

TRUST BEYOND WATER 2018

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. 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. The Company set itself ambitious performance targets for 2015-20, for instance to reduce leakage by 12%. Our current price control for 2015-2020 also set challenging cost reduction and financial targets for Bristol Water, reflected in a 14% reduction in customer bills in 2015. We continue to work hard to improve our service offering and finding efficient ways to develop every facet of our business.

2017/18 performance

2017/18 has been a challenging year for Bristol Water. A major burst main in July 2017 at Willsbridge was the biggest in our recent company history and saw 35,000 properties without their normal water supply for up to 29 hours. In January 2018 a routine sample of raw water at Clevedon Treatment Works was found to contain cryptosporidium oocysts which led to us issuing a precautionary boil water notice to around 7,000 properties until we could guarantee that there was no risk to our customers. In March 2018 we had to cope with a spell of severe weather which saw pipe bursts increase dramatically across our network and at customer properties.

In each case we responded well, with our planning allowing us to take swift action to ensure the wellbeing of our customers. Our staff worked exceptionally hard to overcome challenging circumstances. We were praised by our customers for our engagement with them in each incident, both through our staff and also through social media to provide real-time responses to questions.

This year we had tougher performance targets to meet than in previous years. We met our target to complete the Southern Resilience Scheme to improve water supply reliability and security to around 280,000 customers. We beat our target to minimise the number of people contacting us to complain about water quality ("negative water quality contacts"). Despite increased efforts we fell short of achieving our targets for reducing leakage and increasing the number of properties on a water meter. Also, incidents like Willsbridge led to us missing our target for unplanned minutes without a water supply, as well as having a negative impact on our Service Incentive Mechanism (SIM).

For water quality, we are one of the best performers in the industry on the Drinking Water Inspectorate's new Compliance Risk Index measure, achieving a record low score of 0.032 in 2017.

In general, customers believe they get excellent services from Bristol Water, as demonstrated by the UK Customer Service Index in January 2018 (UKCSI) which placed us higher than any other water company and in third position of all utilities for customer service in the UK. This reflects the trust customers' have in the company, even when there are operational challenges that affect them. As well as the customer culture of the staff, Bristol Water has to innovate in order to thrive and to meet the ambitions of the Board. Our Water Bar and Refill Bristol campaigns are examples of how the company works in partnership with community stakeholders in order to build the trust of customers in their water supply, and to protect the environment their water supply relies on. Our work on the Refill Bristol campaign that we developed and promoted with City to Sea was rolled out nationally and had extensive publicity during 2017/18.

Transparency

Another key priority for Bristol Water has been transparency. In November 2017 we published an independently assured and verified mid-year performance report for the first half of 2017/18, reflecting

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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.

Assurance

We were disappointed not to improve our position in the lowest tier “prescribed” status in Ofwat’s Company Monitoring Framework. Our status is viewed by the Board and management as critical to delivering our future ambitions. The Board has undertaken a thorough analysis of the reasons for Ofwat’s determination, which we acknowledge, and both the Board and management are striving to address these to elevate our position in the sector. The transparency in our annual reporting has been transformed as a result, and this statement sits alongside a new, engaging summary of our delivery performance on our website.

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 adjustments without taking any benefit from updated information. As part of our commitment we will reduce customer bills by c£1.0m in 2019 to reflect our leakage performance this year, rather than waiting until 2020. Customer bills will reduce between 2020 and 2025 because of the financial incentives that are linked our key performance targets.

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.



PR19 Business Plan

Our long-term ambitions were also reflected in the preparations for our 2020-2025 business plan. In March 2018 we published our draft business plan consultation. We set out what we had heard from customers so far and how this had influenced our suggested plan. We set out the ambitious options we are considering for service, cost and efficiency targets, with slower and faster alternatives. The Bristol Water Board believes our long term ambition and 2020-2025 plan consultations set new standards for customer engagement and transparency, together with significant publicity in the utility trade press, in local media and through discussions through social media. This reflects the on-going transformation of Bristol Water since 2014 and the important decisions in the short-term to ensure that affordability and the wellbeing of society are secured for the long-term. Extensive research and engagement, with over 4,000 customer responses to our draft plan, has therefore shaped the business plan that we submit to Ofwat in September 2018.

Draft Water Resources Management Plan

Evidence for this can be seen in the consultation on the draft Water Resource Plan. Customer views had changed since the previous plan in 2014, in part reflecting the transformation within Bristol Water. Rather than developing new water resources, in particular a second reservoir at Cheddar as had been a focal point of the 2014 plan, customers now prefer further reductions in leakage and more help with water efficiency.

Supporting Vulnerable Customers

The most vulnerable in society are often most reliant on our supplies. We continue to offer the widest range of social tariffs in the industry, and are beating our target with a measure indicating that none of our customers remain in water poverty due to low incomes. Wellbeing for all includes those in vulnerable circumstances. Our draft business plan sets out the trade-off for bill levels and for stretching targets that will be amongst the best performers and in some cases such as leakage may lead the industry forward. The Board recognises that our efficiency progress could allow both objectives to be achieved.

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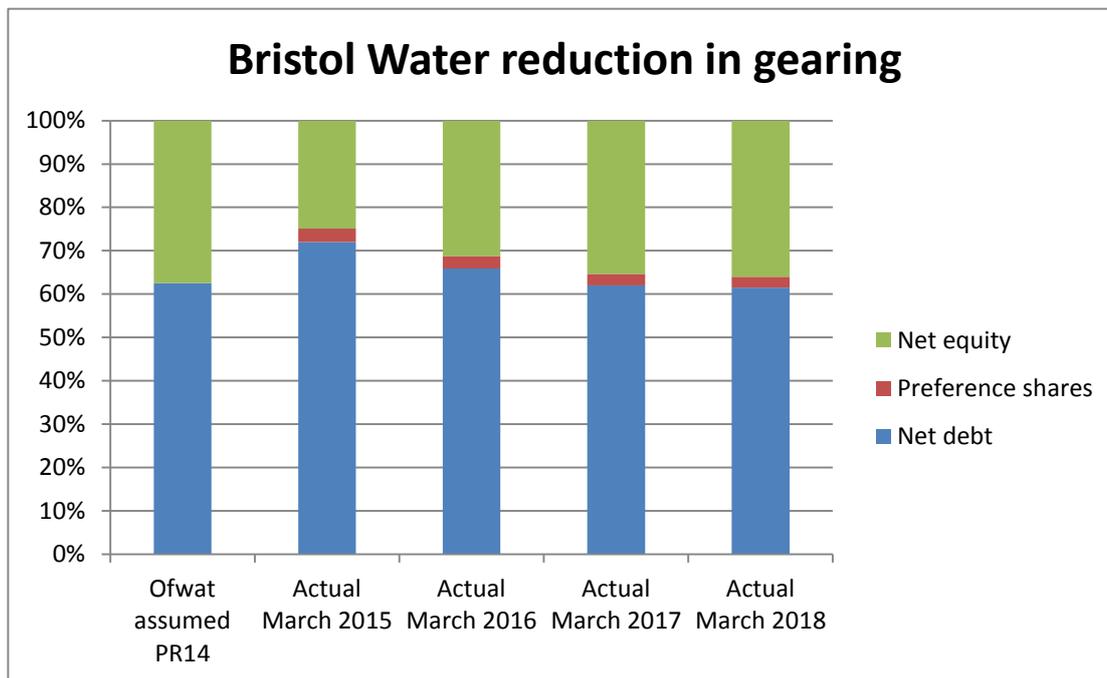
Supporting our people

Our people are critical; they make Bristol Water the organisation it is through their customer service culture and dedication. Staff provide many of our future innovation ideas and are rewarded for them through our ‘Brainwaves’ scheme. We place an increasing emphasis on listening to our people and using the findings to share our future plans. The Board also emphasises the importance of health, safety and wellbeing of our staff, contractors and the public. The health and safety of all underpins everything we do and must be inherent in our culture.

Management and staff throughout the organisation have access to company performance related bonuses, reflecting cost, cultural targets such as Health & Safety and performance against key customer priorities such as leakage and customer service. The weighting in performance bonuses between company targets and individual performance objectives varies and is highest weighted for executive directors, aligning their interests to achievement of organisation change and delivery for customers.

Financial Policy

The Board has been supported through this time of change by our investors, with iCON Infrastructure embedded as the main shareholder. 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 64.4% in March 2018, or 61.9% excluding preference shares. Debt/RCV Gearing is therefore close to the 62.5% notional gearing Ofwat assumed for the industry at the 2014 price review.



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 (0.6% 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 1.8%, which is below the 4.0% Ofwat assumed at PR14 for 2015-2020. 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.

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Conclusion

Despite some significant challenges faced during the year, the Board believes that the Company has made significant progress in a number of areas and is highly regarded by its customers and within its local communities.