

Bristol Water For All

Our plan to deliver excellent water experiences

Executive Summary

BRISTOL
WATER



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Overview

In developing our plan we wanted to start and finish with our customers' priorities in mind, putting our customers at the heart of our plans for the future of their local water company. As we present the plan now, we are confident that we have achieved what we set out to do.

We engaged with our customers and stakeholders extensively to understand their priorities. We developed our plans to meet their needs across the short, medium and long-term. We continuously tested the acceptability of our plan outcomes with them. They consistently told us that their priority is for a safe and reliable water supply at an affordable price. The majority of them also expect us to play a role in society, beyond this essential service; to be using resources efficiently, looking after the environment and making wider positive contributions to their local communities.

We have a mandate from our customers to set ourselves ambitious targets, delivering the service improvements they value, at the same time as reducing their bills. By 2025 we will reduce leakage from our network by a further 15%, reduce interruptions to supply by 85%¹ and improve resilience of water supplies for over 45% of our

¹ Our forecast of the industry upper quartile in 2025

communities, at the same time as reducing average bills by 4.5%. Bills will remain below the levels seen in 2015, even after inflation. Our plan will also eliminate water poverty and will support all customers who may be at risk of it. This combination of service improvements and bill reduction has the support of 93% of our customers and stakeholders. In order to balance the right level of ambition for our customers at lower bills, we have had to make hard choices and trade-offs in our plan.

Delivering the plan will be challenging. Our past performance tells us that our capabilities need to improve quickly to provide confidence to all of our stakeholders on delivery in the short and long-term. We are therefore building on the significant improvements we have made to efficiency since 2015, through a wide ranging Transformation Programme. This involves improving our operational performance, our asset management capability, use of technology, and the way we collaborate with our supply chain and other partners. We are confident that this transformation will deliver our promises to our customers.

Trust beyond water

Bristol Water has been providing clean and reliable water for the wellbeing of society in the City of Bristol and surrounding communities for 172 years. Our entrepreneurial founders had a ground-breaking and ambitious aim; it was, as it is now, to bring fresh, clean drinking water for the benefit and wellbeing of all communities and not just for the

wealthy few. Today, we continue to make an important contribution to our vibrant local communities.

Our vision for the future is: *'Trust beyond water – providing excellent customer experiences.'*

Our contribution goes beyond providing an essential service; as a small local water company, we act as a privately owned, socially responsible local enterprise. Our customers trust us because we are an active and visible part of our local communities. This trust is clearly demonstrated by our position as the top performing water company for customer satisfaction, as well as the most trusted utility company, as measured by the widely respected UK Customer Satisfaction Index (UKCSI).

Our Mission is: *'To be a company which our communities trust and are proud of. In doing so, we will deliver excellent experiences and create social and economic value.'*

A plan driven by, and acceptable to, our customers

We have undertaken our largest ever programme of customer engagement and set a new standard with over 37,000 customers giving us their views through 50 separate studies and research events². This has enabled them to participate in the decisions we have made about the future of their water services and has directly informed our plan. We have

² The video accompanying our plan illustrates the quality of discussion and participation

consulted on our Water Resources Management Plan, our long-term ambitions, and our plan at both draft and final stages. The final plan presented here has the support of 93% of our customers. The Bristol Water Challenge Panel (our CCG) was instrumental in ensuring the quality of our engagement, providing additional challenge and oversight.

What our customers have told us

They need a bill that they can afford – Our customers want us to reduce their bills and make them affordable, at the same time as improving our services. They support a plan that reduces bills by 4.5% and provides support to all eligible customers so that no customers remain in water poverty.

They value improvements in the quality and reliability of their water – Our customers want us to reduce the number of times they have to contact us about the taste and appearance of water at their tap. They want our network to be more resilient to failures. When things go wrong, they want rapid and personal response from us to reduce the duration and frequency of interruptions to their supplies.

They want their water company to make a positive contribution locally – Our customers want us to go beyond clean and reliable water supplies, and make a positive impact on their environment and their lives. They want us to increase access to our leisure facilities, and lead projects which are beneficial to local communities. We go beyond the minimum quality expectations of our regulators.

We should save water before developing new supplies – Our customers want us to tackle leakage, and help reduce water wastage. They have chosen a plan which meets the long-term population increase demand for water, primarily through demand management; a 15% reduction in leakage, and a 5% reduction in water use per population. They support further reductions in the long-term, as long as their bills are reduced.

They expect the best possible experience when they interact with us – Our customers have chosen a plan which gives all of them, whatever their circumstances, the best experience provided by any utility company when they contact us. They also want inclusive services that meet their individual needs.

An ambitious plan for delivering our customers' priorities

We are ambitious to deliver industry upper quartile, or better, levels of service where mandated by customers. In some cases, for example leakage and customer satisfaction, we aim to push the frontier of the industry forward.

There is a clear line of sight between our customers' priorities and the outcomes of our plan, as described below together with actions for delivering them.

Outcome 1: Excellent Customer Experiences

Building on our successful partnership with Wessex Water through our joint venture "Pelican", we will maintain high service standards and a low retail cost to serve. We will bring back in-house the control of operations which connect with our customers, we will improve responsiveness and reduce costs in our wholesale business. Our plan also responds to the needs of our business customers and their retailers, as well as developers, by making the improvements they have told us they would like to see. These changes are underpinned by system improvements which provide a 'single view' of our customers.

We plan to expand the reach of existing care for vulnerable customers by trebling the number of customers on our Priority Services Register. We will offer social tariffs to all those eligible (potentially an additional 12,000 customers) to eliminate water poverty.

Outcome 2: Local Community and Environmental Resilience

We will reduce leakage by 15% through improving leakage detection and repair activities, and use new technologies for leak detection. Reductions in demand will be achieved by increasing the number of metered properties from 66% to 75% of our customers.

We will also build further operational resilience by looking to the market and our community partners to help our customers reduce water wastage in their

own properties. We will drive water efficiency and behaviour change by working with other local energy and service providers in the “Resource West” partnership initiative. This regional collaboration will provide our customers with integrated information on how to reduce water, energy and household costs.

These reductions in demand will more than offset the projections for population growth, with no new water resources required until at least 2045.

Our contribution to society goes beyond providing an essential service. Through our partnerships, we will provide our communities with free public access to drinking water, improved access to our recreational facilities and closer links with local schools and universities. If we don’t deliver to the satisfaction of our customers and their communities, our innovative **“Bristol Water for All”** approach will hold us to account.

Outcome 3: Safe and Reliable Supply of Water

Our plan reduces customer contacts about their tap water by 50% and aims to improve on our drinking water Compliance Risk Index which is already one of the lowest in the industry.

We completed one of our largest investment projects in 2017-18 which has made our network resilient to system failures for communities with a population of over 25,000. We will increase the

scope and reach of this resilience further to protect communities of over 10,000 population.

Our plan uses an optimised combination of operational strategies and capital investment to improve the resilience of our supply network by preventative, as well as response and recovery measures. This means we will reduce interruptions to water supplies by 85%.

Outcome 4: Corporate and Financial Resilience

Our corporate and financial resilience underpins the delivery of our other three customer-facing outcomes; together with operational and service resilience, they deliver ‘resilience in the round’. Since the last price review, and the ‘Prescribed’ status of the company under Ofwat’s monitoring framework, we have substantially improved our corporate resilience, now founded on strong governance and assurance, as demonstrated by the comments of our Assurance Partners on the strength of our Assurance Plan.

The customer excellence culture of our employees is vital through their connection with the communities we serve. We care greatly about the wellbeing of our employees, including a zero tolerance for health and safety accidents and injuries at work. Since 2015, our organisation and operations have been overhauled and strengthened by carefully selecting and recruiting more than 25% of our employees in the last three years, in readiness for future changes.

Our financial resilience is founded on transparency and long-term viability. We have carried out extensive risk assessment, scenario planning and stress testing of our financial plan. We demonstrate that we are financially resilient for the long-term to a relevant range of risks. This resilience is founded in our financial prudence, with gearing close to Ofwat’s assumed level.

Our outcome delivery incentives

In the case of over or underperformance against our outcomes, the resulting annual incentive or penalty payments will be between -£4.9m for underperformance and +£2.3m for outperformance. The central estimate of the impact of these payments on our Return on Retained Earnings (RORE) is likely to be in the range of -2.3% to +1.1%. Together with ‘C-MeX’ and ‘D-MeX’, the full possible range for outcome incentives is -£10.8m to +£6.7m each year (all figures 2017-18 CPIH prices).

For financial resilience, and to reflect customer views on incentives and bill volatility, we propose capping the annual reward or penalty at £2.5m (£4 average household bill) in any one year, with the remainder rolling forward to the follow year.

Maintaining bill reductions from 2015 and keeping bills low in the long term

Over the past three years, we have improved our comparative efficiency, in our view to the upper quartile level within the industry for both our wholesale and retail services.

Through our continued transformation we have challenged our current and likely future costs, and have identified £52m of new cost efficiencies by 2025 (around 9%), with c80% delivered from 2020. In combination with other changes to the starting bill level, such as a lower cost of capital, we will be able to deliver service improvements while still reducing average household bills by 4.5% in 2020 and 6% by 2025.

After forecast inflation, bills in 2025 will remain £9 below the level that they were in March 2015. The long-term picture for our bills suggests a small increase in 2025, reflecting the end of adjustments for 2015-20 performance which reduce bills to 2025. Bills thereafter reduce to 2030, as seen in the figure opposite.

We have a significant cost uncertainty relating to the Canal & River Trust (CRT), supplying half of our raw water via the Gloucester & Sharpness Canal. The Trust is proposing a substantial price increase of up to £8m per annum, which in our view is not justified and is not in the long-term interests of our customers or the environment. We have not included any reduction or increases in our plan and intend to resolve the matter through arbitration.

We propose a notified item that shares 75% of any reductions or increases with customers through adjustment to bills. This is the most appropriate mechanism, allowing Ofwat to fully assess our efforts to reach the best outcome for our

customers, while protecting long-term financial and service viability.



Figure 1: Average household bills in 2017-18 prices excluding inflation

Cost of delivering our plan

The total cost of delivering this plan in the period 2020-25 is £503m, 4% below our expenditure over 2015-20. In order to deliver better outcomes at lower cost, we have taken a “Total Expenditure” (Totex) approach to planning our activities, resulting in a shift from capital intensive solutions to operational interventions. Capital expenditure is therefore 15% lower (c£32m) and operating expenditure 4% higher (c£10m) than during 2015-2020 (in 2017-18 CPIH prices).

Our Transformation Programme and other day-to-day initiatives are planned to deliver efficiencies in our wholesale business so that Capital Expenditure (Capex) efficiency will exceed input price increases (such as labour and material costs). We have

included an initial efficiency gain of 8%, and an ongoing 0.9% per annum. Operational Expenditure (Opex) includes an ongoing efficiency of 0.7% per annum, offset by input price increases of 1.8%, reflecting the cost of resources (labour, material, energy, etc.). It also reflects that there are no major one-off capital interventions in our plan where potential for one-off efficiencies are readily available.

We expect residential retail costs to increase by c0.5% per annum, with initial efficiencies of 5.4% targeted at bad debt, and c1.5% per annum ongoing improvements.

A balanced and high quality plan, acceptable to our customers

Building on the extensive views of our customers, the Board has balanced the difficult trade-offs on risk and reward, service improvements and bill levels. The balanced trade-offs form the basis of any well-considered plan and protect the long-term interests of customers.

The customer acceptability for our final plan, at a bill of £175, is 93%. With inflation added, the acceptability is 83%. All proposed service levels were supported. Acceptability ranged from 84% for the most service and price vulnerable customer segment, to 97% for the “mature and measured” segment.

82% of our customers preferred this plan compared to one with a £4 lower bill, lower reductions in

supply interruptions and slower resilience and water efficiency improvements. 80% of customers also preferred a plan with annual adjustments to outcome incentive payments, rather than adjustments after 2020, while avoiding bill volatility.

Our customers support the additional cost of financing (associated with the efficient historical debt of Bristol Water) at up to £3, as a consequence of being supplied by a small local water company providing trusted local services to them. Only 6% would prefer another supplier for a lower bill. Nevertheless, this support is dependent on both our efficient bill proposals and maintaining trust in our delivery. Our plan includes new commitments to hold us to account for this additional cost through **“Bristol Water for All”** - an additional sharing mechanism that puts transparency at the heart of delivering for customers. We will reinvest 50% of our additional cost of debt if we are not one of the top three water companies under UKCSI, or if community stakeholder satisfaction falls.

This package of proposals delivers affordable bills with significant and challenging service improvements. Our plan is realistic and ambitious, it balances key trade-offs between improving services, customer experience and maintaining financial viability while reducing costs.

We are confident that our stretching targets are deliverable and in the long-term interests of our current and future customers. Our plan provides fair returns for shareholders while delivering for our customers and communities. In addition, we adopt Ofwat’s benefit sharing proposal should gearing increase beyond 70%, existing preference shares from this definition of gearing to maintain financial viability.

These commitments reflect the wide range of customer views about how to use transparency to maintain trust. The commitments are designed to reflect our local community delivery model, innovating for the wellbeing of society by linking customers and stakeholder experiences for the benefit of all. Through **“Bristol Water for All”** we establish a social contract with our customers. We vow to deliver demonstrable community benefit with high levels of customer satisfaction, transparent engagement and financial consequences should we fail to meet expectations.

Bristol Water Board confidence and assurance of our plan

The Board of the company has led the development of this plan and has applied rigorous assurance processes that it has satisfied itself have been followed throughout the plan development. Board decisions have been based on high quality data, developed and checked in line with robust

governance and assurance processes which respond to our current ‘prescribed’ assurance status. Third party assurance has been used extensively to augment our own internal review and provide challenge. The plan embeds our corporate governance, and customer trust, as we continue with our transformation. We recognise that Ofwat will need to carefully consider the support and evidence for the balance of our proposals given the trade-offs the Board have considered.

The Bristol Water Challenge Panel, chaired by Peaches Golding OBE, has continuously provided challenge on the quality of our customer engagement and the extent to which the results have driven the decisions that underpin our plan. The panel provides scrutiny of our performance, and the Board and shareholders have benefitted from its engagement.

Summary from the Bristol Water Challenge Panel’s report on our plan

“In summary, the Challenge Panel considers the evidence that the Bristol Water Business Plan 2020-2025 is grounded in a sound, extensive customer engagement strategy and research; the views, priorities, preferences and valuations of customers are reflected throughout. Performance commitments meet the regulatory and statutory requirements set out by Ofwat and other regulators and the incentives reflect what customers value and prefer.”