



## CCG Chair's Report

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Affinity Water Limited



Dr Phil Nolan  
Executive Chairman  
Affinity Water plc  
Tamblin Way  
Hatfield  
Hertfordshire  
AL10 9EZ

16 March 2016

Dear Dr Nolan,

**Re: Report to Affinity Water Board on 2015**

The purpose of this letter is for the Customer Scrutiny Group (CSG) to report to the Board on its activities in the year ending 31 December 2015, as required by our Terms of Reference<sup>1</sup>.

Our review of our activities includes the following sections:

- Scope of our work
- Membership of the CSG
- The materiality of the subjects addressed through engagement
- The completeness of the process to understand the impact Affinity Water's actions have on customers
- The responsiveness of the business to material issues identified by stakeholders, and
- Additional comments from the CSG.

*Scope of our work*

We met four times during 2015: on 11 March, 17 June, 16 September and 02 December.

The Chair also attended two workshops for CCG Chairs organised by Ofwat<sup>2</sup> and had one teleconference with Ofwat.<sup>3</sup>

To support various reviews of the PR14 process, the Chair was interviewed four times<sup>4</sup> and attended one focus group session.<sup>5</sup>

The Chair observed the Community Event that the company held in Hemel Hempstead on 24 November 2015.

*CSG Membership*

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<sup>1</sup> This letter was reviewed at the CSG meetings on 2 December 2015 and 16 March 2016. Some drafting was done by email and by telephone.

<sup>2</sup> On 25 March 2015 and 07 October 2015

<sup>3</sup> On 10 June 2015

<sup>4</sup> On 10 June 2015, by Ofwat directly; on 22 July 2015, by Harry Bush acting for UKWIR; on 10 August 2015, by Annabelle Ong of Frontier Economics, acting for UKWIR on Performance Commitments and ODIs; on 5 November 2015, by Dr Natraj of London Economics, studying vulnerable customers for Ofwat.

<sup>5</sup> On 23 November 2015, as part of London Economics' study for Ofwat of vulnerable customers

The group's membership was very stable throughout 2015. Jill Thomas completed her final term at the Consumer Council for Water (CCWater), and was replaced by Laura Willoughby. Jill kindly agreed to remain on the CSG as an Independent Consumer Advocate.

The following independent members were on the CSG throughout the year:

Keith Cane, Town and Country Housing Group  
David Cheek, Friends of the Mimram  
John Fox, Tendering District Council  
Yolanda Rugg, Hertfordshire Chamber of Commerce and Industry  
John Rumble, Hertfordshire County Council  
Hazel Smith, GlaxoSmithKline  
Gill Taylor, Groundwork East  
Jill Thomas, Independent Consumer Advocate  
Damian Williams, Tendering District Council.

As before, two statutory organisations participated in the CSG:

Environment Agency (EA)  
Consumer Council for Water (CCWater).

The Environment Agency's representative is David Howarth.

CCWater's representatives are Karen Gibbs and Laura Willoughby.

In addition, Jacky Atkinson of the Drinking Water Inspectorate attended part of the CSG meeting on 11 March 2015.

#### *The materiality of the subjects addressed through engagement*

Throughout 2015, Affinity Water's engagement with its customers focused on delivering its commitments made in its Business Plan.

The main activities that the CSG were involved with in 2015 were the following:

- Water Saving Programme, with a particular emphasis on the communications programme to support compulsory metering
- ODI measurement and reporting of the company's performance to customers through dashboards
- The Value for Money survey of customers' views, and
- Billing clarity and the provision of supplemental information.

For the following topics, we requested information, received presentations from management and discussed the potential implications for customers:

- Management of risk
- Sustainability reductions
- Regulatory developments
- AMP5 and AMP6 leakage and network strategy
- Training programmes
- SIM results
- Thames Tideway Tunnel
- Social tariffs
- Changes to Affinity Water's management structure
- Leakage incident at the Egham treatment works, with a strong emphasis on the lessons learned about digital communication
- Community Event in Hemel Hempstead on 24 November
- Half year reporting against targets and the Asset Health Index.

*The completeness of the process to understand the impact Affinity Water's actions have on customers*

The four CSG meetings in 2015 were dominated by presentations and discussion on four main activities: the Water Saving Programme, ODI measurement and reporting, the Value for Money survey and billing clarity and supplemental information.

All of these are work in progress. For most programmes it is too early to draw definitive conclusions on the effectiveness of the customer engagement.

Limited assurance can be provided on the communications programme supporting the Water Saving Programme. The CSG was given an opportunity to contribute to some elements of the messaging and communications but the programme itself is starting at a slower rate than anticipated. We shall seek to monitor the response from customers over the next year and to work with the company to ensure any learning points are being taken on board.

At the CSG meeting on 02 December 2015, we noted that there has been a rise in complaints and a decline in the SIM score. This was partially explained by the comparatively high increases in bills to customers whose sewerage services were provided by Thames Water.

We also noted that the company continues to slip behind schedule for meter installations.

On a separate matter, the continuing rise in numbers of customers awarded social tariffs evidences that this programme is effective. In the near future, we hope that Affinity Water reviews this programme, both to measure its outcomes and to improve it further. At that time, the company might gain by examining the approach taken by Sutton and East Surrey Water.

*The responsiveness of the business to material issues identified by stakeholders.*

Overall, the CSG believes that during 2015 Affinity Water has consistently tried to measure and improve the effectiveness of its communications programme with its customers.

The most important efforts are those of the Water Saving Programme, which must be successful if the company is to gain customers' support for compulsory metering. The company has made great efforts to test and refine its proposed communications prior to their use. The CSG believes that the level of unwanted communications and relatively low level of complaints about the metering programme evidences that these initial efforts appear to be successful.

The CSG would also like to note the responsive communications during the leakage incident at the Egham treatment works. Although there appears to have been an element of *ad hoc* management of the communications, the outcome was positive. The company appears to have learned some valuable lessons about how to use social media and its web page to communicate with its customers during an incident.

The CSG reviewed the efforts to measure ODIs, with a particular emphasis on leakage. We were presented with an early version of the dashboard, and provided our comments. At the December meeting, we also considered the near final version.

#### *Additional comments from the CSG*

CSG members have commented that on occasion the company may be too ambitious in believing it can address every potential issue and therefore get everything right from the outset. For example, we expressed doubts about the ability of the company to manage the over 1,000 variations of letters to be sent to customers to support compulsory metering. We also wondered whether the company should look to implement a simple version of its proposed dashboard, and then refine it in response to customers' reactions. We sometimes thought the company tended to provide too much information to its customers, rather than identifying what material customers considered to be most relevant. While we applaud the ambition to be a sector leader, we simply note that some of these customer engagement programmes will need to be built up over a number of years through continuously examining customer feedback and refining the processes.

The December meeting was the CSG's first opportunity to review the initial outputs from some of the company's programmes:

- Value for Money Survey
- Performance Commitments
- Leakage and
- CIM.

Our observations were as follows.

- There have been a number of changes in management, but we perceive that the new team is bedding down well.
- The Value for Money Survey results are only the initial outputs, and no firm conclusions can yet be drawn from them. We intend to examine the first full year's results in a workshop in April or May 2016 and then at our scheduled meeting in June 2016.
- The meter installation programme continues to fall behind schedule, and management is trying to get back on target by March 2016. We will follow up at our meeting in March 2016. At that time, if the programme is not on track, we would like to know what the knock-on effect would be from the delays.
- We note the recent decline in SIM performance and management's preliminary analysis of the causes. During 2016, we will monitor closely the effectiveness of the remedial actions.
- We have some concern that the company's commitment to inform its customers about its performance is tending to focus on providing the information on a passive rather than an active basis. Thus, the company appears to believe that if it makes its performance statistics available on its website, it has fulfilled its obligation to inform its customers. The CSG does not share that view. Our understanding is that the company's Business Plan commits it to take proactive steps to contact its customers to inform them about its performance in each community (Water Resource Zone).
- Our understanding is that Affinity Water's Business Plan commits the company to holding annual community events in each of the eight communities (Water Resource Zones). We understand that Affinity Water's management does not currently share that view. We have asked to have a presentation on this topic at the CSG meeting in March 2016.
- In light of our experience over the last year, when the new CSG Chair is appointed, we would welcome a reconsideration of our Terms of Reference to ensure that we deliver what the Board (and possibly Ofwat) require for PR19.

We would like to record that management always responded positively to our observations, and we respect their right to decide the extent to which they wish to take on board our observations.

For completeness, we would like to note that the executive continues to respect the independence of the CSG and has not attempted to influence our opinions or reporting.

I would appreciate an opportunity to discuss our report with the Affinity Water Board in due course.

Yours sincerely,

Robin Dahlberg  
Chair, Affinity Water Customer Scrutiny Group