

AffinityWater

Affinity Water Independent Challenge Group Terms of Reference





Terms of Reference

Affinity Water Independent Challenge Group

Updated September 2022

1. Introduction

The Terms of Reference for Affinity Water's Independent Challenge Group (ICG) have been developed by the Chair and members of the ICG and Affinity Water jointly. They have been approved by the Board.

The Terms of Reference replace the previous ToR and reflect the change in scope and approach required for the delivery of Affinity Water's Final Determination for 2020-25 and development of the next business plan for 2025-2030.

Alongside the Terms of Reference, the ICG has created a 'Customer Commitment' to set out the ICG's approach and key areas of challenge work for interested customers and stakeholders.

2. Role

The role of the Independent Challenge Group (ICG) for Affinity Water is to encourage the company to continually improve outcomes for customers and for the environment. The ICG will do this by:

- Inviting the Company to consider how to continually improve the quality of service and value that they offer to customers.
- Urging the Company to be ambitious in planning for the future taking account of the findings of high-quality customer engagement and research while demonstrating a clear line of sight in the Business Plan for PR24.
- Encouraging the Company to find solutions that balance short-and-long term customer needs and demonstrate how to spread both costs and benefits fairly over time.
- Working closely with and taking account of wider strategic insights and research findings from national organisations who represent the interests of customers, especially CCWater but also DWI and EA, as well as considering opportunities to collaborate with other water companies when that would benefit customers.

3. Key Lines of Enquiry (KLOE)

Members will take a *Key Lines of Enquiry* approach that are aligned to the Company's ambitions as laid out in the Strategic Direction Statement (SDS). The SDS describes 4 core areas of focus: Resilience, Environment, Customers and Communities.

This approach will allow the drawing of clear lines through:

Independent challenge – Company Response – Customer Outcome

The headline themes have been written to reflect insights identified via the triangulation of existing research. The KLOE are detailed more fully in the companion document 'ICG Customer Commitment' and summarised below:

Key Lines of Enquiry:

- **Resilient:** Customers expect their water supply to be clean and reliable now and in the future.
- **Resourceful:** Customers do not want water wasted unnecessarily by either company or by consumers.
- **Protective:** Customers expect their water company to protect the environment.
- **Innovative:** Customers expect their company to give back to the communities they serve.
- **Affordable:** Customers need affordable bills, and some customers need financial assistance.
- **Caring:** Customers with who are experiencing vulnerability need extra support from their water company.
- **Inclusive:** Customers expect easy access to information and contact options.
- **Responsive:** Customers expect enquiries and complaints to be answered quickly and in full.

4. Membership Arrangements, Obligations & Expertise

The ICG will have at least 8 core expert members that will include 6 Independent Members (including the Chair) and 2 Regulatory members (from CC Water and EA). The appointment and dismissal of members is the responsibility of the Chair, in liaison with Affinity Water and in accordance with the ICG recruitment policy.

All independent members will subject to contracts outlining the specific and comprehensive role requirements and terms of engagement. New contracts will in place by the end of September 2022.

Contracts will be offered for 3 or 4 years and there may be opportunities for renewal at the end of each contract. While there is value in experience, there is also value in fresh perspective and, therefore, decisions on renewals will be made with this balance in mind.

The Chair will be contracted on a retainer basis (with a fee in line with Board Non-Executive Director fees). ICG expert members will be paid an allowance for attendance at meetings that will be in line with market rates benchmarked to similar roles across regulated industries. These rates will be agreed with the Company and will be based on a single or half day allowance.

Additionally, the Group plans to draw on the expertise of professional specialists or specific interest stakeholders who will advise on issues that are useful for key lines of enquiry. For example: rivers' protection groups, social housing experts, youth groups, wildlife trust groups. The Company will facilitate the set-up of this 'bank' of specialists and stakeholder advisors to provide input to the ICG via Subgroup agendas.

All members will be expected to attend full ICG meetings and relevant subgroup meetings. They will be expected to be fully prepared for each meeting and to offer challenge in line with the agreed KLOEs.

The Chair will co-ordinate the following:

- Updates to the Board, including preparation for the Annual Report;
- Updates to the CoG and responses to regulatory organisations as required or invited to do
- Independent ICG submissions accompanying Affinity Water's Business Plan.

All ICG Members will recognise that they do not have decision making powers. They will also recognise that it is not their responsibility to act either as a substitute for the company engaging with its customers or to substitute their own views for those of customers nor to seek to duplicate the role of any statutory body.

Members' expertise spans: citizen research & engagement, customer segmentation, financial vulnerability, non-financial vulnerability, river catchment management, policy making, partnerships development, communications, branding, local and national environmentalism, public health, local & national government, public value development, innovation, and business.

5. Agreed Ways of Working & Administration

The Company will provide both secretariat and necessary executive support for all meetings and preparations for programmes of work. All papers for meetings should be delivered 5 working days in advance of each that seek to be concise,

transparent and relevant. Additionally, the company will offer infrastructure support that will include the provision of rooms and digital support.

ICG members will adhere to the **Nolan Principles** behaviours for public life: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership. ICG members will be ambitious about achieving their goals but always thoughtful, well-prepared, supportive, encouraging, polite, respectful, and friendly in all interactions with company executives and others.

6. Governance Structure: Subgroups

The ICG will have 2 Subgroups. The purpose of these Subgroups is to deep dive into the Key Lines of Enquiry and to work with the company on these topics considering in these in detail from customer perspectives. These mechanisms will use the expertise of members and invite additional expertise from specialists and stakeholders and from customer representatives. The subgroups will cover the following areas:

- Environment & Resilience – KLOE: Resilient, Resourceful, Protective, Innovative
- Customers & Communities – KLOE: Affordable, Caring, Inclusive, Responsive

Each Subgroup will be Chaired by an independent member with relevant expertise and will have a senior individual from the company with whom the Subgroup Chair will work to agree a plan of work.

Following each meeting, the Subgroup Chair will be responsible for writing a Challenge Questions document, in the same format as for the Full Group, that will record the questions raised and the company in turn will add responses. These documents will be reviewed by the full ICG and published.

7. Meetings' Timetable & Quoracy

The full ICG will meet once every 2 months. These will take place at Affinity's Head Office in Hatfield and/or via a virtual platform (eg Teams). Occasionally, another Affinity site or an agreed accessible location in London may act as a venue for full group meetings

The 2 ICG Subgroups will each meet once every 4 months and will alternate between full group meetings so that a new Subgroup update will be received at each meeting.

Example Annual Meeting Plan:

- Full Group – Sept, Nov, Jan, Mar, May, July
- Subgroup for Environment & Resilience – Feb, June, Oct
- Subgroup for Customers & Communities– Apr, Aug, Dec

The quorum required for the full ICG will be four members. There will be no formal quorum for subgroups although at least 2 members should be expected to be attending for a meeting to proceed. If necessary, a deputy Chair may be nominated for the full group or for each of subgroup as required.

8. Independent Challenge Tracking System

The tracking system has 3 objectives:

- i. To capture relevant challenges arising from the questions asked by members on behalf of customers as Key Lines of Enquiry are followed.
- ii. To draw threads of evidence through from independent challenge to company responses, business strategy and customer outcome.
- iii. To be transparent by publishing all data that interested customers and stakeholders may review.

Therefore, there are 3 corresponding aspects to the Independent Challenge Tracking System.

1. Challenge Questions Documents

Following each full ICG meeting and each Subgroup meeting, the Chair or Subgroup Chair will issue a review of questions raised by members in response to the documents and discussions. The company will update each of these documents with responses and each will then be published.

2. Strategic Challenge Tracker

This will focus on tracking the progress of responses and outcomes to the critical questions identified in the KLOE framework that align to the company 25-year SDS and the development of the 2025-30 business plan. This will form the basis of any agreed assurance and evidence that seeks to demonstrate that the Company has been both subject to challenge and has responded appropriately through the development of future business plans.

3. Transparent Data

The following data will be published on the ICG website:

- ICG Customer Commitment
- ICG Terms of Reference
- Challenge Questions from full and Subgroup ICG meetings

- Strategic Challenge Tracker
- ICG Annual Report
- Consultation responses from the ICG to Ofwat or other national bodies
- Assurance reports from 3rd party audits
- Findings from key pieces of customer research

9. Communications

There will be an ICG section to the company's website that will include:

- Information on the purpose and work of the ICG
- Members' details
- All documents described above
- Links to news involving the ICG work

10. Relationships with Company Governance & Regulatory Bodies

Company Executive Team

- The Director of Regulation & Strategy and the Director of Customer Experience & Technology will attend all ICG meetings and meet with the Chair regularly to plan the work for the Group.
- The CEO will attend ICG meetings regularly.
- Subgroup Chairs will meet with senior company leads to plan the work for each Subgroup.
- Relevant additional members of the executive team will also be involved in Group and Subgroup meetings.

Company Board

- The ICG Chair will submit an update report regularly to the Affinity Water Board for discussion.
- The ICG will complete an independent Annual Report aligned with the company annual reporting timescales.
- All Board members have an open invitation to ICG meetings as well as an offer to meet with the ICG Chair when useful.

National Challenge Group

- The national Challenge Co-Ordination Group (CoG) was established in April 2022 as a forum for ICG Chairs.
- This purpose of this group is for ICG Chairs to work closely with CC Water to support effective independent challenge for all companies and to develop a collaborative national voice for on behalf of customers.

- This group is hosted by CCWater and endorsed by Ofwat. It is Chaired by an ICG Chair (from April 2022 – Caroline Warner from Affinity ICG)

Regional Water Resources Group

- Along with all Chairs of local challenge groups, the Affinity Water ICG Chair is a member of the regional customer group hosted currently by Water Resource South East (WRSE).
- The core function of ICG Chair members on this group is to offer feedback to WRSE on the quality and scope of their citizen engagement in respect of water resource management plans.

11. Challenge Assurance

Independent Audit of CCG arrangements

CC Water are commissioning an Independent Audit of each company's Independent Challenge arrangements. These audits are likely to be published. The scope is in development but will likely test to ensure that CCG arrangements are set up to be:

- Demonstrably independent
- Properly constituted
- Adequately resourced
- Appropriately expert
- Evidentially transparent
- Unmediated Access to their Company's Board

Open Challenge Sessions

Ofwat has indicated that open challenge sessions may be a requirement as part of the PR24 process and, if so, will expect ICGs to have a core role. This is yet to be agreed or defined.

12. Research Assurance

The Company is required to seek independent assurance for any research that is submitted as evidence for PR24. This independent assurance will need to assess both content and methodology - in other words: is the company asking the right questions of all relevant cohorts of customers using methods and materials that are appropriate.


ICG members will focus on challenge rather than assurance and will:

- Offer comments on research proposals and will be kept updated on all research findings.

- Ask the company to demonstrate that learnings from ongoing operational data and insight are well used in addition to any insight available from national research and data.
- Ofwat may also expect ICGs to scrutinise the materials and approaches taken to national research guidance for acceptability and affordability testing.

The Company will be responsible for appointing an independent 3rd party to provide formal assurance on the overall research programme and individual methodologies.

Signed by ICG Chair, Company CEO

A handwritten signature in cursive script, appearing to read 'Caroline Warner'.

Caroline Warner
Chair
Affinity Water Independent Challenge
Group

A handwritten signature in cursive script, appearing to read 'Stuart Ledger'.

Stuart Ledger
Interim Chief Executive
Affinity Water Limited