

Independent Challenge Group (ICG) at Thames Water

Terms of Reference including Annex A: Conflict of Interest & Recusal Protocol

1. Purpose

The Thames Water Independent Challenge Group (ICG) provides **independent scrutiny and constructive challenge** to Thames Water on whether the company genuinely understands, prioritises and delivers what matters most to customers, communities and the environment.

The ICG does not act as an advocacy or representative body. Members are appointed for their expertise; their role is to **test the credibility of evidence, insight and delivery**, ensuring that customer needs and experience meaningfully inform decisions, trade-offs and outcomes, particularly in conditions of heightened operational, financial and reputational risk. It provides independent insight to the Board and regulators on the credibility of Thames Water's customer focus and delivery.

The ICG provides **independent scrutiny of how the company understands customer needs and translates that understanding into operational performance, investment choices and communications**.

The ICG's scrutiny complements, but does not duplicate, management oversight. It focuses particularly on **customer outcomes and pain points**, such as billing accuracy, service interruptions, leakage and incident response.

The ICG exists to strengthen trust, transparency and accountability in the interests of current and future customers.

2. Context

The ICG operates in a period of exceptional challenge for Thames Water and the wider water sector, characterised by:

- sustained operational and environmental under-performance
- acute financial and investor uncertainty
- rising customer bills amid low public trust
- increased regulatory, political and public scrutiny
- the findings of the Cunliffe Review and associated reform proposals

In this context, **robust independent challenge is essential**. The ICG's role has therefore evolved from periodic scrutiny of plans to **ongoing scrutiny of delivery, customer outcomes and organisational responsiveness**.

The ICG also supports Thames Water in meeting **Ofwat's Consumer Involvement Rule**, which requires companies to have arrangements in place for involving consumers in decisions that are likely to have a material impact on consumer matters, and among other things must ensure that the views, experiences and preferences of customers are fed into and taken account of, in the decision making process for decisions likely to have a material impact on consumer matters (which would include, for example business plan investment priorities).

The ICG operates alongside, but independently from, other customer engagement and representation mechanisms within the wider system.

The role and operation of the ICG will continue to evolve in line with changes to sector governance, including any reforms arising from the Cunliffe Review or subsequent regulatory developments. The ICG will adapt its approach as necessary to remain complementary to any future customer engagement or representation arrangements within the sector.

3. Role and Responsibilities

The ICG will:

a) Scrutinise Customer Insight and Understanding

- Challenge whether the company genuinely understands the needs, expectations and lived experience of its customers.
- Test the quality, robustness and use of customer and stakeholder insight.
- Challenge whether evidence meaningfully informs decisions, priorities and investment.

b) Support Effective Decision-Making

- Act as an expert **pre-decision challenge mechanism** on major proposals, plans and strategies.
- Challenge assumptions, risks and unintended consequences for customers.
- Bring perspectives that may otherwise be under-represented, including those of vulnerable customers and future generations.

c) Scrutinise Delivery and Customer Outcomes

- Monitor whether commitments made to customers are delivered in practice.
- Focus scrutiny on **areas of greatest customer impact**, including billing accuracy, service interruptions, leakage and complaints.
- Track how issues raised by the CCG are addressed, resolved or escalated.

d) Strengthen Transparency and Trust

- Provide clear, evidence-based reporting on the effectiveness of customer engagement and delivery.
- Support confidence that customer interests are not lost amid financial or structural change.

4. Scope of Challenge

The ICG's scope includes, but is not limited to:

- Customer experience, service quality and complaints trends
- Billing accuracy, affordability and vulnerability support
- Operational resilience, serious incidents and communications
- Operational and customer performance (e.g. leakage, pollutions and other issues that generate significant customer frustration)
- Climate resilience, environmental stewardship and inter-generational fairness
- Major investment programmes and infrastructure impacts
- Business planning assumptions insofar as they affect customers
- Cultural alignment between operations, customer services and leadership

The ICG **does not**:

- Handle individual customer complaints
- Act as a consumer advocate or representative body
- Substitute its judgement for that of customers
- Take formal positions on regulatory enforcement or sanctions

The ICG will scrutinise how organisational culture supports a customer-focused approach to service delivery. This includes:

- Responsiveness to customers during operational incidents
- Clarity and honesty in communications
- Leadership recognition that Thames Water is both an infrastructure provider and customer-facing organisation
- Prioritisation of actions that improve the customer experience alongside engineering and operational performance

5. Ways of Working

Principles

The ICG operates on the basis of:

- **Independence** – free from company, regulatory or advocacy capture
- **Constructive challenge** – rigorous, evidence-based and solution-focused
- **Transparency** – documented challenge, clear follow-up and public reporting
- **Respect for roles** – clarity between scrutiny, advocacy and regulation

In fulfilling its role, the ICG helps Thames Water meet the spirit and intent of Ofwat's Rule of Involvement by scrutinising whether customer insight is credible, inclusive and properly reflected in company decisions and trade-offs.

Information and Access

Thames Water will:

- provide timely access to information, data and senior staff
- enable engagement with operational teams and site visits where appropriate
- support open and candid discussion

The effectiveness of the ICG depends on this openness. The ICG Chair, in consultation with members, determines the Group's work programme and agenda, informed by areas of greatest customer impact, emerging risks and issues raised by members. Thames Water will support the delivery of this programme through timely provision of information and access to relevant staff and data.

6. Relationship with the Board and Executive

The ICG engages directly with the Board to ensure customer insight informs strategic discussion and oversight.

This engagement takes place through:

- The ICG Chair attending the Board's Customer Services Committee on a quarterly basis, including receiving formal feedback from the committee on ICG challenge
- Bilateral engagement between the ICG Chair and Board leadership where appropriate
- The ICG Annual Report to the Board, setting out key insights, scrutiny findings and areas of concern

Where concerns are not adequately addressed, the ICG Chair may escalate directly to the Chair or Chief Executive. If the ICG considers that customer interests or transparency may be at risk, the ICG Chair may raise concerns with the Board.

The ICG does not replace Board accountability. Responsibility for decisions and delivery remains with the company's Board and Executive.

The ICG Chair is responsible for ensuring the independence and effectiveness of the Group's scrutiny and challenge. The Chair may engage directly with the Chair of the Board, Committee Chairs and senior executives where necessary to raise emerging issues or seek clarification. The Chair is responsible for determining the ICG's work programme, informed by areas of greatest customer impact and emerging risks. The Chair may also commission additional scrutiny or invite external expertise where this would strengthen the quality of challenge.

7. Outputs

The ICG will produce:

- An annual independent report on customer scrutiny and impact
- Written feedback on major plans or strategies where appropriate
- Documented challenge logs tracking issues, responses and outcomes
- Ad-hoc scrutiny reports if requested by the Board or regulators

The ICG's annual report provides the Board, regulators and stakeholders with an independent assessment of how effectively Thames Water understands and responds to customer needs.

8. Membership and Independence

- Members are appointed for their expertise, not to represent constituencies.
- Membership reflects experience across customer insight, vulnerability, environment, regulation, governance and delivery.
- Appointments are time-limited and refreshed periodically to maintain independence and challenge.

9. Conflicts of Interest

- All members must declare actual, potential or perceived conflicts of interest.
- Conflicts are managed transparently in line with the ICG Conflict of Interest and Recusal Protocol (see Annex A).
- Recusal is a normal governance safeguard, not a sanction.

10. Review

These Terms of Reference will be reviewed annually, or earlier if required, to ensure they remain fit for purpose in a changing regulatory and operating environment.

This revised Terms of Reference reflects learning from sector reviews of challenge group effectiveness and the ICG's own impact and experience during 2024–25.

Annex A: Conflict of Interest & Recusal Protocol

1. Purpose

This protocol sets out how the Customer Challenge Group (CCG) identifies and manages conflicts of interest to protect the integrity, independence and effectiveness of its assurance role.

The aim is to ensure:

- candid and trusted discussions with Thames Water
- clarity of roles between system actors
- confidence that assurance activity is free from undue influence

2. Principles

- **Transparency:** Conflicts are declared early and openly.
- **Proportionality:** Recusal is applied only where necessary and for defined items.
- **Consistency:** The same approach applies to all members.
- **Respect:** Managing conflicts is not a judgement on individuals or organisations.

3. What constitutes a conflict?

A conflict may arise where a CCG member:

- has a **statutory, advocacy, regulatory or enforcement role** relating to Thames Water
- is involved in **external policy positions, public correspondence, or consultation responses** that cut across live CCG assurance discussions
- may reasonably be perceived to have **dual obligations** that could influence, or appear to influence, their contribution to assurance

Conflicts may be **actual, potential, or perceived**.

4. Declaration of conflicts

- Members are expected to declare relevant conflicts:
 - at the start of meetings
 - when agenda items are introduced
 - when circumstances change
- The Chair may also identify potential conflicts and invite discussion.

Declarations are recorded in the minutes.

5. Managing conflicts

Depending on the nature of the conflict, one or more of the following may apply:

- the member remains in the discussion but does not contribute
- the member is asked to **recuse themselves** from part of the discussion
- the member is absent for the duration of a specific agenda item

Recusal decisions are made by the Chair, advised by the Secretariat if needed.

6. Recusal protocol

Where recusal applies:

- the member temporarily leaves the meeting (or moves to observer-only status)
- the minutes record:
 - the reason for recusal
 - the agenda item(s) affected

- when the member re-joins
- no information from the recused discussion is shared outside the CCG

Recusal is a **protective governance measure**, not a sanction.

7. Handling sensitive information

Information shared within the CCG:

- is used solely for assurance purposes
- should not be referenced in external advocacy, correspondence or lobbying unless already public
- should not be attributed to individual contributors outside the Group

8. Chair-to-Chair / CEO-level matters

Issues relating to:

- organisational positions
- external correspondence with Ofwat
- public policy or regulatory stance

are expected to be handled **directly between Chairs and/or CEOs**, not via CCG representatives.

9. Review

This protocol will be reviewed annually, or earlier if required, to ensure it remains fit for purpose as the wider customer assurance landscape evolves.