

Affinity Water Customer Challenge Group Annual Report

April 2017 - March 2018



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Introduction

I am pleased to introduce this report which covers the work of the Affinity Water Customer Challenge Group (CCG) from April 2017 to the end of March 2018.

The CCG is an independent group which:

- **challenges and assesses Affinity Water's engagement with its customer and progress to deliver its current regulated business plan (AMP6); and**
- **challenges the company and provides independent assurance to Ofwat on the quality of the company's customer engagement for its next business plan (PR19); and the degree to which customer views are reflected in its business plan.**

The CCG does this through meetings and engagement with the company throughout the year. Between April 2017 to the end of March 2018 we have looked at a wide range of issues including the company's action to improve customer service, it's water savings programme, communications with customers, local community engagement, and the company's engagement with customers to help it prepare its future business plan (PR19).

Most of our time has been allocated to the work the company has been doing to develop its future business plan. The company business plan needs to be submitted to Ofwat in September 2018 and provide the justification and evidence base to support the level of Affinity Water's charges to customers between 2020 and 2025. Allied long-term plans relating to management of water resources (which covers the 60 Year period from 2020 to 2080) and a drought management plan for the period 2018-2023 are also being produced by the company this year and feed in to the draft business plan. Our report on the quality of the customer engagement underpinning the business plan will also be given to Ofwat in September 2018. This annual report summarises the activities we have been involved with up to the end of March, but our opinion on the quality of customer engagement underpinning the next business plan will be given in September 2018.

Section 2 brings together our key messages and assessment of each issue we have considered this year. In making our assessments the CCG has been mindful of its brief to challenge and advise the company on how it engages with customers and stakeholders. It is not our job to tell the company precisely how it should deliver its services - we look at whether the company's plans and approaches are based on a really good understanding of customers' views and challenge them to show they are listening to and acting on customer feedback. Our assessments pose a number of

challenges for the company, including what action they are going to take to reduce the number of properties that experience unplanned interruptions to supply lasting more than 12 hours, how customer satisfaction with company contact can be improved, and whether investments in and changes to IT and communication materials are realising benefits for customers. We hope to discuss these issues further with the company in the year ahead.

The last section of this report looks forward to the work the CCG expects to be doing in 2018/19. The work on the next business plan (PR19) will be significant for us in the first half of the year. Issues related to current business plan delivery we would like to review in 2018 include the company's performance on restoring supplies after unplanned interruptions, and notifying customers of planned interruptions. We also expect to engage with the company on plans for implementation of key aspects of its next business plan, including new policies and practices to support customers who are vulnerable or who have difficulty paying their bills, and the further development of the community strategy.

I would like to thank the company for its openness towards the CCG, for providing us with regular briefing and presentations and sharing its thinking on how it intends to improve customer service. Affinity Water independent board members, the Chief Executive, Directors and other senior staff have regularly met with us and attended our meetings during the year.

Finally, I would like to thank all the members who have served on the group in the past year. Members bring a huge wealth of knowledge, experience and insight which they are keen to use to help Affinity Water improve its service to customers by providing constructive challenge – acting as the grit in the oyster to improve Affinity Water's delivery for customers. As the work to complete the company's next business plan takes place in 2018/19 CCG members look forward to continuing this role.



Teresa Perchard

Chair
Affinity Water Customer
Challenge Group

Key messages and assessments

Performance for customers:

- The company's performance for customers in 2017/18 is a mixed picture. Water quality results are high, and targets for reducing leakage, and per capita consumption have all been met. However, the number of customers who have experienced unplanned interruptions to supply of more than 12 hours is 24 times greater than it would have been if the company had met its business plan target, and the company did not meet its target to notify customers of planned interruptions to supply. It is difficult to rate performance for customers as overall 'green'.
- We have seen a strong focus on analysing the reasons for poor customer satisfaction with contact, a management programme to improve customer service and innovate in aspects of customer service delivery. The number of complaints has reduced and customers' ratings of contact with the company has improved. However, in the past year Affinity Water's performance continues to be quite low compared to other companies in England and Wales. The index score from the company's own value for money survey has also fallen again.
- The company has reviewed and changed its approach to how it manages unplanned interruptions and we would like to review its progress in the coming year. We also recommend that the company undertakes a full benefits realisation review from its investment in IT, and monitors the prevalence and impact on customer service of IT outages on an ongoing basis.



Performance reporting

- We reviewed and commented on the drafting and presentation of the 2016/17 performance report for customers in June/July 2017. We also took account of the comments made by the independent Reporter. As a result, the published report was simpler and with a clearer presentation.
- The company could improve its approach in this area by evaluating customer and stakeholder use of the performance information it publishes to ensure it is used by and is regarded as useful to customers, including the monthly online reports of water quality. We recommend the company ensures that all its in-year performance reports for customers are kept up to date.



Achieving water resource savings

- We challenged the company on whether it is on track to fully achieve the resource savings it has projected in its business plan by 2020. We note that the 2017/18 performance report shows the company has achieved its targets for reducing abstractions, leakage and per capita consumption.



Customer communication about meter installations and saving water

- We have reviewed whether the company's engagement with those customers who are being metered is effective, particularly in light of information that a significant proportion of customers who require an internal meter do not respond to the invitation to have a water meter installed. We are pleased the company has found a technological solution to this problem so that more meters can be installed without the need to gain access to properties.
- We understand that the per capita consumption savings from the metering programme are as expected, but the company's per capita consumption remains high. Going forward the company needs to find an approach which results in changes in customer behaviour which is effective and enduring. CCG members have offered to assist the company by reviewing the effectiveness of initiatives the company has piloted in 2017/18, including those with the behaviour change consultancy Hubbub.
- We are concerned that up to 40 % of newly metered customers might be worse off when they move to measured charging, and in some cases the impact on bills will be significant, raising implications for future demand for the assistance the company offers customers who have difficulty paying their bills. We want to keep the incidence effects of the metering programme under review.



Community focus

- We can provide assurance that the company has taken action to satisfy the commitment to local community engagement in its current business plan, and that it plans to continue doing this in 2018/19. This activity links to the company's stated vision to 'be the UK's leading community-focused water company'.
- However, the company could, and should, do significantly more to fully realise the ambitious 'community focus' theme of its current business plan. We are not convinced that the approach is fully integrated into the company's communications and engagement with customers, or that the river catchment based 'communities' that are being used resonate with customers, and stakeholders. Half way through the current business plan the company should have settled on an enduring effective approach to operationalising this.
- We are pleased that during the year the Affinity Water Executive have reviewed the approach to this issue and that the Board of Affinity Water has established a committee to oversee the delivery of the community focus commitment.
- We have challenged the company to show how the community focussed approach is reflected in its customer engagement for the development of the next business plan (PR19).



Support for customers who are vulnerable or have difficulty paying their bills

- Through our work to review the company's proposed performance commitments for the next Business Plan (PR19) we have reviewed and challenged how the company intends to move forward to further develop its support for customers who are vulnerable in some way or have difficulty paying their bills from 2020-25 onwards. Our assessment of these plans, and how well the company has engaged with customers and stakeholders to prepare them will be given to Ofwat in September 2018.
- We can provide a high level of assurance that the social tariff is in place and has continued to have high and seemingly manageable take up within 2017/18.



Customer communication effectiveness

- We asked the company to evaluate whether the changes it had made to the format of bills – from April 2017 - had been effective and reduced billing complaints and avoidable customer contact; assisted and motivated customers to save water, energy and money and encouraged customers to sign up to direct debit payments. The company has briefed us that billing queries have reduced significantly between 2016/17 and 2017/18 which is a positive sign. We recommend a fuller and wider review and evaluation of whether the other goals of these changes have been realised.
- CCG members provided challenge and comment on the development of the 2018-19 billing leaflet with the aim of simplifying the text and presentation. The company scheduled this activity in late Autumn 2017 before the publication was finalised, making it a more meaningful exercise for the CCG members than in previous years. We recommend the company evaluates whether and how customers use this leaflet, whether the changes have improved its impact and what more change is needed.



Value for money survey

- We can provide assurance that the value for money survey is undertaken by the company. However, we have not seen evidence to show that the survey is used by the company as originally intended to help it make decisions about improving delivery and service to customers.
- We have challenged the company to show how it was using the insight from this survey to develop its PR19 business plan. We are satisfied that the company has referred to the evidence from this survey, although at a relatively late stage in the development of their evidence base.



PR19 customer engagement programme

- The company has progressed its PR19 customer engagement programme in 2017/18 by engaging a specialist contractor; developing a detailed plan for a phased approach, conducting the first two phases (Phase 0 and Phase 1) and preparing for the third phase (Phase 2). The CCG has been invited to review and challenge at the start and end of each Phase and to review a range of draft questions, engagement material and survey findings, including on the WRMP, the DMP and a Strategic Direction Statement (SDS).
- The CCG is concerned that the delivery of the customer engagement programme became significantly delayed within the period September 2017 to March 2018 compared to plans presented in Autumn 2017. The consequent compression of timescales leads us to question whether the company will be able to demonstrate to us that customers' views have genuinely driven key decisions on the plan.
- In March 2018, we provided the Affinity Water Board with a provisional assessment of the customer engagement programme, although the most substantive results had not been received at that time. We highlighted five areas where we were not confident at that time that the company was fully addressing the issue, and we needed to see more evidence and/or the company needed to take corrective action to address our concerns in full. (See Section 5 of this report for more detail)



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CCG's role, membership, governance and transparency

The Customer Challenge Group (CCG) held four full meetings in the period covered by this report. We also took part in three Triangulation or 'workshop' sessions with the company to meet their selected PR19 customer engagement contractors and review the outputs from the first two phases in the company's PR19 customer engagement programme. Members also formed two PR19 related working groups to advise the company on their proposals for bespoke performance commitments to address issues of Affordability and Vulnerability and Environment and Resilience. Appendix B lists the formal meetings the CCG has held and the matters considered at each meeting.

The rest of this section provides information on the purpose of the CCG, its membership, governance and transparency arrangements and meetings held.

3.1

PURPOSE OF THE CCG

The purpose of the CCG is set out in Terms of Reference which were approved by the Affinity Water Board in July 2016. Our purpose is to provide:

- independent challenge and assessment of Affinity Water's customer engagement and progress to deliver its business plan (AMP6); and
- independent challenge to the company and independent assurance to Ofwat on the quality of the company's customer engagement for PR19; and the degree to which this is reflected in its business plan.

3.2

MEMBERSHIP OF THE CCG

At March 2018 the following people are independent members of the CCG:

- Tina Barnard, Watford Community Housing Trust
- Keith Cane, Town and Country Housing Group
- David Cheek, Friends of the Mimram
- Gary Clinton, AgeUK Essex
- Richard Haynes, Up on the Downs
- James Jenkins, University of Hertfordshire
- John Ludlow, Public affairs and government relations professional
- Scott Oram, Glaxo Smith Kline
- John Rumble, Hertfordshire County Council
- Gill Taylor, Groundwork East.

The following members represent statutory organisations:

- Karen Gibbs, Consumer Council for Water (CC Water)
- Caroline Warner, CC Water – Local Consumer Advocate
- Jonathan Sellars, Environment Agency.

They bring a wealth of experience and insight into social and welfare policy, community and environment and public affairs across the areas Affinity Water serves.

3.3

GOVERNANCE AND TRANSPARENCY ISSUES

In its policy statement on customer engagement for PR19¹ Ofwat said that it wished to be assured that the CCG operates at arm's length from the company so that it can provide independent challenge. Ofwat has asked for transparency in the running and governance of CCGs, including management of conflicts of interest, access to non-executive Board members, process and secretariat support.

- **Minutes of the meetings and other selected papers and reports, including a Challenge Log which is updated after every meeting, are published on the CCG area of the company's website. All meeting agendas include the opportunity for members to declare any conflicts of interest.**
- **Since September 2016 the Group has clearly identified the issues on its agenda relating to PR19 as distinct from the issues relating to the delivery of the current business plan and items on our challenge log are similarly labelled. This will facilitate the audit trail for our work on PR19, which is Ofwat's area of interest.**
- **In June 2017 the CCG agreed a Protocol with the company which supports our Terms of Reference in relation to PR19 by setting out points of contact and arrangements for managing and recording information and queries between the company and the CCG. A key feature is the designation of a member of Affinity Water's staff to act as the CCG Manager, who is the main working level contact between the CCG and the company.**
- **Throughout 2017/18 one of Affinity Water's independent non executive board members has acted as a link between the Board and the CCG and been invited to attend meetings of the CCG, including the Triangulation workshops. The CCG Chair has also been invited to attend meetings of the Affinity Water Board and its Regulatory Working Group.**

The CCG considers Ofwat's requirements have been met in the revisions with the Terms of Reference agreed by the Affinity Water Limited Board in July 2016. Ofwat has made no comment on or raised any concerns about the CCG's Terms of Reference and governance arrangements.

¹ Customer engagement policy statement, Ofwat, May 2016

Current Business Plan (AMP 6)

This section reports on the work the CCG has undertaken since April 2017 in relation to the current business plan, AMP6. As our work on future business plan (PR19) has grown during the year we have of necessity reduced the amount of time we have spent reviewing current performance.

In our 2016/17 Annual report we said that we wanted to focus on the following aspects of the current business plan commitments:

- the annual performance report, and the related assurance, before it is published to customers;
- whether the company is on track to achieve the water resource savings targets it has set.
- how the effectiveness of communication and engagement with customers on the water saving programme, pre and post meter installation could be maximised;
- the extent to which the ‘community focus’ ambitions of the business plan is being delivered across the range of the company’s communications and engagement with customers;
- the services the company provides to vulnerable customers, including the operation and learning from the social tariff;
- how improvements to the water environment are being communicated to customers and linked to willingness to pay, metering and leakage issues.

Our terms of reference ask us to review ‘the completeness and representativeness of Affinity Water’s ongoing customer engagement activity, the materiality of the issues raised, and how well the evidence has been used’. We are also consulted by the company on a range of issues, including the design and drafting of leaflets and information for customers and keep the company’s performance for customers under review.

We have addressed all these issues during the year and an account in relation to each issue is provided below.

4.1

PERFORMANCE FOR CUSTOMERS

- The company’s performance for customers in 2017/18 is a mixed picture. Water quality results are high, and targets for reducing leakage, and per capita consumption have all been met. However, the number of customers who have experienced unplanned interruptions of supply more than 12 hours is 24 times greater than it would have been if the company had met its business plan target, and the company did not meet its target to notify customers of planned interruptions to supply. It is difficult to rate performance for customers as overall ‘green’.
- We have seen a strong focus on analyzing the reasons for poor customer satisfaction with contact, a management programme to improve customer service and innovate in aspects of customer service delivery. The number of complaints has reduced and customers’ ratings of contact with the company has improved. However, in the past year Affinity’s performance continues to be quite low compared to other companies in England and Wales. The index score from the company’s own value for money survey has also fallen again.

- **The company has reviewed and changed its approach to how it manages unplanned interruptions and we would like to review its progress in the coming year. We also recommend that the company undertakes a full benefits realisation review from its investment in IT, and monitors the prevalence and impact on customer service of IT outages on an ongoing basis.**

The company has kept the CCG informed about the achievement of its AMP6 performance commitments by providing a regular company report and specific presentations at meetings of the Group. We reviewed the 2016/17 whole year performance results at our June 2017 meeting, and went on to work with the company to help them improve the presentation of this in an annual report for customers (see section 4.2 below). We received the end of year 2017/18 performance results before finalising this annual report and have, therefore, been able to reflect on the results which we will explore in more depth in the year ahead.

We have looked at several aspects of the company's performance for customers during this year; interruptions to supply; customer service; IT outages and water quality.

a) INTERRUPTIONS TO SUPPLY

The end of year 2017/18 performance results show that the company has significantly exceeded its target for the number of properties experiencing an unplanned interruption to water supply exceeding 12 hours with 7,890 properties affected in this way, against a target of no more than 350. The results for the previous two years also exceed the business plan target meaning that across three years 11,501 of Affinity Water's customers have experienced an unplanned interruption to their water supply which lasted longer than 12 hours, when the business plan target was that no more than 1050 customers would have had this experience across the three years. In November 2016 CC Water had highlighted² that Affinity Water's performance in restoring water supplies after unplanned interruptions, such as burst mains, was below average for the industry. In its current business plan the company outlines a range of investments designed to reduce the risk of failures that produce the longest disruptions, it also proposed a performance commitment level which was at the level it had been achieving.

At our June 2017 meeting we reviewed the way that the company handles and communicates with customers during service disruptions. We noted that the company undertakes structured reviews to learn from all 'no water' events which includes reviewing communication with customers, that customers are asked to rate the company's response and that it had learnt from other organisations in the design of a new incident management response/ approach. We were also assured that the company has a strategic map of the locations on its supply network that it considers are at most risk of failure.

Whilst the company has presented to us that it has a coherent and organised approach to handling communications, and anticipating disruptions on its network there are clearly further questions for it to answer about the reason for the difference between its business plan performance target and customers' actual experience.

b) CUSTOMER SERVICE

At the end of 2016/17 the company was ranked 16 out of 18 in Ofwat's Service Incentive Mechanism (SIM) league table³ with a score of 78.6/100 compared to an average industry score of 83.7. Affinity Water's customer satisfaction reported to Ofwat was also below average for water companies in England and Wales. We note that the SIM score has improved during 2017/18 with a whole year result of 80.91/100. Positively – particularly considering the extent of disruptions to service customers experienced in 2016/17, CCWater has also reported that Affinity Water's complaints reduced by 21% in 2016/17. The company has also reported to us that customer complaints have continued to reduce in 2017/18.

However, it is disappointing to see that at the end of 2017/18 the company's ranking within Ofwat's SIM league table has not improved, and we also note that the index from the company's own value for money survey has declined in the past year (from 69.6 to 68.2).

The water industry regulator, Ofwat, and the statutory consumer body, CCWater, have both been monitoring Affinity Water's customer service performance closely since 2016. We have not wished to duplicate with their activities. We have sought assurance that the company is responding to the decline in customer satisfaction and increase in complaints, and that it is using the insight it has from customers and the customer experience to identify what needs to be done to improve service for customers.

² Delving into Water, CCWater, November 2016

³ <https://www.ofwat.gov.uk/regulated-companies/company-obligations/customer-service/>

Current Business Plan (AMP 6) continued

Last year we were able to provide assurance to the Board, before the full year 2016/17 performance results were clear to us, that the company was learning from customer insight to identify what it needed to do to improve customer experience and it had put in place a programme to deliver a range of changes, for example to online customer account information, designed to address the most common causes of customer complaint.

During 2017/18 the company has continued to develop and implement the improvements it identified in 2016/17. In September 2017, the company briefed us on the continued work underway to improve customers' experience of dealing with Affinity Water by transforming its digital capability and improvements to customer service and efficiency. In the past year the company has introduced several improvements to its website offer to customers to manage their accounts and introduced the use of Alexa an innovation which makes it very easy and accessible for customers find out the status of their account or other information.

The company had set itself targets to reduce complaints further in 2017/18 (by 15%) and joined and sought to learn from the Institute of Customer Service (ICS) and its UK customer service index.

We appreciate that operational change can take time to design and implement and fully realise benefits. The company has reported a continued reduction in the number of complaints received which are now 30% lower than they were in 2016/17

Going forward we would like to see the company report its performance against the business plan commitments including the results of the SIM surveys more regularly within the year.

c) IT OUTAGES

In our annual report for 2016/17 we indicated that we wanted to know if the company is assessing the impact of IT outages on customers attempting to transact with the company online, whether to obtain information or make payments and manage their accounts. Throughout 2017/18 the company has provided us with a report on the number of minutes that the website and online customer account services have been down and unavailable for customers. It was clear that there had been significant problems in December 2016 and January 2017 affecting the online customer account features. A report to us in December 2017 showed that there were several significant periods of time, of between 12 and 18 hours, when the website and features to enable customers to register or access their online customer accounts were unavailable, resulting in other contacts with the company.

As the company moves in the direction of more online communications and customer self service transactions it will be more important that the online services are resilient and reliable. For example, as noted above during the past year the company has introduced improvements to its online customer account offer (My Account). The changes were developed in light of customer feedback and complaints and analysis of avoidable contacts. New features and capabilities continue to be introduced. The company has presented some evidence that this has enabled an increase in the number of accounts where payment is made by direct debit as this is now a 'self service' feature. Interruptions in these online services can diminish consumer confidence to take up and use.

We understand that the company is engaged in a 5-year programme to replace and upgrade key components of its IT infrastructure, some of which was more than 20 years old.⁴ System change can be a factor contributing to IT outages, although the aim of change may be to improve the way the system works for the company and its customers. We recommend that the company undertakes a full benefits realisation review from this investment, including the impact on customers, and that it also monitors the prevalence and impact on customer service of IT outages on an ongoing basis.

d) WATER QUALITY

We invited the Drinking Water Inspectorate (DWI) to attend our December 2017 meeting. Their presentation indicated that Affinity Water was providing water quality which complies with drinking water quality standards at or above the industry average, with a relatively low number of contacts about discolouration, taste and odour. We also discussed with the DWI the issues they would expect the company to address, if any, in their PR19 business plan and changes they had proposed to the presentation of information about water quality.

4.2

PERFORMANCE REPORTING

- **We reviewed and commented on the drafting and presentation of the 2016/17 performance report for customers in June/ July 2017. We also took account of the comments made by the independent Reporter. As a result, the published report was simpler and with a clearer presentation.**

- **The company could improve its approach in this area by evaluating customer and stakeholder use of the performance information it publishes to ensure it is used by and is regarded as useful to customers, including the monthly online reports of water quality. We recommend the company ensures that all its in-year performance reports for customers are kept up to date.**

Our terms of reference ask us to scrutinise, from a customer perspective, assurance reports Affinity Water receives on its performance against its AMP6 Performance Commitments.

Each year Affinity Water produces an annual report on its business plan performance for Ofwat, and publishes the results for customers. Through the year information on performance is published monthly, and broken down by the 8 water resource zones, or 'communities', that Affinity Water serves.

At our June 2017 meeting, we considered the company's performance out-turn and plans for publishing the information for customers. During June and July members of the CCG worked with the company to review and comment on two drafts of the performance report for customers before it was published.⁵ Substantial improvements were made in response to members' suggestions to simplify the presentation and to make it simpler and clearer for customers to identify where the company had met, or not met, its performance commitments.

The company also provided us with a briefing on the key points in their Year End Reporting Assurance and shared with members a copy of an independent report produced by Atkins which suggested three areas where the company could improve its reporting and data about its performance on leakage, average water use and mains bursts. Ideally the CCG should have been briefed on Atkins' findings at the same time as the performance information was presented. However, on this occasion Atkins' view was that the numbers probably gave a result which was more unfavourable to the company than more accurate figures would have done. As we saw this report before the performance report was published we were able to challenge statements that the data was 100% accurate and the final published report includes an acknowledgement that the information is being improved in some areas.

At the time of finalising this report we have seen the 2017/18 performance results and been able to refer to them where appropriate. We expect to review the associated assurance report in Summer 2018, before the company publishes its report to customers.

⁴ Report presented to CCG meeting December 2017

⁵ <https://stakeholder.affinitywater.co.uk/docs/Affinity-Performance-Report-High-Res-2016-2017.pdf>

4.3

ACHIEVING WATER RESOURCE SAVINGS

- **We challenged the company on whether it is on track to fully achieve the resource savings it has projected in its business plan by 2020. We note that the 2017/18 performance report shows the company has achieved its targets for reducing abstractions, leakage and per capita consumption.**

The Affinity Water business plan states 'with population in our area estimated to grow by 0.7% per annum, our customers' demand for water will exceed the supplies available'.

To ensure that its customers have enough water available the company's business plan commits it to achieving significant savings in water use by reducing leakage by 14%, reducing the amount of water taken from the environment by 42 million litres per day and encouraging customers to use less water, with a target of a 7% reduction in average water use. Achieving all these measures is very important given the general pressure on water resources in the area Affinity Water serves. Customers attach importance to the company reducing leakage, and this issue is frequently mentioned at local customer engagement events, especially the events held in the last year to discuss future long-term plans for water resources.

Because of the importance of this issue to customers and stakeholders the CCG has challenged the company to provide assurance that it will meet its business plan targets relating to water resources. We have looked at a range of issues relating to water resources, including action on leakage and the 'water savings programme' designed to engage customers to use less water.

We have also had regular briefing on the water resources situation throughout the year, and know that the company regularly publishes information about the resources position, particularly to provide any early warning of a drought situation. For example, the home page of the company website includes clear information about the current water resources situation.

We have also reviewed and commented on customer engagement and survey material relating to the future Drought Management Plan (DMP) and the Water Resources Management Plan (WRMP).

We are pleased to note the positive results on the 2017/18 performance relating to leakage and abstractions. We will continue to challenge the company on whether it will fully achieve its projected resource savings by 2020.

Current Business Plan (AMP 6) continued

4.4

CUSTOMER COMMUNICATION ABOUT METER INSTALLATIONS AND SAVING WATER

- **We have reviewed whether the company's engagement with those customers who are being metered is effective, particularly in light of information that a significant proportion of customers who require an internal meter do not respond to the invitation to have a water meter installed.**
- **We are pleased the company has found a technological solution to this problem so that more meters can be installed without the need to gain access to properties.**
- **We understand that the per capita consumption savings from the metering programme are as expected, but the company's per capita consumption remains high. Going forward the company needs to find an approach which results in changes in customer behaviour which is effective and enduring. CCG members have offered to assist the company by reviewing the effectiveness of initiatives the company has piloted in 2017/18, including those with the behaviour change consultancy Hubbub.**

We are concerned that up to 40 % of newly metered customers might be worse off when they move to measured charging, and in some cases the impact on bills will be significant, raising implications for future demand for the assistance the company offers customers who have difficulty paying their bills. We want to keep the incidence effects of the metering programme under review.

The water savings programme is a very significant element of the current business plan and extends into the next business plan. The company goal is to install 280,000 domestic water meters by 2020, encouraging those customers who use the highest amount of water to use less, securing savings from reducing leakage and making lasting improvements to the water environment. Communication and engagement with customers, including stimulating lasting behaviour change, is critical to this programme.

The company has advised us that it achieved its installation targets for year 1 and 2 of the programme, and that it was on track to meet its target for 2017/18 by installing 55,214 in this year. The company has also said it is confident that it is on track to achieve the business plan target for installations by the end of the AMP period in 2019/20.

In 2016/17 the company had highlighted to us a significant problem of 'no access' to properties which require an internal meter as a significant proportion of customers in these properties were not responding to letters and calls. A total of 45,000 properties fell into this category. If not corrected we understood this problem we could account for 22% of all the properties in the metering programme not being metered, and the company would not achieve its 5-year business plan target for installations, and its assumptions on per capita consumption reductions.

We asked the company if this problem required improvement and innovation in its communication approach and set out several challenge questions for the company, which we looked at in September 2017. The company responded and briefed us that they were innovating with technology to help them trace supply pipes so that properties which provided no access/no response could instead be fitted with an external meter. A trial of this found the percentage of installations that need to be internal to the property reduces from 34% to 4%. The company also plans to re-survey all properties where it had not initially been able to gain a response or access to install a meter. It appears therefore that the no contact/response problem has been significantly reduced.

In light of water resource scarcity, including the effect of this on the environment, it is important the company can be confident that installing water meters actually results in lasting behaviour change by customers, particularly as Affinity Water's per capita consumption is high, and some of Affinity Water's customers may not be particularly sensitive to price/cost. We have therefore looked at whether the company's engagement with customers who are being metered makes an impact and secures lasting behaviour change. In September 2017, we were briefed that consumption by metered customers had fallen by only 8%, but this was less than the reduction the company hoped to achieve of 16%. If this pattern persists, and is on scale, it presents some challenges for water resource planning in future. However, the company has briefed us that it has achieved its targets for 2017/18 following a reduction in personal consumption of 18%, on average, for measured customers.

There has clearly been a need for the company to increase the impact of its engagement with and support for customers with water saving. We were impressed by the Home Water Efficiency Checks (HWEC) (assessments) the company offers, which had been taken up by 46.5k customers by end June 2017. These provide the company with a lot of information about occupancy and usage and we have previously challenged the company to assure that – subject to having the relevant customer consent required by law - this information is retained and used by the company to ‘know their customers’.

We have noted the company decision to target its free HWECs on those customers who are or appear likely to be worse off as a result of the installation of a meter, on the basis that water savings which result from fixing leaks are much greater than the savings from customer behaviour change. Information shared with us indicates that whilst 60% of Affinity’s customers can save money by switching to a meter there is a significant proportion of customers, 40%, who will pay more and thus be worse off when they switch to metered charging. In some cases, the amounts are significant. We want to keep this, and the company response to a potential increase in the number of customers in financial difficulty as a result of a switch to metered charges, under review over the next 2-3 years.

The company has clearly increased its initiatives on consumer education about water saving in the past year, running a campaign called ‘Tap Chat’ in partnership with Hubbub, a communications organisation that specialises in behaviour change and nudge style campaigns. We anticipate that this type of consumer engagement activity will need to be a more significant element of the company’s next business plan and it will be important for the company to identify what works for the long term.

Whilst preparing this report the company advised us that it has learnt that customers would like better, faster, access to consumption data and support to make a positive change. This finding is not surprising to those CCG members with knowledge and experience of what works to stimulate customer behaviour change in other sectors. In response to learning and insight we understand the company added a “fast data” project to its dWRMP plans. The project also seeks to build on learning from running a ‘tapchat’ forum, by providing an online community network for customers to exchange water saving views and advice.

This is a key area we expect to look at next year. Several members of the CCG have offered to advise the company on this as the operational plans are developed.

4.5

COMMUNITY FOCUS

- **We can provide assurance that the company has taken action to satisfy the commitment to local community engagement in its current business plan, and that it plans to continue doing this in 2018/19. This activity links to the company’s stated vision to ‘be the UK’s leading community-focused water company’.**
- **However, the company could, and should, do significantly more to fully realise the ambitious ‘community focus’ theme of its current business plan. We are not convinced that the approach is fully integrated into the company’s communications and engagement with customers, or that the river catchment based ‘communities’ that are being used resonate with customers, and stakeholders. Half way through the current business plan the company should have settled on an enduring effective approach to operationalising this.**
- **We are pleased that during the year the Affinity Water Executive have reviewed the approach to this issue and that the Board of Affinity Water has established a committee to oversee the delivery of the community focus commitment.**
- **We have challenged the company to show how the community focussed approach is reflected in its customer engagement for the development of the next business plan (PR19).**

The Affinity Water Limited Business Plan envisages that customers will be able to judge how well the company is meeting their expectations and hold the company to account at a community level. A programme of customer and stakeholder engagement ‘for our eight communities’ is expected to stimulate dialogue on local issues and give opportunities for customers to challenge the company on its performance.

4

Current Business Plan (AMP 6) continued

The company publishes data about its performance every month so that customers and stakeholders can see clearly how things are going in each of the 8 water resource zones or 'community' areas. However, we noted that this information had not always been updated regularly throughout 2017/18, for example, at March 2018 the latest published monthly zonal reports were for December 2017 and the latest company level performance report was for July 2017.

Whilst it is possible to engage with customers using remote channels and web-based information is helpful it is difficult to see how the business plan vision of dialogue with customers who live in particular places in the company's area of supply can be delivered without locally delivered face to face contact. We would expect therefore to see the company taking proactive steps throughout the year to contact customers, and other stakeholders, to inform them about the company's performance in each community and hear their views.

The company has reported to us that during 2017/18 it did have meetings with groups of customers and stakeholder meetings, and conducted other outreach activities in each of the 8 community areas (WRZs). However, the company did not formally invite CCG members to attend and observe these as it had in 2016/17 when a programme of meetings in local areas was held to report on performance and take questions from customers, and stakeholders. Members were invited to attend stakeholder consultation events about the future business and water resources plans in Spring 2018.

At our December 2017 meeting, we discussed a report from the Affinity Water team with recommendations for its 2018/19 approach and programme of local engagement based on learning and experience from the activities in 2017. A key proposal, which we supported, was for the company to change its approach so as to work closely with local partner organisations instead of trying to attract customers and stakeholders to Affinity Water specific briefing events at a local level. At our March 2018 meeting, we received a further report and proposals for activities in 2018/19 which indicated that by adopting this new approach to local engagement events the company had been able to meet face to face many more customers and stakeholders than in the past.

We have consistently challenged the company to show how the community focussed approach is reflected in its customer engagement for the development of the next business plan (PR19). Our report in September 2018 will comment on this.

4.6

SUPPORT FOR CUSTOMERS WHO ARE VULNERABLE OR FIND IT DIFFICULT TO PAY THEIR BILLS

- **We can provide a high level of assurance that the social tariff is in place and has continued to have high and seemingly manageable take up within 2017/18.**
- **Through our work to review the company's proposed performance commitments for the next Business Plan (PR19) we have reviewed and challenged how the company intends to move forward to further develop its support for customers who are vulnerable in some way or have difficulty paying their bills from 2020-25 onwards. Our assessment of these plans, and how well the company has engaged with customers and stakeholders to prepare them will be given to Ofwat in September 2018.**

Amongst the water companies in England and Wales Affinity Water's social tariff scheme has the highest coverage with 367 customers in every 10,000 customers registered to receive the social tariff. With the support of its customers up to 46,000 customers could receive a significant reduction in their water bill if they meet the eligibility requirements of the scheme. The company has reported to us this year that the number of customers receiving the social tariff assistance has now risen to more than 49,000.

In our 2016/17 annual report we said that we wanted to review the outcome and effectiveness of the company's Customer Vulnerability Plan, and for that review to inform the consideration of these issues in the next business plan (PR19). We highlighted that demand for the scheme might increase and we wanted the opportunity to help the company to review the scheme, particularly if it needed to change or ration the scheme in any way, for example revising the eligibility criteria downwards, or deciding how it handles refusing new applications from customers who may be more in need financially than customers already receiving help from this scheme.

At our September 2017 meeting, we decided to incorporate this review within the brief for a Working Group to look at how the company proposes to address the issues of Affordability and Vulnerability in its next Business Plan. This work was ongoing at the end of March 2018 and our findings will be reflected in our September 2018 report to Ofwat. We can provide a high level of assurance that the social tariff is in place and all the financial assistance the company is able to provide is fully taken up by customers.

4.7

CUSTOMER COMMUNICATION EFFECTIVENESS

- **We asked the company to evaluate whether the changes it had made to the format of bills – from April 2017 - had been effective and reduced billing complaints and avoidable customer contact; assisted and motivated customers to save water, energy and money and encouraged customers to sign up to direct debit payments. The company has briefed us that billing queries have reduced significantly between 2016/17 and 2017/18 which is a positive sign. We recommend a fuller and wider review and evaluation of whether the other goals of these changes have been realised.**
- **CCG members provided challenge and comment on the development of the 2018-19 billing leaflet with the aim of simplifying the text and presentation. The company scheduled this activity in late Autumn 2017 before the publication was finalised, making it a more meaningful exercise for the CCG members than in previous years. We recommend the company evaluates whether and how customers use this leaflet, whether the changes have improved its impact and what more change is needed.**

The CCG is asked to review and give comments on customer communication materials. Sometimes this is done between/ outside of meetings, and sometimes individual members of the group are involved in providing comments and feedback. This year we have not been asked to review any items other than the performance report, the billing leaflet and customer and stakeholder documents relating to PR19.

Since 2013 the company has been seeking to introduce a new format for customer bills, with the objectives of reducing billing complaints and avoidable customer contact; assisting and motivating customers to save water, energy and money and encouraging customers to sign up to paying by direct debit. The bill is the communication that goes to the largest number of customers and covers the primary elements of the company's relationship with customers. So, it is an important communication which needs to work well for customers and the company. However, we were advised that the new bill format was only being introduced for measured bills from April 2017 and not for unmeasured bills. Nevertheless, it is important the company evaluates if the new format is delivering the expected benefits.

We were asked to assist the company to revise the leaflet that accompanies its bills and it was good that this was done in Autumn 2017 well in advance of the next charging year, 2018/19. Several members provided detailed comments and suggestions for the format and presentation of information in this leaflet which, like the bill, is an important piece of communication that is available to every household. We look forward to hearing if the changes being made will have improved the impact of this communication.

4

Current Business Plan (AMP 6) continued

4.8

VALUE FOR MONEY SURVEY

- **We can provide assurance that the value for money survey is undertaken by the company. However, we have not seen evidence to show that the survey is used by the company as originally intended to help it make decisions about improving delivery and service to customers.**
- **We have challenged the company to show how it was using the insight from this survey to develop its PR19 business plan. We are satisfied that the company has referred to the evidence from this survey, although at a relatively late stage in the development of their evidence base.**

Affinity Water's business plan includes a specific performance commitment to develop a value for money survey.⁶ Delivering this will demonstrate achievement of the Business Plan Outcome of 'Providing a value for money service'. It was envisaged that the CCG would 'Contribute to the development of a methodology to quantify customer acceptability that can be applied to the findings of an annual Value for Money survey' This was written into the terms of reference for the then Customer Scrutiny Group (CSG) in 2014, and it continues in the brief of the CCG. The Group has actively sought to fulfil this aspect of our terms of reference since 2015.

The Value for Money survey was launched in 2014. It uses a very significant representative rolling sample interviewing around 400 customers a month at inception, with a sample that is representative of all the 8 communities the company serves. The responses are used to generate an overall result – a 'Value for Money Index' – based on customer responses to a range of questions.

As we reported last year we scrutinised the methodology in Summer 2016 after the survey had been running for more than a year. We suggested improvements that could be made and challenged the company to demonstrate how this potentially very powerful dataset was used and useful. In March 2017, the company consulted us about changes being made to the methodology designed to make the survey more useable by the business, committing to further reviews of the usefulness of the survey in 2017/18.

The company has not shared any detailed results of the VFM survey with us within 2017/18. The company has shared the overall result for 2017/18 and this shows decline in the index score compared to the previous two years. We recommend the company seeks to understand the reasons for this and shares its view with us.

We have challenged the company on whether and how it has used the insight from the value for money survey as part of its evidence base for its PR19 Business Plan, where it needs to demonstrate that it has developed a genuine understanding of its customers' priorities, needs and requirements. We are satisfied that the company has referred to the evidence from this survey, although at a relatively late stage in the development of their evidence base. We will comment further on this in our September 2018 report to Ofwat.

We understand that Ofwat's proposals for a standard suite of outcome measures for PR19, include the introduction of a new method for measuring customer service by water companies in England and Wales called 'CMEX'. As the results of this new measure will be linked to the financial rewards the company can achieve it is highly likely CMEX will make Affinity's Value for Money survey effectively redundant. The CMEX measure can be expected to receive far more attention from management of the business as results are linked to financial rewards whereas the company's current value for money survey is a reputational commitment. We would however encourage the company to ensure that it has an appropriate suite of tools to give it feedback and insight from customers going beyond the scope of CMEX if necessary.

4.9

SOUNDING BOARD FOR NEW POLICIES AND PLANS

We have acted as a sounding board on the following other issues during this year.

ASSURANCE PLAN

In October/November 2017 the Chair was asked to review the Company's Assurance Plan and the proposed consultation with stakeholders about it that was required by Ofwat. She was asked where the company's strengths and weaknesses lie in relation to information provided to stakeholders and which, if any, areas the company should be targeting to improve on. She was also asked for thoughts on how the strengths and weaknesses statement, and subsequent assurance plan could be improved. Comments were given through meeting with the company and comments were given on the consultation document and the assurance plan. The resulting consultation document was clearer, and the role of the CCG has been added to the company's assurance plan.

We note that in its November 2017 report on the company's assurance arrangements Ofwat commented 'The Customer Challenge Group's report provides customers and other stakeholders with a clear, independent opinion on the company's progress in delivering its performance commitments.'⁷

⁶ Page 202 of the Business Plan says 'We plan to undertake periodic surveys with our customers and to gain feedback on the extent to which we are delivering value for money. These activities will include gaining feedback on transactions undertaken, including any suggestions for improvements'.

⁷ <https://www.ofwat.gov.uk/wp-content/uploads/2017/11/Company-monitoring-framework-2017-assessment-Affinity-Water.pdf>

PR19 – Future Business Plan

This section of the report summarises the key PR19 activities the CCG has been involved with in 2017/18.

- The company has progressed its PR19 customer engagement programme in 2017/18 by engaging a specialist contractor; developing a detailed plan for a phased approach, conducting the first two phases (Phase 0 and Phase 1) and preparing for the third phase (Phase 2). The CCG has been invited to review and challenge at the start and end of each Phase and to review a range of draft questions, engagement material and survey findings, including on the WRMP, the DMP and a Strategic Direction Statement (SDS).
- The CCG is concerned that the delivery of the customer engagement programme became significantly delayed within the period September 2017 to March 2018 compared to plans presented in Autumn 2017. The consequent compression of timescales leads us to question whether the company will be able to demonstrate to us that customers' views have genuinely driven key decisions on the plan.
- In March 2018, we provided the Affinity Water Board with a provisional assessment of the customer engagement programme, although the most substantive results had not been received at that time. We highlighted five areas where we were not confident at that time that the company was fully addressing the issue, and we needed to see more evidence and/or the company needed to take corrective action to address our concerns in full.

PR19 is the process whereby Affinity Water's economic regulator, Ofwat, sets limits on the amount by which Affinity Water can increase its prices to customers over a five-year period. In 2019 Ofwat will decide price limits for the period starting April 2020. The company must submit its business plan for the period 2020 – 2025 to Ofwat on 3 September 2018.

At the same time, the CCG must provide a report giving independent assurance to Ofwat on the quality of the customer engagement the company has carried out to prepare that plan, and the extent to which customer views and priorities are reflected in the business plan. Ofwat envisages that CCG's will provide challenge to companies throughout the process by which they develop business plans. This is, broadly, the same as a process that was adopted at the last price review in 2013/14 and found to be successful.

Our work on PR19 started in 2016 with preparatory work by us and the company to establish appropriate governance, protocols and support arrangements, initial briefing and training for members, forward plan of meetings and topics for us to consider and establishing a link with the Affinity Water Board. The Chair has attended quarterly meetings with Ofwat to which all 18 CCG Chairs across England and Wales are invited, and the CCG has been invited to attend several Ofwat led events on customer engagement and innovation. In March 2017, we had also reviewed an outline of the company's plan for customer engagement.

The CCG has considered the company's approach to customer engagement at each of its meetings in the past year, and through a variety of other specific meetings and correspondence.

In the past year our work on PR19 has included the following activities:

- Review of a report on 'learning from PR14' produced by consultants (Create 51) - Spring 2017;
- Review of the brief for Affinity Water's customer engagement programme contractors- Spring 2017;
- Affinity Water pre-strategic direction statement launch/research - review of topic guides for discussion groups with customers on bills-affordability and water resources – June 2017;
- Meeting with the company's customer engagement programme contractors (Ipsos Mori and Arup) at the start of the programme – July 2017;

- Reviewed proposed customer and stakeholder consultation/engagement letters, leaflets and questions on Drought Management Plan (DMP), pre-Water Resources Management Plan (WRMP) and Strategic Direction Statement (SDS) - Summer 2017;
- Agreed to work with the company on developing bespoke performance commitments via two working groups on a) vulnerability and affordability and b) resilience and environment – Autumn 2017;
- Reviewed and challenged proposals for business plan Outcomes at two sessions with the company – Autumn 2017;
- Discussing the company’s decisions in relation to willingness to pay research – December 2017;
- Took part in 2 ‘Triangulation’ sessions with the company and their customer engagement contractors looking at the outputs from Phase 0 – [September 2017] and review findings from Phase 1 customer insight ‘listening and learning’ and proposals for Phase 2 engagement on proposed performance commitments – January 2018;
- Reviewed plan for customer and stakeholder engagement on the WRMP – December 2017, January and March 2018;
- Reviewed progress on development of bespoke performance commitments - December 2018 and March 2018;
- Reviewed analysis of the company’s operational data informing the business plan – March 2018; and
- Reviewed the company’s developing high level narrative and strategy for proposed bills – March 2018.

During the year there have been many PR19 related documents circulated to CCG members for review and comment between and at CCG meetings and ‘triangulation’ sessions. The range of items included drafts of survey questions – including for Spring 2017 focus group discussions relating to a proposed revision to the Strategic Direction Statement - stimulus material and some findings and results, for example with customers on support for the social tariff in future and drafts of summary documents and stimulus material relating to the WRMP and the business plan consultations that were launched in Spring 2018. A full account of all the items we have reviewed will be available with our report to Ofwat on PR19 in September 2018.

The actual work the CCG has been able to do on PR19 in the past year has been highly contingent on the company taking steps to prepare its future business plan and undertaking related customer and stakeholder engagement activities.

In our 2016/17 annual report the CCG challenged the company on its capacity to put the customer engagement plan for PR19 into place. We asked for a clear timetable which would assure us that all involved would be able to deliver into the process on time and in an orderly fashion. The company addressed those challenges with the engagement of external contractors (Ipsos Mori and Arup) to design and deliver market research and analysis, and production of a plan for a phased approach to building the plan, engaging with customers and engaging with the CCG in each of those phases. We met with the appointed contractors in July 2017 and a detailed programme was presented to us in September 2017 and the company responded to questions from the CCG about it.

The CCG appreciates that any such plans are ‘living’ and dynamic documents. We accept the need to be flexible as the project progresses. However, significant slippage in a tight programme limits the opportunity for the company to fully and properly reflect on insight from customers, limiting too the tangible evidence that customer insight has driven the development of the plan. There is a big difference between genuinely developing plan starting with customer insight and producing a plan to simply find out if customers think it is acceptable or not. Ofwat is expecting companies to do both, and for us to give an opinion on how well this has been done.

PR19 – Future Business Plan continued

In November 2017, the Chair attended the Affinity Board Regulatory Working Group. She reported on the CCG's role and activities to date on PR19 and highlighted two key concerns about the PR19 business plan project; slippage and the risk and impact of slippage in the company's customer engagement plan and the need for clarity about the direction and ambition, and therefore the substantive proposition that would be tested with customers and stakeholders. Without clarity about the company's intended goals and propositions for performance and delivery improvements in any area, and what the materiality and implications might be for bills, and whether customers are driving that ambition, it was very difficult for the CCG to judge whether the planned customer engagement activities were appropriate and proportionate.

Regrettably we saw significant slippage in the customer engagement programme between September 2017 and the end of March 2018. For example, in September 2017 the company said that by March 2018 it would be presenting the results from testing its proposed performance commitments, performance commitment levels and associated ODIs with customers. The testing was due to take place (with customers) in January and February 2018. That testing had not commenced by the end of March 2018. Within 7 months of its September 2017 plan at least 2 months slippage had built up in the customer engagement programme.

The company has explained that the slippage primarily resulted from ongoing engagement with stakeholders around the development of the company's draft Water Resources Management Plan. The intended draft consultation was delayed impacting not only the Water Resources Management Plan but the development of the draft Business Plan. While the company sought to mitigate this slippage by bringing forward some engagement activities to run in parallel it has undoubtedly limited the time for the company and CCG to reflect on the implications of the engagement activities.

Members of the CCG have also felt that insufficient time has been made available by the company for comment and challenge on the detail of survey questions before they are put to customers.

In March 2018, the CCG agreed the framework we will use to assess the company's customer engagement, taking into account briefing provided by Ofwat to all CCG's about their expectations of us.⁸ Our assessment framework considers 19 different aspects and can be found in Appendix D to this report.

Also, in March 2018 we conducted a provisional assessment – although we had yet to see the results of substantive customer research on the draft business plan and draft WRMP. We briefed the Affinity Water Board on our views at a strategy meeting, also in March 2018 which the CCG Chair attended.

At March 2018 we considered that for most of the issues we are assessing it was possible, and in some cases highly probable, that the company would fully meet our, and Ofwat's expectations although a complete, finished presentation of all the evidence was not yet available, and it was clear that more work was needed on some significant issues.

We identified five issues where we were not confident in March 2018 that the company was fully addressing the issue, and we needed to see more evidence, and/or the company needed to take corrective action to address our concerns. The issues we highlighted as of most concern were whether:

- **evidence and insight obtained from customers has genuinely driven and informed the development of the business plan?**
- **the company has engaged effectively with customers on future and long-term issues, including trade-offs and risks, in a way customers could be expected to understand?**
- **the company has effectively informed and engaged customers about its current performance and how this compares with other companies in a way customers could be expected to understand?**
- **the company has approached the development of performance commitment levels and ODIs appropriately, including if there has been effective customer engagement, whether the proposed performance commitment levels are sufficiently stretching and whether customers support the proposed costs and rewards (ODIs).**
- **the company's assessment of resilience has been informed by engagement with customers so as to understand their expectations on levels of service, their appetite for risk and how customer behaviour might influence resilience**

By providing a provisional assessment in March 2018 we intended to help the company to identify changes it needed to make to its customer engagement programme in the remaining months of its plan preparation.

6

Looking ahead - the CCG's 2018/19 work programme

The work of the CCG in 2018/19 will be predominantly concerned with reviewing the customer engagement underpinning the Business Plan the company will submit to Ofwat on 3 September. Our report and assessment also need to be submitted on that day.

We therefore expect that before 3 September 2018 all/any meetings of the Group will be predominantly focussed on our PR19 task. Meetings are scheduled in June and July for this purpose.

In addition to reviewing the company's Business Plan we wish to look at the company's statement of response to representations on its dWRMP and to seek assurance that anything that is being changed in that plan which impacts on the business plan has been tested with customers, and that if it requires changes to the business plan the revisions are included in any further acceptability testing. We appreciate the challenges this represents because at the end of March 2018 customer and stakeholder engagement on both plans was being undertaken in parallel rather than in sequence.

Beyond September 2018 there are a number of issues we want to look at relating to current performance and delivery for customers.

Based on the 2017/18 performance report to be published in July 2018 it is clear the company did not meet its performance commitments to notify customers of planned interruptions and to restore supplies quickly (within 12 hrs) in the event of unplanned interruptions. We wish to have assurance that the company has taken action to improve in these areas.

On the assumption that the company starts to develop its implementation plans for the future we would expect to engage with them on the further development and operationalisation of

- **the community strategy;**
- **the strategy for developing services for customers who are vulnerable or who have difficulty affording their bills;**
- **plans to work with customers to secure significant changes in behaviour and personal consumption of water.**

⁸ <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

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Appendix A

CCG Terms of Reference – July 2016 (extract) – Role of the CCG

To provide independent challenge and assessment of Affinity Water’s customer engagement and progress to deliver its business plan (AMP6), and provide independent challenge to the company and independent assurance to Ofwat on the quality of the company’s customer engagement for PR19; and the degree to which this is reflected in its business plan.

FOR AMP 6 – CURRENT BUSINESS PLAN

The CCG will:

- **Review** the completeness and representativeness of Affinity Water’s ongoing customer engagement activity, the materiality of the issues raised, and how well the evidence has been used
- **Comment on and challenge** the appropriateness of content and language of relevant customer communication and engagement material, across the range of media channels used
- **Scrutinise**, from a customer perspective, assurance reports Affinity Water receives on its performance against its AMP6 Performance Commitments
- **Contribute** to the development of a methodology to quantify customer acceptability that can be applied to the findings of an annual Value for Money survey
- Act as a **sounding board** for new policies and plans, especially in relation to improving longer-term resilience outcomes for our customers and communities.

Specific points the group is asked to address in its challenges of the company are in paragraph 4.5 of the terms of reference.

FOR PR19 – FUTURE BUSINESS PLAN

The **CCG** will assess the quality of the company’s customer engagement, and the degree to which this is reflected in its draft business plan. It will focus on:

- **Quality of insight:** whether Affinity Water has developed a genuine understanding of its customers’ priorities, needs and requirements
- **Quality of propositions:** whether Affinity Water has engaged with customers on the issues that matter to them; whether evidence and insight obtained from customers has informed the plan; has Affinity Water presented customers with realistic options
- **Quality of engagement process:** whether the quality of customer engagement has been on-going, two way and transparent
- **Diversity and reach:** whether the customer engagement has been sufficiently diverse, involving the use of methods appropriate and effective for engaging with a diverse range of customers
- **Future customers’ interests:** whether the company has engaged customers effectively and appropriately on future and long term issues, including trade-offs and risks
- **Current performance:** whether the company has effectively informed and engaged customers about its current performance and how this compares with other companies.

Appendix B

CCG meetings and substantive agenda items April 2017 – March 2018

CCG meetings and substantive agenda items April 2017 - March 2018

Date	Substantive items covered	Date	Substantive items covered
14 June 2017	<p>CCG Quarterly Meeting</p> <p>Company report (covering incidents, business performance, change of ownership)</p> <p>Drought management</p> <p>AMP6 2016/17 performance report</p> <p>Handling service disruptions</p> <p>Leakage and water savings programme</p> <p>PR 19 customer engagement tender process Protocol</p>	6 October 2018	<p>Vulnerability and Affordability Working Group</p> <p>Review of current feedback (including from PR14)</p> <p>Ofwat Expectations for PR19</p> <p>AW's inclusive customer programme</p> <p>Bespoke Commitments – criteria and proposals</p>
20 July 2017	<p>Meeting with Affinity Water's customer engagement contractors</p>	10 October 2017	<p>Resilience and Environment Working Group</p> <p>Review of current feedback (including from PR14)</p> <p>Ofwat Expectations for PR19</p> <p>Review of existing commitments</p> <p>Proposal for bespoke commitments & how to engage</p>
5 September 2017	<p>Phase 0 Triangulation</p> <p>Overview of Phase 0 activities</p> <p>Review & Challenge Phase 0 conclusions and recommendations</p> <p>Review & Challenge Phase 1 programme</p>	17 November 2017	<p>Vulnerability and Affordability Working Group</p> <p>Updates on work with other organisations</p> <p>Ofwat metrics</p> <p>Proposal and development of bespoke commitments</p>
13 September 2017	<p>CCG Quarterly Meeting</p> <p>Company report (covering incidents, keep track of the tap campaign, IT outages, community vision and board changes)</p> <p>Water saving programme</p> <p>Billing inserts</p> <p>Customer experience improvement programme</p> <p>PR19 proposals for Outcomes</p> <p>PR19 performance commitments working groups</p> <p>Water quality briefing</p> <p>PR19 CCG report outline structure</p>	22 November 2017	<p>Resilience and Environment Working Group</p> <p>Current metrics</p> <p>Gap analysis – mandated and PR14 commitments</p> <p>Discussion and Proposals for bespoke commitments</p>

Appendix B

CCG meetings and substantive agenda items April 2017 – March 2018 continued

CCG meetings and substantive agenda items April 2017 - March 2018

Date	Substantive items covered	Date	Substantive items covered
13 December 2017	<p>CCG Quarterly Meeting</p> <p>Company report (covering IT, web offer 'my account', keep track of the tap campaign, community vision, customer charter)</p> <p>Drinking Water Inspectorate presentation on Affinity's water quality and expectations for PR19</p> <p>Community engagement 2017 – review</p> <p>Ofwat expectations for performance commitment targets</p> <p>Company proposals for customer 'engagement' on Output Delivery Incentives</p> <p>Update on development of bespoke performance commitments for PR19</p> <p>draft of WRMP non-technical summary and survey questions</p>	19 March 2018	<p>CCG Quarterly Meeting</p> <p>Company report (covering CEO appointment, freeze/thaw incident; drought planning; community strategy development; Alexa roll out; media sentiment)</p> <p>Community engagement plans for 2018/19</p> <p>PR19 – customer insight</p> <p>PR19 – business plan strategy, options and performance commitment framework</p> <p>WRMP consultation/customer engagement method</p> <p>Business plan consultation/customer engagement method</p> <p>CCG PR19 assessment framework</p> <p>CCG draft Annual report 2018/19</p> <p>Forward meeting schedule/agenda planning 2018/19</p>
11 January 2018	<p>Phase 1 Triangulation session</p> <p>Summary of findings</p> <p>Proposal for Phase 2 programme of engagement</p> <p>Phase 2 draft dWRMP survey questions</p> <p>Schedule of Engagement</p>		

Appendix C

Meetings and events attended by the Chair and CCG members April 2017 to March 2018

SUBSTANTIVE MEETINGS ATTENDED BY CCG CHAIR AND MEMBERS APRIL 2017 TO MARCH 2018

Date	Event
16 March 2017	CCWater regional event on the introduction of competition for business customers
28 March 2017	All Party Parliamentary Group (APPG) on Water @ House of Commons
12 April 2017	CCG Chairs/Ofwat quarterly meeting
26 April 2017	Meeting with Philip Nolan, Chair, Affinity Water Limited Board
27 April 2017	Chair attended Affinity Water Limited Board to present the CCG Annual Report and discuss
16 May 2017	Affinity Water Customer Excellence day
23 May 2017	Chair spoke at Utility Week Live exhibition/event in Birmingham. On the role of the CCG in driving customer service improvement
26 June 2017	Meeting to review the draft customer engagement materials and approach on the draft drought management plan
27 June 2017	All Party Parliamentary Group on Water – Chair spoke at this meeting of the Group about the issue of affordability
13 July 2017	CCWater workshop on triangulation of customer insight data
20 July 2017	Meeting with Affinity Water's customer engagement contractors
9 August	CCG Chairs' group meeting with Ofwat
11 September	Phase 0 Triangulation Session
19 September	CCWater Customer Matters seminar/workshop in London
22 September	draft Drought Management Plan Environmental Stakeholder Forum, AW Hatfield
3 October 2017	All Party Parliamentary Group on Water conference fringe meeting, Manchester
6 October 2017	CCG Vulnerability/Affordability working group meeting
9 October 2017	Teleconference on Affinity Water's approach to the billing leaflet/insert to go with customers bills
10 October 2017	CCWater board meeting in public Resilience and Environment working group meeting
31 October 2017	UK Regulators Network seminar on 'Big Data'

Appendix C

Meetings and events attended by the Chair and CCG members April 2017 to March 2018 continued

Date	Event
8 November 2017	CCG Chairs and Ofwat meeting
9 November 2017	Meeting regarding the Affinity Water Assurance plan strengths/weaknesses/risks consultation
17 November 2017	CCG Vulnerability/Affordability Working Group meeting
22 November 2017	Resilience and Environment Working Group meeting
29 November 2017	Affinity Water Regulatory Working Group
11 January 2018	Phase 1 Triangulation session Members
17 January 2018	Utility Week Customer Conference
31 January 2018	Water Resources South East briefing
27 February 2018	APPG Water at House of Commons
28 February 2018	Sustainability First conference on 'Looking to the long-term: hearing the public interest voice in energy and water' was published at the conference
6 March 2018	Ofwat and Affinity Water to brief Ofwat on the approach to customer engagement for PR19.
12 March 2018	Essential Services Network (ESAN) conference – 'What would really help consumers of essential services?'
14 March 2018	Affinity Water Customer Excellence Day

Appendix D

PR19 Assessment Framework Document

AFFINITY WATER CCG - FRAMEWORK FOR ASSESSMENT OF AFFINITY WATER CUSTOMER ENGAGEMENT - MARCH 2018

Customer engagement test issue/area

1. Has Affinity developed a genuine understanding of its customers' priorities, needs and requirements drawing on a robust, balanced and proportionate evidence base?
 2. Has Affinity engaged with customers on the issues that matter to them?
 3. Has evidence and insight obtained from customers genuinely driven and informed the development of the business plan?
 4. Triangulation – has the company used multiple data sources and triangulated those effectively to develop its proposals, and carry out customer engagement.
 5. Has the company presented its customers with realistic options?
 6. Has the customer engagement process been ongoing two way and transparent with the company informing customers as well as soliciting feedback from them?
 7. Has the engagement with customers been sufficiently diverse, involving the using of methods appropriate and effective for engaging with a diverse range of customers. Does this include customers in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?
 8. Has the company engaged effectively with customers on future and long-term issues, including trade-offs and risks, in a way customers could be expected to understand?
 9. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges? [This no longer seems to be in the Ofwat Aide Memoire]
 10. Has the company effectively informed and engaged customers about its current performance and how this compares with other companies in a way customers could be expected to understand?
 11. Is the proposed plan affordable for current customers, future customers and those struggling or at risk of struggling to pay? How well does the company understand what affordability looks like for its customers, and do customers support the approach they have taken?
 12. Vulnerability - bespoke performance commitment on addressing vulnerability – CCG view on the quality of planned support for customers in vulnerable circumstances, taking into account Ofwats's February 2016 Vulnerability Focus report. Is the company's approach to vulnerability targeted, efficient and effective?
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Appendix D

PR19 Assessment Framework Document continued

AFFINITY WATER CCG - FRAMEWORK FOR ASSESSMENT OF AFFINITY WATER CUSTOMER ENGAGEMENT - MARCH 2018

Customer engagement test issue/area

13. Performance commitment levels – CCG view on how the company has approached this, including whether there has been customer engagement and whether the proposed levels are sufficiently stretching. (See also Q14 below which sets out the issues we will consider in relation to each of the [18] proposed performance commitments, and the related ODIs).

14. Comment on each proposed outcome, performance commitment – both common and bespoke - and outcome delivery incentive in terms of customer engagement and support

Currently Affinity has [x] outcomes, 18 potential performance commitments and [x] outcome delivery incentive proposals

The CCG will need to challenge the company and comment on each one of these proposals. For each proposal Ofwat wants us to consider:

- whether there is evidence of customer support for the proposal in terms of the level of service – ie do they want it;
- whether there is customer support for meeting the costs (including rewards) of achieving it – ie are they willing to pay for it and
- whether it is affordable for customers – ie are they able to pay for it;
- whether what is proposed is sufficiently challenging/stretching;
- whether there has been effective engagement with customers, including whether the proposed measures are easy for customers to understand;
- whether the proposed performance commitment protects current and future customers; and
- in relation to ODIs whether the proposed outperformance and underperformance payment rates reflect customer preferences

The questions also apply to any scheme specific PCs if these are proposed.

Ofwat assumes any ODIs are 'paid' (charged to customers) within the price control period and has asked companies to justify with evidence, presumably from customers' views, if they do not propose to take this approach. Similarly, research is required to support proposals for reputational ODIs. If the company has proposals of these types the CCG is expected to consider and comment.

AFFINITY WATER CCG - FRAMEWORK FOR ASSESSMENT OF AFFINITY WATER CUSTOMER ENGAGEMENT - MARCH 2018

Customer engagement test issue/area

15. AIM: has Affinity engaged with local stakeholders to propose its AIM incentives? Has it identified suitable sites in liaison with the Environment Agency? (Aim is also a PC see Q14 above)
 16. Leakage: has Affinity taken customer views into account in its proposed five-year PC levels? (see also Q14 above)
 17. Transparency: are company plans for reporting on performance 2020 – 25 suitable
 18. Resilience: has the company's assessment of resilience been informed by engagement with customers so as to understand their expectations on levels of service, their appetite for risk and how customer behaviour might influence resilience
 19. Cost efficiency: if there are cost adjustment claims (?) is there evidence that customers support the project? Does the proposal deliver outcomes that reflect customers' priorities identified from customer engagement? Has the company taken account of customers' views and is there evidence that the proposed solution represents best value for customers in the long term, including evidence from customer engagement? [query with Ofwat on whether the CCG is expected to evaluate the costs]
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