ICG Meeting Minutes
23rd January 2025

Minutes of the Meeting of the Independent Challenge Group

23rd January 2025 10.00am – 13:00pm

ICG members in attendance		
Caroline Warner (in person)	*Chair*	**CW**
Louise Mills (teams)	*CCW*	**LM**
Anthony Smith	*Independent*	**AS**
David Holden (Teams)	*Independent*	**DH**
Todd Holden (in person)	*Independent*	**TH**
Bob Winnington (in person)	*Independent*	**BW**
Catherine Silvester (Teams)	*Independent*	**CS**
Affinity Water members		
LW (in person)	*Director of Regulation and Strategy*	**LW**
RF (in person)	*Director of Customer Experience*	**RF**
GB (in person)	*Head of Developer & Wholesale Experience*	**GB**
PL (in person)	*Head of Marketing and Communications*	**PL**
LH	*PR24 Project Manager*	**LH**
MH	*Head of Economic Regulation*	**MH**
RE	*Head of Public Affairs*	**RE**
Apologies		
Unette Spencer	*Independent*	**US**
Anna Matthews	*AW*	**AM**

Agenda Item	Minute	Action
1.0	Welcome and Introduction	
	CW/LW/FR held a meeting 9-10am to discuss TOR and ICG agenda items for 2025.	

Independent Challenge Group

Affinity Water

	CW provided an update around the Secretary of State's request for some additional legislation which is going through parliament now as a Special Measures Bill which will enable the Regulator to potentially prohibit Executive pay, considering requiring fit and proper persons tests for board members and also want to see that consumers are being represented in decision making appropriately. CW/LW and RF attended a workshop this week with Ofwat and CCW to discuss Enhancing consumer involvement in decision-making with further meetings to follow.	
2.0	Development of 'What Customers Want' for new AMP	
	PL provided an update - The programme started a couple of years ago and is an amalgamation of research originating from "What Customers Want" which was conducted through the PR24 Price Review. Since then, a series of surveys have taken place every quarter. The data is fed into four categories: Good Water Supply, Fairness, Transparency and Proactivity. CW agreed that it is important to keep close to customers sentiment on affordability. RF confirmed that this is tacked as a qualtic measure and that there will be a specific survey on the price review sentiment, in particular focusing on PSR customers. **CW suggested a future deep dive on the impact of bill rises and financial vulnerability.** RF confirmed that Water UK have established three subgroups: billing, customer sentiment and affordability. The groups bi-monthly to discuss key themes and survey insight. AS asked when the latest bill increases will be announced. RF that these will be public at the end of January and that they will take effect from the 1st April 2025. PL explained that from CCW research undertaken, trust in Water Companies has been fairly static since 2014 but has seen a decline in the last couple of years, this is mainly trust issues around sewerage, leaks, and investment. Affinity has a new bill redesign underway to increase transparency on the bill highlighting who the water supplier/waste supplier is. CW asked if Affinity know the proportion of customers that call them directly versus calling Thames. RF that approx. 45% of customers call Affinity direct. **RF confirmed that a research piece of work took place last year when the bill redesign commenced to establish what customers think at the moment e.g. which water company does what. RF to share these findings with the ICG.**	**RF** **RF**

	Affinity bills will also be simplified in terms of terminology, graphics, meter reads and clear payment details. CW asked LM if there was any intel from CCW in terms of what works well with bill layout and good practice? LM confirmed that she will ask and revert to the ICG. Other improvements taking place include The Digital Transformation Project which has commenced to improve customer outcomes (website, My Account, New App). Customer friendly versions of the Annual Report have been published. Plans for AMP 8 include increased prioritisation of leakage reduction, and extending lead replacement to customers pipes as well as the company's. TH asked what Affordability and Acceptability (AAT) and CCW DD mean (on vulnerable customers graph)? PL confirmed that AAT was the piece of research undertaken by Accent and the other is CCW Draft Determination research. DH asked about the vulnerable customers slide where customers have expressed concern around the impact on 'vulnerable' customers relating to changes and uplift to bills. Is that concern from customers who are vulnerable themselves or does this refer to non-vulnerable customers expressing their concern for those that are? TF confirmed that it is vulnerable customers expressing their concern that they will not be able to afford the bill and what access can be provided to different types of support and/or tariffs. DH asked if Affinity would continue to track affordability and acceptability as a requirement from Ofwat in the business planning. RF confirmed that it is one of the key fundamental parts of the plan. **Surveys will continue to take place every quarter across the key focus areas and insight from those surveys will be fed into the report presented today. The ICG agreed it would be useful to see the What Customers Want report at the quarterly meetings, in particular around "what's new." Top headlines could also be published on the ICG section of the Affinity website.** **CW also suggested deep dives at future ICG's around fairness, environment.**	**RF/PL** **RF/PL** **RF/PL**
3.0	Update on WaterSave Tariff Trial Progress and early thinking on what is next	
	MH and LH joined the meeting to provide an update. Rising Block Tariff Trial underway, which is a different way of charging customers where you pay more for the water you use which has been based on customer	

	feedback and acceptability. There are three block tariffs, Block 1 the first 30,000 litres of water used is free, Block 2 the next 215,000 litres of water used will cost £1.51 for every 1,000 litres used and Block 3 each 1,000 litres over 245,000 litres will cost £4. CW asked how this compares to PCC per day and what would be free in terms of equivalent? MH confirmed that in everyday terms 30,000 litres is roughly half the water a single occupier would use in a year but unsure of exact PCC figures for average household. **The ICG would be interested to know how the tariff blocks correspond to an average user in terms of PCC.** Before trial start, it was expected that at least 2 out of 3 customers would be better off if usage remains unchanged. Last year, meter reads showed it could be more like 3 out of 4 customers would see some reduction to their clean water bill. Trial has been running for 15 months and will finish in September this year. Comparable trial group & control group (~1,500 metered customers in each). There are exemptions in place for LIFT and WaterSure customers, Throughout the course of the trial there has been additional comms, for instance, sending customers usage updates between bills to keep them on track with what they're using and how that corresponds to the different tariff blocks. CW asked if customers on this tariff trial are finding it generally more affordable as a mechanism? Martin confirmed that results are showing that fewer customers on the trial are in arrears, so they are able to clear any arrears faster than seen in the control group. Following Oct '24 billing, the number of customers in arrears is 25% lower in the trial group than it was following April '24 billing. It is only 9% lower in the control group. Following Oct '24 billing, about 70% of trial customers in arrears at 1st Nov had cleared their arrears by 1st Dec. It was about 50% in the control group. The communication with the customers on the trial is more frequent and personalised and the bill enables customers to see how they can manage water and managed how they pay their bill which is showing very encouraging results. TH asked if there was additional information to understand what figures look like across the consumption profile to see whether or not there were sweet spots and how these are corresponding with the block tariffs. For wider discussion, there is probably a question of whether or not a fourth block tariff would be needed, which is the very high end, the punitive end, which is 1% of the population. CW agreed that the analysis of this trial trail will be really important for the whole water sector e.g. model what it would look like for PCC at the time, what it would look like for debt, what it would look like for water resources. LW confirmed that the teams are thinking about the next steps of how this could be rolled out further. LW confirmed that as this is the first stage of trialling different	**LW/MH**

	charging approaches and albeit this is the first trial that is showing meaningful results but that is not to say that there may be other ways of doing this that could produce even better results. BW asked how extensively initiatives like this are actually shared with the industry? MH confirmed that Affinity is about to publish the data sets on the industry's open data website. LW confirmed that analysis will be undertaken to model the size of the prize for the potential to roll this out further and that Affinity are fully committed to progress this in the best way possible. DH asked if the trial was rolled out to everybody would the intention still be to be revenue neutral? MH confirmed that it would. DH asked with the reduction of 9000 is that people who are heavy users avoiding the higher rates of pay for additional use. Or is it, for example, moderate users who are getting under the 30,000 hoping to pay nothing. MH confirmed that figures are showing that the very high users of water are beginning to use a bit less and more so than people who are already low users are trying to use less and stay in the free zone. LW confirmed that regular updates will be provided to the ICG.	
4.0	Water Neutral Housing Innovation Proposal (detail in pack)	
	GB joined the meeting. An innovation bid has been submitted to Ofwat to build two industry leading water homes. Decision from Ofwat will be confirmed in April 2025 The Water House initiative is to build two houses which would be a sister project to the Energy House which exists at the moment in Salford University, which was built with Barrett Homes and Octopus Energy. Water-House A, the water sustainable home of the future. Incorporating primary design innovations to lead the way for future water sustainable domestic home developments. Water-House B, a retro 1970s home showcasing a wide range of approaches to demand management in existing, occupied properties. Each home will welcome visitors and generate media to distribute to industry & communities. The project will serve as a blueprint for future housing developments and retrofitting of existing homes. AS asked why 70's style house had been selected as the old comparison. GB confirmed that the emphasis on the 70's is just to create a concept that it is not a modern home and it wasn't built with any indications of water saving. Water House A: will be a modern new-build four-bed detached designed by Barratt Redrow. In partnership with industry leaders, it aims	

	to demonstrate the potential for cutting-edge water innovation in new homes. Water House B: A 1970's retrofitted design, will showcase six seasons of water-saving innovations over a three-year programme. Each session begins with the house in its original state, followed by retrofitting and implementation of demand management solutions. Proven solutions will be shared across partners (national housebuilders and national DIY stores) through YouTube-style installation guides showcasing Affinity Water and the Water Houses CW agreed that there is a lot of partnership opportunities here that would be useful from a marketing perspective. LW asked if there would be customer representation on the Steering Group or is it purely a Project Steering Group? GB confirmed that it would be a Project Steering Group. Currently working with Affinity Estates Dept. on the preferred location. Desirable requirements include land that is already under Affinity Water's ownership.	
5.0	Update on Public Value Work (detail in pack)	
	RE joined the meeting to provide an update. The objective of this project is to establish new category of exemplar privately funded public service provider and to deliver public accountability standards to meet the Special Measures Bill requitements. The project will include best practice review, internal workshops, scope propositions and external engagement for verification. Almost at a point where some of these propositions can be shared with the ICG. There will be five areas of focus, core service delivery, environment, economic, social, and public accountability. This involves culturally behaving in a very different way in a number of key aspects of work, so this is a long term exercise, with a lot of opportunities for Affinity to create a different dialogue about a water company. As asked if the audience for this work is government, public or both? RE confirmed that it is for both, with customers being Affinity customers. CW asked if this will be built into a wider company strategy? RE confirmed that the work is based on existing corporate values and vision and the idea is that it will be a conduit with them rather than a change in direction.	

	TH asked if corporate social return on investment will be factored into the decision making? LW confirmed that the way all business plans are put together in terms of how we choose the investment, where it is and how much is all done based cost benefit analysis. BW asked if the University of Hertfordshire and Herts Chamber of Commerce had been engaged? RE confirmed that Affinity is a member of the Herts Chamber of Commerce and agreed that more collaboration needs to take place with the University and Local Authorities. CW asked to what extent will the big infrastructure projects be considered as part of creating public value. RE confirmed that they will be with the Grand Union Canal Project being a good example. RE explained that there will be a lot of interest looking at some of the best practise that has been used around procurement specifications for major capital projects.	
6.0	Update on Final Determination and Wider Reform (detail in pack)	
	LW provided an update. Final Determinations have improved significantly from draft Determination, with cost allowances, incentives and returns aligning more closely with company Representations. On totex, the cost allowances across the industry are, on average, only 7% lower than company Representations, For Affinity, the cost gap to Representations is only 3%, compared to 13% at DD. Of the 16 performance commitments that Affinity has, nine of them are already being achieved for the year one target. ODI rates have also dropped, particularly for water only companies, and Ofwat have introduced caps, collars and deadbands to further 'de-risk' performance. On Risk and Return, the WaCC has increased to 4.03% as a result of uplifts to both the cost of debt and equity. The proposals for a 70% gearing cap have also been removed, although Ofwat has committed to further work on company financial resilience in early 2025. There were 5 key issues at Draft Determination that would have impacted ability to accept the Final Determination, on the grounds that these would compromise the company's ability to deliver its statutory duties and finance its functions. The majority of these issues were addressed in the Final Determination. There is now a step in the process where companies could appeal the Final Determination and extend the process through the Competition	

	and Markets Authority (CMA) asking them to give a re-determination. Affinity currently do not think that going to the CMA is going to be beneficial however, this is currently going through the Board process internally and formal announcement will be made around the 18th February. The Affinity customer bill increase will start in April 2025 and there is on average of about 23% bill increase for customers. We have translated that into the annual bills for the first year of the price this price period. This is a 29% increase for unmetered customers and a 19% for metered. Based on the FD the wastewater element (Thames Water) of the bill for Affinity customers will see an increase of 44%. Ahead of the bill landing Affinity are highlighting the multiple ways in which they can support and there is a campaign including proactive messaging on all different media types. There will also be a dedicated customer panel on vulnerability. **There will be a separate deep dive with members of the ICG to discuss affordability.** LW explained that the reason there is so much uncertainty around PFAS to do with the way in which the DWI requires or identifies the sites that have PFAS that then need treatment. At the moment Affinity has 21 known sites that will require PFAS treatment, equating to £21m of investment to those known sites. Additional sites may or may be identified over the next five years. in which is why an uncertainty mechanism up to an additional £150m has been included in the FD. In summary, the company can confidently say is, of what they know today, there is adequate funding in place to be able to deal with PFAS and there is a mechanism in place to request additional funding. LW confirmed that a lot of work has been undertaken in terms of setting up delivery frameworks, procurement frameworks and engaging with our key suppliers to deliver on key projects within the plan. LW confirmed the announcement within the industry about an independent water Commission, the John Cunliffe Review, which is ongoing and is due to report in summer. There will be a period of proposals and recommendations that the Government then responds to. These could be quite wide-ranging reforms across the sector. There is also a Special Measures bill and additional water sector reviews and inquiries in place.	**RB/LW**

7.0	AOB	
	CW confirmed that the ICG Terms of Reference is currently being refreshed. It was agreed that the TOR will then be put out for consultation to stakeholders customers etc. Another consideration going forward could be the option of holding some ICG meetings in public on an occasional basis. LW agreed that there are certain topics that lend themselves to that type of forum. Agenda items for 2025 are being collated with additional deep dives to be arranged. CW reiterated that the ICG members are always available outside of the formal ICG meetings for consultation and advice.	

I confirm that the Minutes of the ICG January 2025 Meeting are a true and accurate record of the business discussed and agreed.

ICG Chair

Signature: [redacted]

Date: 10/3/2025

AWL Director of Regulation and Strategy

Signature [redacted]

Date: 24/02/2025