 2016)
Western Power Distribution	Alison Sleightholm (joined September 2016)