



EVENT PREVIEW

# 2019 SOCIAL CONTRACT SUMMIT VALUE FOR ALL

5 NOVEMBER 2019 • CENTRAL HALL WESTMINSTER

A summit from  INDEPEN



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# 2019 Social Contract Summit – Delivering Value for All

## Background

The water sector has embraced the challenge to provide more public value to citizens, society and the environment. How it delivers that, while simultaneously growing value for investors and ensuring bills are affordable for customers, are the questions to be answered.

On Tuesday 5 November, Indepen and The Water Report will host the ‘2019 Social Contract Summit – Value for All’ event at Central Hall Westminster. This will provide an opportunity for decision makers across the sector to address these crucial issues and others.

The invite-only event – for senior sector leaders, politicians, regulators and stakeholders – will mark the 30th anniversary of water privatisation and consider what needs to be done to ‘reset’ the industry at this important staging post. How should the sector evolve to deliver sustainable value for all in the context of today’s circumstances and then sustain it for the 30 years to come?

The event follows Indepen and The Water Report’s inaugural ‘Defining the Social Contract Summit’, held in November 2018. A full report of which is available [here](#).

### INVITED PARTICIPANTS

Up to 150 senior people, most at CEO/director/board level, will take part.

These will represent a mixture of voices from inside and outside the water sector, including:

- Water companies
- Supply chain companies
- Government and agencies
- Regulators
- Investors
- Think tanks/academics
- Consumer representatives
- NGOs
- Campaign groups
- Other interests

### VENUE

The summit will be held at: Central Hall Westminster, Storey’s Gate, Westminster, London SW1H 9NH



The nearest tube stations

- Westminster station (Jubilee, Circle and District lines) – 3 minute walk
- St James’ Park station (Circle and District lines) – 3 minute walk
- Victoria station (Victoria, Circle and District lines) – 13 minute walk

For more details, see <https://www.c-h-w.com/>

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**SUMMIT CHAIR**  
**Angela Smith**  
MP for Penistone and Stocksbridge, Co-Chair of the All-Party Parliamentary Water Group



**Colin Skellett**  
Chief Executive, Wessex Water



**Peter Simpson**  
Chief Executive, Anglian Water



**Birgitte Andersen**  
Chief Executive, Big Innovation Centre



**Iain McGuffog**  
Director of Strategy and Regulation, Bristol Water



**Lila Thompson**  
Chief Executive, British Water



**Rebecca Burgess**  
Chief Executive, City to Sea



**POLITICAL ADDRESS**  
**The Rt Hon. Lord Deben**



**Rachel Fletcher**  
Chief Executive, Ofwat



**Ian McAulay**  
Chief Executive, Southern Water



**Bill Galvin**  
Chief Executive, USS



**Brian Lironi**  
Director of Corporate Affairs, Scottish Water



**Isabel Kelly**  
Founder and Principal Consultant, Profit with Purpose



**Pete Fox**  
Director of Water, Land and Biodiversity, Environment Agency



**Robert Light**  
Chair, CCWater



**NETWORKING SESSION CHAIR**  
**Bob Taylor**  
Chief Executive, Portsmouth Water



**Steve Mogford**  
Chief Executive, United Utilities



**John Reynolds**  
Chief Executive, Castle Water



**Bill Seddon**  
former Chief Executive of the Central Finance Board of the Methodist Church



**Bryan Harvey**  
Vice President, Europe, Jacobs.



**Jon Rathjen**  
Water Industry Team Leader, Scottish Government



**Phil Siveter**  
Head of UK&I Enterprise & Public Sector, Nokia



**Susan Davy**  
Chief Financial Officer, Pennon

# Agenda

## 9.15 Chair's welcome

**Angela Smith MP**, Co-Chair of the All Party Parliamentary Water Group

## 9.20 Opening keynotes

Regulatory keynote – **Rachel Fletcher**, Chief Executive, Ofwat

Industry keynote – **Steve Mogford**, Chief Executive, United Utilities

## 9.50 Societal mega-trends: demographics, climate change, automation, digitalisation and public trust

### Speakers:

**Bryan Harvey**, Vice President, Europe, Jacobs

**Birgitte Andersen**, Chief Executive, Big Innovation Centre

**Phil Siveter**, Head of UK&I Enterprise & Public Sector, Nokia

## 10.40 Break

## 11.00 Role of investors in the social contract

### Speakers:

**John Reynolds**, Chief Executive, Castle Water

**Bill Galvin**, Chief Executive, USS

**Bill Seddon**, former Chief Executive of the Central Finance Board of the Methodist Church

## 11.50 Legitimacy, governance and regulation: how do we refine the social contract?

### Speakers:

**Peter Simpson**, Chief Executive, Anglian Water

**Pete Fox**, Director of Water, Land and Biodiversity, Environment Agency

**Isabel Kelly**, Founder and Principal Consultant, Profit with Purpose

## 12.40 Lunch

## 1.40 Collaborating to deliver the social contract

### Speakers:

**Brian Lironi**, Director of Corporate Affairs, Scottish Water

**Jon Rathjen**, Water Industry Team Leader, Scottish Government

**Lila Thompson**, Chief Executive, British Water

## 2.30 Role of the active citizen and consumer in the social contract

### Speakers:

**Iain McGuffog**, Director of Strategy and Regulation, Bristol Water

**Rebecca Burgess**, Chief Executive, City to Sea

**Robert Light**, Chair, CCWater

## 3.20 Chair's closing remarks

**Angela Smith MP**, Co-Chair of the All Party Parliamentary Water Group

## 3.25 Break

## 3.40 Practitioners' networking session

Introduced and chaired by **Bob Taylor**, Chief Executive of Portsmouth Water.

In this session, we will explore two practical examples of the social contract in action.

■ Making the social contract real for the communities we serve – **Colin Skellett**, Chief Executive, Wessex Water

■ Target 100 – a commitment to, and agreement with, customers to reduce water use to 100 litres per person per day by 2040 – **Ian McAulay**, Chief Executive, Southern Water

## 5.00 Political reception

Address from **The Rt. Hon. Lord Deben**

Introduced by **Susan Davy**, Chief Financial Officer, Pennon Group

## 6.30 Event close

# Acting responsibly matters

Steve Mogford explains why acting in the public interest is hard-wired into United Utilities' DNA.



It's hard to miss the seismic shifts in public perception that have happened in recent years. Barely a day passes without news about anti-business sentiment or the hardship people face trying to make ends meet.

The onus on businesses to demonstrate how they act in the wider public interest has never been more critical. The UK's water sector is no exception. Despite delivering critically important public services which are envied in other parts of the world, we find ourselves at the forefront of a debate about who should ultimately control public goods.

Collectively, the story of the 30 years since privatisation has been one of success on behalf of customers and the society we serve.

The UK's drinking water is world-class; leakage is down by a third; wildlife has returned to rivers dead since the Industrial Revolution; bills have been broadly flat, in real terms, for 20 years; and almost nine in ten water bill customers trust their local company.

Whilst the debate about ownership is largely outside of our control, the very essence of our operations creates a deep connection between us and the communities we serve. For instance, at United Utilities, our work generates value for the North West economy, through job creation and delivering environmental improvements, which underpin the region's tourist economy. Our community dividend has seen over £43m invested in local projects over the past five years and our employees have volunteered over 40,000 hours of their time on community partnerships.

## KEEPING PACE WITH EXPECTATIONS

But how do we ensure people keep seeing us – and our sector – as a force for good? Acting responsibly and keeping pace with the public's rising expectations of water

company performance matters more now than ever.

In 2019, being a good corporate citizen means delivering services which benefit others even more than ourselves and recognise our key role in society – by paying the right taxes, supporting people through hardship, expanding access to employment and helping drive better general social and environmental outcomes for all.

This approach to social value is not new and not guesswork. We have long known that the way we do business has a wide-ranging impact on a region which has some of the UK's highest levels of social and economic deprivation.

Our goals come from comprehensive research and strong, constructive, collaborative relationships with stakeholders, built up over successive regulatory periods. These relationships guide our strategic direction and decision-making at the highest level.

By continuously seeking their views, we can have confidence that our priorities match those of our stakeholders and generate value for our communities: improving core services at a lower cost; helping more customers in vulnerable circumstances; and investing in resilience for future generations.

## CONTINUAL IMPROVEMENT

Acting responsibly means seizing opportunities to improve the services you provide. United Utilities is the first UK water company to introduce large-scale artificial intelligence into operational systems. Our Systems Thinking approach uses initiatives developed from our tech-incubating Innovation Lab, assesses vast amounts of data on factors like weather, demand, asset performance and electricity prices, with real benefits for customers in terms of efficiency, keeping bills low and quicker incident response.

We are evolving new working partnerships, such as those to tackle the twin issues of flooding and pollution within rural and urban river catchments. Natural flood management interventions like integrated wetlands, SuDS and catchment markets are a sustainable alternative to pouring concrete at treatment works and deliver wider benefits for biodiversity and public amenity.

Our sector's contribution to society and the environment ripples out across regions and individual communities and we touch many lives. In that context, goodwill has been built up over many years but we must never become complacent as it can disappear in an instant.

We must better demonstrate how we are all embracing our purpose to deliver social, environment and economic good, and place this at the heart of our strategy to ensure that our actions create long term value for all the stakeholders we serve. The sum of our sector's parts is so much bigger than our individual company contributions.

■ By Steve Mogford, chief executive, United Utilities.

## LIFTING PEOPLE OUT OF WATER POVERTY

■ United Utilities has the most extensive range of payment support schemes in the sector.

■ We developed the new North West Hardship Hub, a digital one-stop-shop, to help money advice professionals pinpoint financial assistance schemes and information across the public and private sectors.

■ The number of people using our Priority Services scheme has quadrupled and over the next five years, 220,000 customers are set to join this register.

*In 2019, being a good corporate citizen means delivering services which benefit others even more than ourselves*

Jacobs' Bryan Harvey urges all water sector stakeholders to be brave in addressing societal megatrends like climate change – because society is on side and we have the technical ability already.

# Be courageous!



Jacobs' vice president, Bryan Harvey, is speaking on the megatrends panel at the Summit. This will consider the major forces shaping society,

including climatic, demographic and digital trends. Jacobs supported the 2018 Social Contract Summit, and Harvey's message then was that society is changing and it is time for water companies, government and regulators to seize the moment of the start of Asset Management Period 7 (AMP7) to change too. Building on this, this year, he says things have moved forwards to such an extent that all we really need to respond effectively to the megatrends driving change is courage.

## OPPORTUNITY

"We are the first generation with a real chance to start to address the challenges presented by climate change and population growth," Harvey says. "Now is the time to respond to those megatrends. Society is behind us and we have the technical ability. Now is the time for courage."

He elaborates that since the last Summit, societal awareness of climate issues has soared. An Evening Standard poll published in the week of writing reported 85% of us are now concerned about climate change. Moreover "people are less tolerant of failure to deal with the challenges," Harvey adds.

On top of that, our ability to respond has grown: "We can look across sectors and join the dots more easily," says Harvey. "Our digital and data analytics capability has increased and we can look further out into the future. The Water

UK work [on water resources] looked out to 2060, but it is not uncommon now to look to the year 2100." He adds that we can now effectively consider lots of different scenarios and plan for uncertainty, "but we still need the courage to change."

## HALF A STEP FORWARD

This is certainly true in water. Harvey is disappointed to see the 2019 price review (PR19) headlines "focusing on price and efficiency". While those considerations are always important, he believes society has more appetite for a resilience and megatrends response than it appears has been allowed for in the draft determinations. "There is huge interest in the carbon agenda and communities would benefit from infrastructure spend on resilience – for instance, dual source supplies to support water security." He adds that some companies seem to understand this, but the determinations in draft suggest "we have only taken half a step forward in AMP7...we have not taken advantage of the price review to drive change".

## GEOPOLITICAL RISK

Why? Referring the World Economic Forum Risk Report, which thoroughly dissects the economic, environmental, geopolitical, social and technological risks we face each year, Harvey argues that it is geopolitical and societal risks that put the brakes on effective action. In the context of water, it is the likes of Brexit and the renationalisation challenge that appear to have slowed us from developing bold responses to the megatrends. "The risk of inaction is driven by geopolitics," he observes.

He anticipates that within a couple of years, the case for 'megatrend-meeting'

action will be considered common sense: "Maybe we are two to five years ahead of our time." The sticking point for water of course is that investment decisions are taken in five yearly cycles. A positive, however, is that in five years' time Harvey hopes we will be "set up for courageous decisions in AMP8" driven by the PR24 process.

## A BETTER WAY FOR INFRASTRUCTURE

Harvey's vision is that we will soon be able to replace the UK's "endless cycle of delays, prevarication and uncertainty" on infrastructure, driven by short-term considerations and lack of cross sector thinking. This restricts innovation and economic growth, and leads to conflicting messages such as "we know we are likely to face water shortages in the UK over the next 20 years, yet additional water infrastructure investment appears slow to respond".

He would like to see connected infrastructure solutions that are resilient to risks – and, in particular, greater appreciation of the fact that decisions early on in the project planning cycle are crucial for the ultimate delivery of societal value. That includes user benefits, but also benefits for employment, productivity, investment and national resilience. "We have to think about the whole project right from the outset in order to drive those changes and, most importantly, bring...the more traditional domain and delivery expertise together with the new digital approaches to really drive new solutions into the sector."

He concludes that Jacobs firmly believes there is a better way "but it requires a step change from everyone. It's not just an investor, a contractor, a consultant, a regulator that needs to respond, but whole communities as well. We have got to start thinking about what the implications of a fundamental change in delivery of the water infrastructure really are for us all."

### QUESTION FOR THE SUMMIT – FROM BRYAN HARVEY

- What will give us the courage to address the mega challenges?

# Finding a better way

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**JACOBS**

*Society has more appetite for a resilience and megatrends response than it appears has been allowed for in the draft determinations.*

# The heart of the social contract

John Reynolds argues the core of an effective social contract must be a hierarchically structured code of ethical rights and duties.



In 2008, the financial services sector was widely vilified, and trust evaporated during the financial crisis. A new wave of regulation has been put in

place, to control banks' behaviour both internally and customer-facing. Energy utilities have been subject to similar mis-trust as a result of concern over mis-selling, culminating in a price cap.

In these, and similar cases, perceived ethical and behavioural failings have resulted in political intervention, which has been costly to the customer. At the same time, the ethical failings in the industries themselves have at least to some extent reflected societal behaviours, and not been completely outside behavioural norms.

## LEVERAGE AND RISK

In my book *Sharing Profits*, I quote a fund manager who described executive remuneration as a conspiracy against the shareholder. From the point of view of the customer, I can see water financing and regulation as looking similar – a conspiracy against the customer.

Pretty much everyone I've met in the water industry, at every level, believe that what they are doing is essential, is a public good, and they are seriously trying to do good in their everyday jobs. Popular opinion of the water industry is highly critical, and wouldn't recognise this description.

The water industry and its shareholders are not entirely to blame for high levels of dividends resulting from changed financing arrangements. Cost of capital is reduced by increasing leverage. In this context, when Ofwat allowed securitisation nearly 20 years ago, it became either dangerous or inefficient (or both) to leave inefficient capital structures in place, and appeared to go against the regulatory agenda.

In 2006, I lost a bidding process for one regulated network, Viridian, to an infrastructure fund with a more leveraged financing structure. Regulation was acting together with shareholders to encourage increasingly risky financial structures. The subsequent financing of Viridian did not turn out to be a success.

Given that higher leverage results in asymmetric changes in risk, the balance between shareholders and customers inexorably changed. It was obvious at the time that higher leverage would transfer risk to the customer – risk was increasing, and there was nowhere else for that risk to go.

Cause and fault are a lot less simplistic than they first appear – there is a clear argument that Ofwat at least contributed to higher leverage in the water sector, and to levels of dividends. However, companies, their shareholders, managers and employees have to take the initiative to deliver a solution.

## THE NEED FOR CONSENT

It should be obvious that all companies need a "social licence to operate", most of all regulated companies and monopolies.

Commercial activity relies on the

rule of law, and the passive consent of an electorate. Companies of the size of even the smaller water networks would not attract capital and investment and would not be feasible without the benefits of limited liability, which is a structure accorded to companies through legislation and indirectly through elections. It may sometimes feel inconvenient, but there is both an ethical and a practical requirement to comply with popular feeling and political will, to provide a benefit back to society in exchange for the benefits afforded by limitations on the liability for the provision of capital.

## A COHERENT RESPONSE

There are steps that have been taken by other companies and sectors to improve ethical behaviours and public sentiment, which we can learn from – sometimes from unexpected places. Both the mining and defence sectors have faced challenges regarding their behaviour, and some major companies in these sectors have successfully reformed business practices.

There are also failed examples to avoid – the risk of form over substance (Enron had a lengthy Code of Ethics); utilitarian responses ("if we didn't do it, someone else would and they would be worse than us"); legalistic answers ("we follow the law, not some religious book"). In the current context, these approaches just make things worse.

Companies, especially when faced with external criticism of behavioural standards, need a coherent response to ensure they make responsible decisions. Part of this is an ethical framework, with a hierarchy of duties and rights, so that the context of decisions which involve trade-offs between different stakeholders can be understood.

When I advocate a hierarchically structured code of ethical rights and duties, I am typically ignored at best ("Reynolds on his high horse again..., impractical academic nonsense"). But, I'm serious about this – how can a company transparently resolve complex issues between groups of stakeholders if it doesn't have a clear framework for these decisions to be made and understood.

This is uncomfortable for both shareholders (such decisions can normally be made behind closed doors) and regulators (it reduces the scope for using hindsight to make decisions), but necessary. This is the core of what is required to effectively operate a Social Contract which has practical, long-term validity.

■ By John Reynolds OBE, CEO of Castle Water and author of *Sharing profits: the ethics of remuneration, tax and shareholder returns*.

*Ofwat at least contributed to higher leverage in the water sector, and to levels of dividends. However, companies, their shareholders, managers and employees have to take the initiative to deliver a solution.*



# Water For Good

Prioritising health and wellbeing

## From no water...

A burst pipe in London saw 100,000 households and businesses left suddenly with little or no water. Supermarket shelves were quickly stripped of bottled water. Schools and businesses had to close - however, not all Castle Water customers have that option.

As a responsible water retailer, Castle Water proactively contacted hundreds of sensitive customers most impacted by the water outage including hospitals, medical centres and veterinary surgeries. Here, a lack of water could be potentially life-threatening. Within two hours, Castle Water delivered 9,000 litres of bottled water ensuring these services had access to a vital supply of water.



## To too much water...

Castle Water partners with Save the Children to help provide children in emergencies with access to safe, clean drinking water. Thanks to the support of staff and customers, we helped deliver a swift response to the impacts of the major flooding following monsoon rains across Bangladesh, India and Nepal. More than 12 million people, including 5 million children, were impacted by the disaster.

A major concern was the spread of water-borne diseases such as cholera, dysentery and typhoid. Save the Children focussed on the immediate needs of children and families. This involved providing life-saving aid and shelter as well as providing access to clean water and hygiene essentials to stave off illness and disease.



## And the importance of getting the balance right.

Improving health and well-being is vital in developing a happy, healthy and resilient workforce for the future and to improving life chances for children and young people. Research shows this also helps to close the poverty related attainment gap.

As part of our award-winning schools outreach programme, Castle Water is supporting a new schools and community partnership to deliver an ambitious five-year strategy aimed at coordinating efforts to improve the health and well-being of local children and young people. The strategy was launched by John Swinney MSP, Deputy First Minister of Scotland and Cabinet Secretary for Education and Skills, at a Health and Wellbeing Festival at Blairgowrie High School in Perthshire where hundreds of community workers and local authority employees learnt more about improving physical and mental health and resilience.



# Acting with social purpose



We provide an essential public service, and have a crucial role to play in enabling sustainable growth and tackling the impacts of climate change.

So we've made some major changes which will make sure we take full account of the wider impacts our decisions have on customers, communities and the environment.

We're the first utility, and the biggest business in the UK, to embed our public purpose in our company's Articles of Association, giving legal force to our public interest commitments.

Find out more at [anglianwater.co.uk](http://anglianwater.co.uk)



## Purpose and intent

Anglian Water has locked social and environmental purpose into its corporate constitution. Andy Brown explains it now intends to build a 'true social contract'



This summer, Anglian Water announced it had locked in a commitment to delivering public interest outcomes for society and the environment by changing its Articles of Association, and by signing up to and reporting against a set of responsible business principles. The change means the board must take account of the wider impact Anglian Water has on customers, communities and the environment, as well as delivering a return for shareholders. It is the first privately owned water company to make such a move: to lock social purpose in to its fundamental constitutional documents. It is fitting, then, that Anglian's chief executive Peter Simpson will be speaking on the critical issue of governance at the Social Contract Summit in November.

### A GIANT LEAP

Anglian Water's head of sustainability Andy Brown explains the Articles change is very much an evolution of the company's long standing approach to doing business. And yet at the same time, he is keen to point out that the Articles change is a "massive milestone" on that long term sustainable business journey.

Brown traces back some other important milestones. In 2008, under the Love Every Drop mantle, the company first combined its business plan goals with its sustainability goals to form a single set of sustainable business goals. He describes this as a "road to Damascus moment" and adds that it was driven by the management board.

At PR14, Anglian stepped up its customer engagement and as a result defined ten business plan outcomes. It has recently as part of its industry-leading PR19 customer engagement refreshed these outcomes, and used customer feedback to shape its long term Strategic Direction Statement and its approach to the Sustainable Development Goals.

In April 2019, the industry pulled together to commit at a sector level to embedding public interest through governance, and to delivering on five societal goals on carbon, plastic, leakage, social mobility and affordability through the Public Interest Commitment (PIC). Brown describes the PIC as "one large step forward for the water industry" – whereas his company's Articles change which delivers the governance commitment at company level is "one giant leap for Anglian Water". In fact, he calls the Articles alteration "a real game changer" – for while the company already had sustainability at its heart, it has now defined sustainability as the way to deliver long term business success.

"It's important to appreciate that during time of uncertainty [Brown mentions the political and regulatory environments], the board is still confident about putting social purpose at the heart of the company. I'm immensely proud of that."

### TRUE SOCIAL CONTRACT

Anglian is now building on its customer engagement excellence and putting it to work to define what Brown describes as a "true social contract". He argues this true social contract is necessarily two-way, with customers and company playing their part – and that to do that, they have to co-create the deal.

Consequently, it is consulting through mechanisms including dedicated workshops, its online community of 400 customers and a physical customer advisory board that was formed last year, on the commitments Anglian made as part of the PIC. It is also asking customers what else they would like to see in this space. Brown calls the PIC "a first step" but says there is clearly scope for Anglian to go further or to pursue

additional commitments if customers desire it.

This work is an ongoing process, but Brown provides some insight into emerging conclusions:

- Customers as well as the company see the social contract as a "two-way transaction; they see the opportunity to be a part of it". An obvious example is through reducing water consumption.

- Customers are not only interested in water-specific social contributions. For instance, they have shown interest in Anglian's wider potential as a good corporate citizen and specifically in its role in what Brown calls "place-making". He points as a potential model to the company's work in Wisbech which delves deep into societal support well beyond water – for instance, in education and community connectivity.

- "Customers are not overly concerned with metrics. They want to see action, close to their locality if possible. Brown adds that there is in fact a dichotomy with customers wanting to see Anglian deliver on big global issues like climate change and plastics, but also to be visible at a very local level as well.

Brown closes by challenging other water companies to take action to lock social and environmental purpose into their governance. "We've changed our Articles – now we challenge others to demonstrate they have purpose at the heart of their decision making."

### QUESTIONS FOR THE SUMMIT – FROM ANDY BROWN

- Governance changes don't mean a lot to customers. How can water companies communicate and explain why such changes are important and the benefits they might bring?

- How can water companies bring people with them on the social contract journey? How do they become more relevant to customers as they go about their lives?

- How can water companies work with others more effectively? For instance, if a mobile provider or energy company have similar social aspirations, how can companies work in synergy rather than bombard customers with separate approaches?

*While the company already had sustainability at its heart, it has now defined sustainability as the way to deliver long term business success.*

# For a flourishing Scotland

Scotland's water sector is collaboratively looking to a future in which it contributes to a wide range of social and environmental objectives, as Scottish Water's Simon Parsons explains.



It is fitting that Scottish Water's director of strategic customer service planning Simon Parsons is speaking on collaboration at the Social

Contact Summit. Because the water sector in Scotland is well on its way to a new model of operation, based on the principles of Ethical Business Regulation (EBR) and joint working between all the key stakeholders. Aside from the water company itself, these comprise the Scottish Government, the Water Industry Commission for Scotland, the Customer Forum, Citizens Advice Scotland, the Scottish Environment Protection Agency, and the Drinking Water Quality Regulator.

These stakeholders are co-creating a long term vision for the water sector in Scotland. "Roseanna Cunningham [cabinet secretary for environment, climate change and land reform] asked us to lead on it," Parsons explains. "This is a big change; it's the first time this has ever happened." Not only is the initiative in keeping with EBR principles, but it has also enabled the water sector to consider how best to support the Scottish Government's broader social and environmental objectives. It is here that Scottish Water's experience is of direct relevance to the Social Contract Summit.

Parsons explains the draft water sector vision is a one-page document which sets out the stakeholders' long term ambitions. It features that the sector will be admired for excellence, support a sustainable future, and inspire the Hydro Nation.

As such, the ambitions go far beyond what has traditionally been expected of the water company. Parsons comments: "At the start of this process, if you had asked most people, including me, what Scottish Water's purpose is, they would have said something along the lines of providing high quality drinking water and taking away and safely treating wastewater. Now we are changing our purpose, to support a flourishing Scotland. Our customers of course expect excellent services and great value

but our role will be much broader. We will think about what we do and how we do it and are considering things including carbon ambitions, how to help communities flourish, how to support a vibrant supply chain in Scotland, and enhance biodiversity. We've always been mindful of such things, but now they are but part of our core purpose."

Among other things, water will play its part to meet the Scottish Government's legally binding target of net-zero greenhouse gas emissions by 2045, and is committed to getting there by 2040.

## SRC21

The multi-stakeholder collaboration and the societal commitment go well beyond warm words. Scottish Water is co-creating with stakeholders its strategic plan for the next price review, the 2021 Strategic Review of Charges. Parsons believes the EBR approach taken to SRC21 has enabled the co-creation of the sector vision – and will also support making the vision a reality. He explains: "We could not have got there [to a shared vision] without the approach we have taken to our strategic review. We've had frank, open conversations – and different conversations – enabling higher expectations."

Part of the new model for the price review is a move away from fixed six-year regulatory periods to a rolling investment programme. This will support delivery of the vision because as Scottish Water make choices, the stakeholders will be mindful of the broader societal and environmental outcomes they have signed up for. "From strategic level decision making to decisions at individual project level, we are moving to a six capitals type approach where we consider multiple benefits, including carbon and biodiversity," Parsons explains. "It's a very significant change. Before, we'd agree a business plan and outperform it. There's no such thing as that anymore."

He is keenly aware that the new approach has been far from plain sailing. It has been quite a journey for Scottish Water to develop "very different"

relationships with its regulators – non adversarial relationships, based on trust. Conversations to develop the vision and strategic plan – necessarily frank and open – have been understandably hard at times. Moreover, the new collaborative model poses many questions. Parsons offers in example "How do we judge success? How do we measure performance?"

All round, different skills and a different culture are needed to make a success of it. "It's an incredibly dynamic process; it changes month by month," he reports. He adds that some colleagues, accustomed to the old model, have found the adjustment difficult.

In fact it is testament to the passion and commitment of the parties involved that so much change has been effected to quickly. Parsons attributes part of that to the "superb leadership" shown by the likes of his chief executive Douglas Millican, the Scottish Government's Bob Irvine and Jon Rathjen (who will also be speaking at the Summit); WICS' Alan Sutherland and the Customer Forum's Peter Peacock. "They've really lived the behaviours we all need to show," he adds.

## NEXT STEPS

Work continues on SRC21 and in particular the co-creation of the strategic plan. Parsons says the work has matured to the stage that the overall strategy is being tested with customers themselves. This involves tough conversations, where customers will be asked to share their views on the tradeoffs between price, water and wastewater resilience, and wider societal value.

While he clearly can't pre-empt the outcome of that, Parsons reports that one recent all day customer focus group he attended indicated customers are willing to pay for Scottish Water to play a broader societal and community role. Around three quarters of attendees at that meeting said they would be willing to invest for future generations, and to pay more up front to make faster progress on things that are important for Scotland.

*We've had frank, open conversations – and different conversations – enabling higher expectations.*

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## THE FUTURE IN OUR HANDS

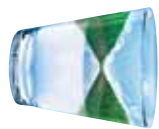
**When we owe so much to the past, it's only right that we care about building a better tomorrow.**

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TOP UP FROM THE TAP



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Trusted to serve Scotland



When Bristol Water was the first utility company to publish a social contract in January 2019, it was an important milestone.

For Bristol Water, it was a modern setting for a social purpose that saw the company founded by local philanthropists in 1846, to improve the health of the whole of society. For the employees, it cemented a set of cultural values that remind us of why we work in the water industry – having a positive impact on public health and the environment with an untapped (sorry!) potential to have a much wider social impact. For our customers, we noticed that the strength of a personal, shared connection with the people in our organisation made the biggest difference to their trust.

#### LEADERSHIP AND CULTURE

From a personal perspective, I've been lucky enough to be involved in many changes to how the water sector delivers for society – from catchment management to social tariffs, from customer research to sharing mechanisms. Sometimes there was scepticism or cynicism to begin with about change – but it was always overcome with leadership – leadership from the inspirational and creative individuals who had a passion for the sector reaching its full potential, and leadership that helped this potential to be realised.

So what will our communities be like in the future and how will this impact our job as an essential service provider? And given the challenges our communities face, how can we build wellbeing? Behaviour change is important, but what we need is cultural change.

Top down solutions are unlikely to work. We need to work together to help to shape our future citizens so that they are citizens, not just consumers. Talking to our other local stakeholders, there was a real opportunity to work across public and private sector organisations, across different sectors, to help future

## The active citizen

Iain McGuffog provides a flavour of Bristol Water's experiences so far in pioneering the sector's first social contract.

generations to feel connected to their communities.

#### EDUCATION AND EMPLOYERS' ROLE

Starting with education makes a connection with our customers today. Education was the top priority when asked what would turn a "good" water company into a "great" one. Our research tells us that for current customers, society feels disrupted, with the young most stressed about the future, and this affects the wellbeing of their parents. If we are to aim for a more sustainable future, we must seek out positive opportunities that change culture, rather than just nudging people's behaviour for the short term. Education is the first step to learning what we need to do for a sustainable future.

The role of employers is also important. There will be less of a distinction between work lives and home lives in the future, as work becomes more flexible. The next generation increasingly care about the core values of their employers, which is both a challenge and opportunity for the water sector. A social and environmental purpose will help to do this, together with the culture change it requires. Working with other employers who share similar goals and values will also help us with our resource efficiency messages – change can start at work where we have people's time and attention. As employers the work-life balance in an increasing time scarce world cannot be neglected if we are to do this. Employees, both current and future, are a core part of our social purpose and contract.

#### CLOSE CONNECTIONS AND CO-CREATION

Our approach focuses on local engagement and collaboration, aligned to awareness of global issues.

As part of this approach, we have formed close connections with local stakeholders to develop collaborative partnerships such as 'Resource West' (which recognises that action on water efficiency should be aligned to action on energy efficiency and waste reduction), whilst also mapping our activities to the UN Sustainable Development Goals. We also are inspired by local government, such as the fantastic framework provided by the Bristol "One City" plan.

Consultation and co-creation also forms an important part of our framework. We regularly publish material relating to the evolution of our social contract ([www.bristolwater.co.uk/socialcontract](http://www.bristolwater.co.uk/socialcontract) or on Twitter and LinkedIn #hydrosocialcontract). We use our employee forum to provide a route for their views, ideas and innovations. Importantly, our sharing mechanism ensures that there is a direct link between the views of our customers and stakeholders on our wider contribution to our communities and our financial success.

During the Summit, I will share some of our journey in developing our social contract, with a focus on 'Citizens and employees for the future'. I will also share our approach to engagement with key participants in our social contract – our customers, our stakeholders, our employees, the board, together with the role of the Bristol Water Challenge Panel. Most of all, I hope to build new collaborations and partnerships and continue to learn from the fantastic and purposeful leaders at the event.

■ By Iain McGuffog, strategy & regulation director at Bristol Water.

#### QUESTION FOR THE SUMMIT – FROM IAIN MCGUFFOG

■ How can a social contract help us respond to changes in the communities we serve, and how do social contracts change our role as an essential service provider?

*The next generation increasingly care about the core values of their employers, which is both a challenge and opportunity for the water sector.*

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Businesses and regulators don't know its full potential...

EnTrade creates fair markets and trusted deals between them to harness and grow natural capital, while improving landscapes and the environment. It supports and enables progressive businesses to deliver in the public interest.



### Poole Harbour

By running reverse auctions in Poole Harbour since 2016 between sellers (farmers) and a buyer (Wessex Water), EnTrade has achieved:

**802** bids from...

**67** farmers for...

**197** tonnes of nitrogen savings across...

**4,204** hectares of land, saving...

**31%** in costs for Wessex Water compared to traditional catchment approaches.



## Community connections

For Wessex Water's David Elliott, social contracts should empower customers and communities to choose the outcomes that are important to them.



Water services in England and Wales have evolved over decades with different approaches to both the delivery of services and how they are governed. Privatised water utilities have been profitable due to better capitalisation of services and the efficiencies it has delivered.

However the model now stands at a crossroads. At Wessex Water, we see an opportunity to transform the business model by forging a greater connection with our local communities and delivering a more diverse range of services to those communities.

### THE MODEL SO FAR

Prior to 1974, water services (apart from the independent statutory water companies) were delivered by local authorities, which ensured the services met local needs alongside a series of other public health related services. But this lacked the orchestration of a catchment based approach.

This was addressed in 1974 when responsibility for water services shifted to ten water and sewerage "catchments" or authorities. Some local democratic control was retained with boards made up of local stakeholders. Water authorities "pitched" for funding nationally in competition with other services such as education and health, but quickly became the poor cousin.

Privatisation in 1989 represented a significant shift from this model by replacing the water authorities with

privately owned regional monopolies set up to deliver the "utility" component of water through private investment. Negotiation on levels of service also shifted to a series of national regulators acting as "system architects" in the absence of local accountability or responsibility.

Despite ideological detractors, this model has undoubtedly delivered significant performance benefits, but there have been consequences – most notably a shift in the locus of accountability from customers and communities to regulators taking national and sometimes contradictory stances on both national and local needs. The relationship with customers has evolved into one represented by a supplier/consumer relationship or an unconditional "sale of services", with equally arbitrary pricing of services.

The consequence has been a decline in the level of participation, or indeed interest, of customers in one of our most valuable natural systems – water. It has been subverted to a commodity with which very few engage other than through somewhat artificial mechanisms, and with a very low level of price sensitivity to changing behaviours.

### CATCHMENT CONNECTIONS

But there are signs of a new model evolving. Catchment services are developing that work by taking the individual concerns of a series of diverse stakeholders around common natural assets (water, soil, health etc) and allow for the development of local services, or pathways, to maximise everyone's interests through a market. Pricing becomes driven by the value of local issues and opportunities with much more extensive engagement in supply side and

demand side opportunities.

The model also offers a new governance approach; catchment partnerships represent many local perspectives and stakeholders that are not entirely dissimilar to the old boards of water authorities. In this model the role of the system operator would be to convene the most efficient and effective services available within the market to deliver outcomes to the communities they serve, and to be held accountable to these local partnerships. This would empower the system operator to seek solutions that meet the needs of multiple buyers.

From this convening role we should see innovative services evolve to address a number of local issues and opportunities funded by a wide range of stakeholders, either in competition to, or facilitated by, traditional water network or treatment assets. This could include a wholesale tariff and a "last mile" or "community" tariff, or discount, which takes into account wider community aspirations to invest in local needs or contribute to addressing common issues.

### COMMUNITIES AND CHOICES

This model is shaping up to be a very significant evolution, as it offers pathways for much wider engagement in issues that should be increasingly concerning us all as individual consumers – how we evolve our lifestyles in a way which does not consume the planet and our natural capital with all the increasingly concerning consequences, and introduce opportunities for us all to be involved in those choices.

We can take stock of the impact we are all individually having today on our natural and built environmental and social systems and commit our communities to a different outcome. Through those communities we discover what customers really want to engage with and build services that facilitate their aspiration.

Water at a standstill turns stagnant, and after 30 years of our current model it is time to evolve; the answer lies not with our empowering system architects or regulators, but with our communities, enabled through meaningful social contracts, to deliver outcomes more effectively and with more significant engagement.

■ By David Elliott, group chief innovation officer, Wessex Water.

*We should see innovative services evolve to address a number of local issues and opportunities funded by a wide range of stakeholders, either in competition to, or facilitated by, traditional water network or treatment assets.*

# Your life. Made possible by water

We rely on water for everything in our daily lives. It underpins our economy, is essential for our environment and is vital for energy generation and food production.

Our region faces a future of more people and less water. We have set out seven actions for water companies, government and wider society that will drive real change to reduce our water consumption:

1. Increase awareness of the value and utility of water
2. Ensure water consumption is measured and communicated
3. Label water using products effectively
4. Incentivise sustained behaviour change
5. Make new homes more sustainable and efficient
6. Continue significantly reducing leakage
7. Link water efficiency to other critical policy areas

Visit [southernwater.co.uk/act-today](https://southernwater.co.uk/act-today) for more information.



Target 100 is a commitment to our customers – we'll support them to reduce personal consumption to an average of 100 litres each per day by 2040 while we reduce leakage by 40%.



from  
**Southern Water**

# Target 100: a modern social contract

Ian McAulay explains how Southern Water is framing its social contract around its commitment to a resilient water future for the South East.



As a sector, we have faced significant challenges in the past. However, they pale in comparison with those we face in the future.

Climate change and population growth – combined with rapid technological advances – mean the pace our customers expect us to respond is ever increasing. To meet these expectations we need to learn from the past and work collaboratively towards a preferred future for the sector, our customers and the environment.

The case for a social contract is clear. The big questions are how we define it, what we're doing about it and how we ensure it's authentic and truly participative – both in creation and delivery.

The sector recently made a series of Public Interest Commitments – which Southern Water fully supports. On behalf of Southern Water, I signed the Social Mobility Pledge in August. Since 2015 we have provided financial support and assistance to almost 270,000 customers – and will do more in the coming years. And in March 2018, we were the first water company to publish a plastics reduction policy.

In this, we commit to measuring and reducing our reliance on single-use plastics. We're also working with our supply chain and colleagues to reduce their use of single-use plastics, and playing a leading role in partnerships, including funding research groups, exploring how to remove microplastics from the water we take from and release into the environment.

We recently signed partnership agreements with our regional Rivers and Wildlife Trusts, committing to sharing insight, mutual advocacy on common priorities and collaboratively delivering

water saving, catchment management and sustainable drainage programmes.

## PROPORTIONAL PARTICIPATION

The common theme for most of these is collaboration. Not necessarily "equal", but proportional. This principle is fundamental to the foundation of our social contract – Target 100.

For me, Target 100 – our commitment to support our customers to use an average of 100 litres per person per day – epitomises what a modern social contract could look like. It should be proportionally participative and reflect customers' priorities.

Effort is shared proportionately by ability to contribute, impact and influence change – meaning most of it falls on us. However, customers, regulators, stakeholders and government all have roles to play.

Target 100 is the foundation of our social contract, and its principles are guiding its construction. If Target 100 is the foundation, we're the engineers and our co-created vision of a resilient water future for the South East is the bricks and mortar – we still need architects which, in this case, are our customers.

For our social contract to be meaningful, it has to be developed collaboratively. It can't be presented as a fait accompli with a cursory glance at a consultation.

It also has to be built with the future in mind – based on what we know now, what our customers are telling us and how we think our business will work in the future. Fully future proofing it will be nearly impossible, but it's pointless developing

something which will need serious structural work in a few short years.

## CUSTOMER PRIORITIES

So, we found out what our – and other companies' – customers think about a social contract for the water sector.

In addition to our regular, regional stakeholder workshops we invited 64 customers to take part in app based tasks to open a dialogue and to understand how they view our sector. The same customers then participated in eight Customer Opinion Clinics to co-create a framework which addresses their needs.

From their point of view, the industry is far from broken. It works well and could be more ambitious in some specific areas – environmental, employees, education, communities, customers and vulnerable customers. Companies with a good social contract get all those areas right.

On what a social contract actually means, and for it to be authentic, customers told us it has to fit with our commitments, vision and values and be relevant to the services we already provide – but be more than rebadged CSR or what is already expected of us. It has to be visible, transparent and measurable.

It also needs to be tailored, tangible and able to be delivered together. Industry-level commitments are worthwhile but don't provide the tailored, tangible actions customers want. This doesn't mean we shouldn't do them, it means we need to develop our own approach.

Customers like the principle, but find the phrase "social contract" off putting. We need to resist our natural tendency of using jargon and complicated language and make sure we create something accessible that people connect with.

To finish the metaphor – we'll continue working with our architects and undertaking more research to make sure, as we build our social contract, it reflects their vision and helps create a resilient water future for the South East.

■ By Ian McAulay, chief executive, Southern Water.

*For me, Target 100 – our commitment to support our customers to use an average of 100 litres per person per day – epitomises what a modern social contract could look like.*

# Societal shifts and the social contract

Pennon's Susan Davy says water companies must build on past progress in light of new expectations.



Since last year's Social Contract Summit, conversations about the role of water companies in society, the industry's higher purpose and the need to legitimise

ourselves in the eyes of our customers have continued unabated within the sector, if not across society at large.

Like some self-reflecting thirty-year-olds, the water industry could be said to be facing something of an existential dilemma. However, this occasionally introspective debate – worthy and worthwhile as it is – will hopefully not distract us unduly as we approach the new, challenging regulatory period with renewed energy and well-researched plans that are shortly to be signed off by Ofwat.

It shouldn't also be allowed to undermine confidence in the sector or ignore the massive progress achieved since privatisation. Too much navel-gazing can draw attention away from other parts of the corporate body, including head and heart, the source of a company's values-based philosophy which guides what's right for the body politic!

Ultimately, what are we trying to fix? After all, customer satisfaction and trust in water companies is high. According to ComRes research, the industry is four times more trusted than the energy sector, three times more than Government and twice as trusted as councils. There's no room for complacency, of course. Trust, like water, can evaporate quickly.

The idea of a 'social contract' is not new, although it's more explicitly expressed nowadays. The industry has already undergone a philosophical shift

from delivery of costly, disruptive, hard engineering solutions to more customer-centric, community and catchment-based approaches. And we already represent far more than the sum of our regulated parts, going well beyond delivery of the basic human right of clean water and sanitation.

What's changed is societal expectations. And as a mature, responsible industry it is incumbent on us all to recognise the shift and respond positively.

## CHANGING EXPECTATIONS

At South West Water, as part of our business planning, we thoroughly research what matters most to our customers. In recent years it became apparent that they wanted more than just the basics delivered well and affordably. They wanted more control in how their water company is run, and greater insight into not just what was being delivered, but how. Through greater involvement and scrutiny, customers said that they would be able to hold us to account in new and more empowering ways.

So, we hardwired the approach into the way we do things and share our success, most recently by offering customers a stake and a greater say in the business through our pioneering WaterShare+ scheme, part of our fast-tracked 2020-25 business plan; our social contract, in effect. Sharing the rewards of outperformance, openly and clearly, helps to build trust and deliver more public value from a private company.

This societal shift in expectations is encouraging water companies to define their purpose more clearly, and project themselves in more meaningful ways so their responsible actions become more relevant to more people more of the time. As hitherto largely silent providers of essential services, we've historically

not had to explain ourselves and the contribution we make in too much detail.

That's now changing. In hindsight, perhaps we could have told our story better. Certainly, as an industry, we must improve our outreach, creating a constructive dialogue with customers, built on transparency and trust, which can enhance public perceptions and build a reservoir of goodwill.

## REVIEW AND REFRESH

In the Information Age, doing the basics is not enough. The challenge is to 'be everywhere, be seen and be consistent.' We don't operate in a hermetically-sealed regulatory bubble. Nor do we work in splendid isolation. Working in partnership with communities, councils, wildlife and river trusts, landowners, farmers, schools, environmental groups and many others, we have constant, real and meaningful impacts on peoples' quality of life, as recognised in Ofwat's emerging (at the time of writing) strategy.

This is a huge privilege with significant responsibility. That responsibility becomes all the greater if you factor in recent global research which shows that more than three quarters of people believe that business leaders should be taking the lead on making positive social and environmental changes, rather than waiting for government intervention.

Defining and delivering our social purpose is also crucial to employee recruitment and retention. The industry employs fantastic, skilled people devoted to doing what's right for customers and the environment. Company values have to resonate in order to drive employee engagement. We are all customers and members of society too.

Collectively and individually, water companies will continue to review and refresh themselves, continually creating an industry for our times. Some are further on the journey than others. But, as with all industries under a critical spotlight, the lowest common denominator often applies, so we all have to embrace our renewed societal responsibilities with the same care and commitment.

The publication of Water UK's Public Interest Commitment is a step in the right direction. It highlights the sector as a 'force for good' and outlines the considerable progress made to date. We now have to keep delivering for the customers and communities we serve, recognising and responding to their prevailing priorities.

■ By Susan Davy, chief financial officer of Pennon Group, owner of South West Water.

# Empowering customers



A stake and  
a say

new  
deal

*As an industry, we must improve our outreach, creating a constructive dialogue with customers, built on transparency and trust*

Predicting tomorrow's problems today, to build a brighter, more sustainable future for all



As one of the UK's leading partners in the water sector, we are proud of the role we play in enabling our clients reduce leakage, optimise operations and manage assets more efficiently to deliver faster, smarter and more reliable customer outcomes.

## Address the deal-breakers

Atkins' Daressa Frodsham highlights leakage and sewer flooding as priority challenges to tackle if social contracts are going to stand a chance of success.



Deals always have deal-breakers, and for Atkins' head of UK water Daressa Frodsham, social contracts are no different. She stresses that it will be critical for

the water sector to address any issues that could scupper social contracts, either before they get off the ground or down the line.

### PRIORITISING LEAKAGE

Top of Frodsham's list is leakage. If this is not dealt with effectively, particularly if company promises are not kept, she believes this could prove "a barrier at the heart of the social contract". She explains: "Leakage drives perceptions; it's very, very visible and water companies must be seen to be doing their bit." This is particularly the case if customers and communities are to be asked to reduce their consumption, but it is more than that. "Leakage is a multi-faceted social contract issue," Frodsham comments, "especially in the context of drought and drier summers". It can sour relationships and damage trust, and thereby has the potential to curtail wider activity to improve outcomes for society and the environment.

"It's an overused term but we need a paradigm shift," Frodsham argues. To this end, Atkins has pulled together Focus 15 – a multi disciplinary group from among its many experts to generate solutions to the water industry's leakage challenges. The name derives from Ofwat's 15% target cut by 2025 (now higher for some companies), but the group also considers longer term ambitions and the global context. The central thought leadership hub – which includes experts from asset management, digital analysis, and hydraulic modelling together with those from sectors with relevant experience including mining and nuclear – is collaborating, challenging and pooling

knowledge with the aim of disrupting current practices and problem analysis around leakage. "We're asking 'are we missing a trick?'" Frodsham comments, and explains the aim is to pull together "a richer picture; end-to-end story".

### FIGHTING FLOODING

Another potential social contract deal-breaker is flooding – both the mainstream and the sewer variety. Frodsham says anyone who has witnessed the horrors of a house flooded with sewage would understand why this is "one of the things which could prevent the social contract from becoming meaningful".

To address this, Atkins is working with Water UK to develop the Drainage and Wastewater Management Plan (DWMP) framework. Water companies have been told to complete draft DWMPs by 2022, with final versions to be available in 2023 to inform PR24 submissions. The framework will provide the basis for more collaborative and integrated long-term planning by companies, working with other organisations that have responsibilities relating to drainage, flooding and protection of the environment. It provides an opportunity to co-create and collaborate with all key stakeholders to enhance communities, minimising risks.

It will also enable companies to target investments more effectively and provide customers and stakeholders with better information about the UK's drainage and wastewater services. Frodsham adds that on top of the central work: "Atkins are currently working with five major UK water companies with further enquiries received from a sixth. All water companies are required to use this framework and we are currently the market leader as we produced this framework."

In related work, Atkins has been

commissioned to prepare a follow up DWMP framework document that is targeted towards non-water company stakeholders, including local government and environmental bodies.

It has a strong track record in this area, including having developed a standard basis for assessing the resilience of networks to an extreme storm event. This was commissioned by Water UK but is now adopted by Ofwat as a common performance commitment measure for PR19.

### SOCIAL CONTRACT MOMENTUM

Atkins supported Indepen and The Water Report's 2018 Social Contract Summit, and is supporting again this year. Frodsham explains that Atkins passionately believes it, and the wider sector, need to keep up with societal expectations. "Generation Z are the customers of the future," she says, "and we have to be prepared as an industry."

Beyond the specific work discussed here, she explains Atkins is alert to the "power of people and the power of information" and is on a "digital journey to be able to harness the power of information in real time."

She can see how much traction social contract thinking has got since last November, commenting that she frequently had to "explain the concept" ahead of the last Summit, but that now it is "accepted as a mainstream issue".

She pulls out Water UK's Public Interest Commitment as a major milestone in moving the debate forward, and is pleased to see that three of the five goals contained within it are directly connected to environmental stewardship (leakage, zero carbon and plastic). In her interview last year, Frodsham focused on the need for the water sector to show more environmental ambition and to develop creative solutions to environmental challenges. She predicted public interest in environmental issues was only going in one direction. With a mass protest movement having resulted in a legislative commitment to net zero carbon by 2050, she was not wrong.

*Leakage is a multi-faceted social contract issue*

# Successful social contracting

Arup's Adrian Rees believes social contract choices must be based on community desires and mapped against robust metrics.



Arup sees the following as among the key ingredients for any successful social contract: it must be based on what communities want; and there must be sound metrics governing decision making and tracking performance. Adrian Rees, UK water regulation leader, says Arup is well placed to act as an "enabler" for water companies on both of these aspects as they pursue social contracting with their customers and communities.

Arup's interest in the role business can play in supporting societal and environmental progress is extensive. Its water operation has long tracked the societal benefit of its work (in terms of the number of people who benefitted) as well as more traditional financial indicators. And back in October 2017, it committed as a whole organisation to contributing meaningfully to the UN Sustainable Development Goals (SDGs) and to ensure these global ambitions guide what it does as it goes about its business as a specialist in the built environment.

Rees is full of enthusiasm for using the SDGs as a framework around which to create new social contracts here in the water sector. He reports ethical investors see the goals as providing "a clear risk framework for companies and investors" and says making the link would connect domestic water social contracting with international, pan-sector efforts to make lives better. "In the context of England and Wales water, in looking to frame social contract metrics, we wouldn't go wrong to look across to the SDGs and map into those."

## WHAT, WHO AND HOW MUCH?

Rees is clear that "we need to ask what matters to communities and to what extent, not foist social contracts on to them". Arup has a long tradition of citizen and community engagement as it works around the world, and this summer has invested time in honing these skills for water social contracting specifically. At Northumbrian Water's Innovation Festival, it focused on how best to involve communities in decision making. Rees says: "These could be communities of practice or of place. What's clear is we need to ensure the right people are involved and that engagement is ongoing, started as early as possible, and done well. That's not easy."

It followed that up at Yorkshire's 'Growing Social Value through the Six Capitals' event by exploring interactive means of getting participants to give their views. "We used a simplified wheel of well-being metrics," Rees explains. He continues: "It's vital we establish what matters, to whom, and how much... And that we look at which aspects each stakeholder can contribute to. There may be some things a water company simply can't do."

## ROBUST METRICS

Rees is also clear that successful social contracting requires an approach that is grounded in practicality. And metrics – from decision criteria to performance mapping – are top of his list. In fact, Rees says metrics can be used for many relevant purposes in this social and environmental purpose space. For instance, Arup has mapped the Performance Commitments contained in water companies' September PR19 business plans onto the SDGs to get a

handle on the current state of play in terms of how many PCs relate to each goal and how much investment is allotted against each.

Rees also praises the possibilities that robust financial metrics would open up with the investment community. "There's huge demand for impact investment vehicles showing good ESG [environmental, social and governance – the three central factors in measuring the sustainability and ethical impact of an investment]. There's more demand than supply."

ESG and impact investing is growing rapidly. \$11.6tn was invested in the US in 2018 compared with \$3tn in 2010. 372 socially conscious funds launched globally in 2017, compared with 140 in 2012. Rees counsels water companies would be "wise to tap in to that ethical investment route" by shaping their investment funding opportunities with ESG in mind. Done well – with robust metrics – it could provide a significant source of long term investment because there "aren't enough places to put money" for ethically minded investors.

Rees provides the examples of the success of Anglian Water's green bond, and that Yorkshire Water's sustainability bond – which both had strong, clear metrics – was heavily oversubscribed.

It's a work in progress, but Arup is exploring how metrics for financiers might be broadened further so they can "really see what they are getting for their money" in six capitals terms. Rees adds that Ofwat could consider, as part of its consultation on innovation funding, how better to incentivise ethical investment to deliver human and intellectual capital benefits in communities.

### QUESTIONS FOR THE SUMMIT – FROM ADRIAN REES

- How can we best co-create a social contract?
- How can we find out what matters, to whom, and how much?



ARUP

# What matters in your world?

See how we can help you to find out



*In looking to frame social contract metrics, we wouldn't go wrong to look across to the SDGs and map into those.*

In transforming to become a regional supplier, Portsmouth Water will provide social and environmental value to out of area communities. Bob Taylor explains.

## Social value – beyond the boundary



Portsmouth Water has deep and extensive roots in its local community. It can trace its beginnings back to 1857 and was founded by local people concerned

to “do something vital to improve the day to day lives of Portsmouth people”, its chief executive Bob Taylor explains. Since then, the company and its basic philosophy have evolved along with customer expectations, and Portsmouth Water now concerns itself with providing “excellent quality of service at the absolute best value,” Taylor says.

It does both of those things very well, with bills 55% of the industry average and consistently high service standards. “We are by far the cheapest water supplier in the UK,” Taylor points out, adding trust among customers is also very high at 97%.

Moreover, Portsmouth has lost nothing of its local focus. The vast majority of its staff live locally and provide “important insight” on local priorities. 97% of staff say they are proud to work for the company. And Portsmouth has a “strong and inextricable link” with the natural environment from which it draws its supplies.

Taylor provides some practical examples of how the company’s closeness to its community is manifest today. It recruits from its local community, and supports schools, colleges and universities in-area. It also invests in its staff once they are there, having supported 50 of its 250-strong workforce through some form of higher education over the last few years.

The company is also sensitive to the needs of its vulnerable customer communities. Taylor highlights the company’s partnerships with housing associations, local authorities, charities and NGOs to share information and keep up to date on the situations of those it serves. Leigh Park, one of the largest local authority housing estates in Western Europe, is located in the same town as Portsmouth’s HQ. Built after the war to house those whose homes had been subject to bomb damage, Leigh Park has high levels of deprivation, with some households having three generations of long term unemployed.

A ‘softer’ example of the company’s community grounding is that the Board took the trouble to publish a booklet earlier this year, *War and Water*, to mark the D-Day commemorations. This documents Portsmouth Water’s preparations for, and contributions to, World War II – including the story of two inspectors who sacrificed their lives in the line of duty (checking networks for damage rather than sheltering underground from the air raids).

### HAVANT THICKET

It seems difficult at first glance to think what extra a company like Portsmouth – rooted in its community, trusted, and providing a high quality and great value service – might put in a new social contract. But Taylor is far from short of ideas. In fact, he explains Portsmouth plans to step up not only for its own customers, but for communities across the South East.

Unlike most companies in the region, it has more than enough water to meet demand. It now plans to support the economy, environment and communities outside its patch by sharing excess resources with its thirsty neighbour,

Southern Water. There are already two bulk transfers of up to 15Ml/d in place, the first of which started in 2004 and the second of which commenced in July this year. In ten years time, Portsmouth expects to deliver a quarter of all the water it supplies to Southern. “We will become a regional water supplier to the South East, rather than just taking care of our own customers’ needs,” Taylor explains.

Part of the extra water will be facilitated by the Havant Thicket winter storage reservoir, which Portsmouth will build over the next decade, purely to service Southern Water’s demand. That is a big deal in itself, but Portsmouth will pay close attention to the provision of further social and environmental value as it pursues the path to becoming regional supplier and in particular builds Havant Thicket.

The reservoir design has amenity value built in. There will be a visitor centre, activities and public access, providing recreation and health benefits. Taylor says it will be “a real plus” for Leigh Park residents in particular as it’s on their doorstep.

Moreover, following DEFRA’s biodiversity net gain principle, Taylor says “the objective is to enhance biodiversity after construction” – to leave the site richer in flora and fauna than it is currently. This will involve rehousing residents like dormice and bats, replanting woodland and creating new habitats.

Finally, Taylor hopes all of Portsmouth’s customers will play their part in its new social contract, by releasing more water to share across the region by reducing their consumption. “The wider social imperative is key to winning the hearts and minds of our customers to use water wisely, as there just isn’t an economic imperative,” he explains. Bills are cheap, and customers have said they prefer the certainty of a fixed bill to ones which fluctuate with usage. The company therefore has little customer support for incremental development of metering, and no formal mandate at present to compulsorily meter. But Taylor believes it needs to make meters a requirement if it is to play the fullest role possible as a regional water supplier. He explains that customers have indicated metering would be palatable if “everybody’s in” but not if it is an incremental roll out that affects some but not others.

For its part, Portsmouth Water will continue to work on cutting leakage (by 20% over the next five years), will promote meters as usage monitoring tools rather than billing tools and will also support customers to reduce consumption through a communications campaign aimed at enhanced awareness and behaviour change.



## Doing the right thing

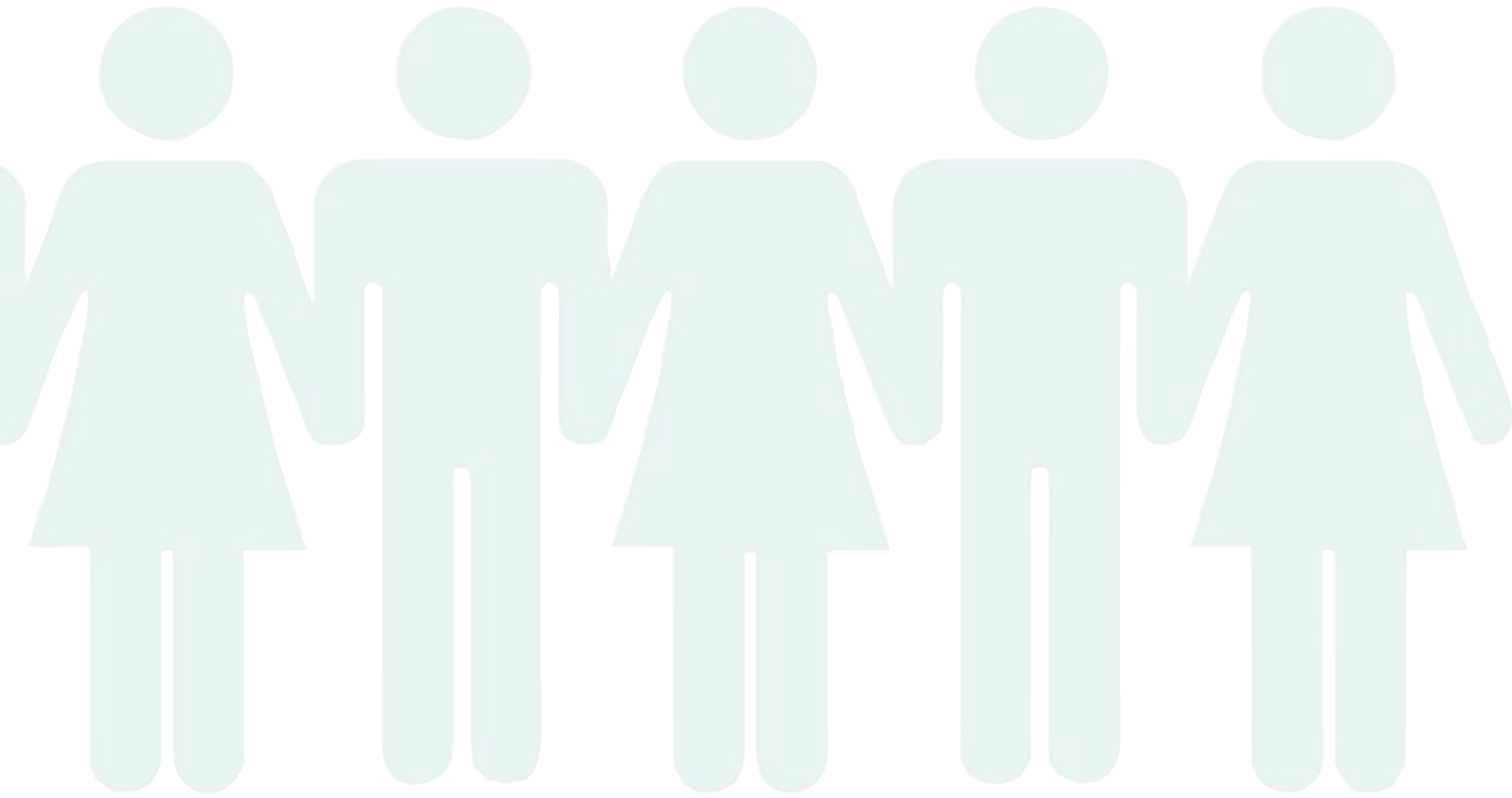
Customers of Portsmouth Water are used to the 160-year plus old company doing the right thing. Whether that’s supplying the most affordable drinking water in the UK, investing in the local workforce or providing a service they constantly rate as excellent.

It’s for this reason they trust the company as it extends its support to the environment, economy and communities in the wider South East.

Portsmouth Water is set to build the first new reservoir in the UK since the 1980s to become a regional supplier in the water-stressed region, bringing even more opportunities to create a lasting legacy for wildlife, woodland, health and recreation on its customers’ doorstep.

This is us: [portsmouthwater.co.uk](http://portsmouthwater.co.uk).


*The wider social imperative is key to winning the hearts and minds of our customers to use water wisely*



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