



Affinity Water Customer Challenge Group Annual Report

January 2016 - March 2017

Contents

1	Introduction	1	5	Getting ready for PR19 – Future Business Plan	13
2	Key messages and assessments	2	6	Other issues	14
3	CCG’s role, membership, governance and transparency	4	7	Looking ahead – The CCG’s 2017/18 work programme	15
3.1	Purpose of the CCG	4			
3.2	Membership of the CCG (and the CSG)	4			
3.3	Governance and Transparency Issues	5			
4	Current Business Plan (AMP 6)	6			
4.1	Delivery of AMP6 Performance Commitments	6			
4.2	Water Saving Programme – Resource Savings	7			
4.3	Water Saving Programme – Communications	8			
4.4	Lift (Social Tariff) and Support for Vulnerable Customers	9			
4.5	Customer Engagement Activity	9			
4.6	Community Engagement Events	10			
4.7	Customer Communication Effectiveness	11			
4.8	Performance Reports	11			
4.9	Value for Money Survey	12			
4.10	Sounding Board for New Policies and Plans	12			
				Appendix	16
			A	CCG Terms of Reference – July 2016 (extract) – Role of the CCG	16
			B	CCG meetings and substantive agenda items January 2016 – March 2017	17
			C	Meetings and events attended by the Chair and CCG members January 2016 – March 2017	18

1

Introduction

I am pleased to introduce this report which covers the work of the Affinity Water Customer Challenge Group (CCG) and its forerunner, the Customer Scrutiny Group (CSG), from January 2016 to the end of March 2017.

The CCG provides independent:

- **challenge and assessment of Affinity Water's customer engagement and progress to deliver its business plan (AMP6); and**
- **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.**

The CCG does this through quarterly meetings and engagement with the company throughout the year. This report provides an account of all the issues the group has looked at in the past 15 months. The issues span the delivery of Affinity Water's current business plan (AMP6) and looking ahead to the next business plan and the PR19 process. Our agendas have covered actions being taken to improve customer service, the Water Saving Programme, communications with customers, local community engagement, the Value for Money Survey and the plans for engaging with customers in the run up to producing the next business plan in 2018 as part of the PR19 process. I would like to thank the company for its openness towards the CCG and for providing us with quarterly briefing and presentations and sharing its thinking on how it intends to improve customer service. The Chief Executive, Directors and other senior staff have regularly attended our meetings.

Section 2 brings together our key messages and assessments 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 strong 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 which we hope to discuss further with them in the year ahead.

The last section of this report looks forward to the work the CCG expects to be doing in 2017/18. The work on the next business plan (PR19) will ramp up through 2017, and there are a range of issues related to current business plan delivery that we would like to review in 2017.

Finally, I would like to thank Robin Dahlberg, who was Chair of the group until Summer 2016, all the members who have served on the group in the past year, and those new members who have kindly agreed to join us. 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 – the grit in the oyster. As the activity to prepare the company's next business plan builds during 2017, I and my fellow CCG members very much look forward to working with the company to help it deliver for its customers.



Teresa Perchard

Chair
Affinity Water Customer Challenge Group

Key messages and assessments

Customer Service / SIM / Customer Experience Improvement

- We can provide a high level of assurance to the board that the company has been actively using customer feedback and customer insight as part of action to improve the customer experience and reduce complaint volumes. It has also kept the CCG well briefed throughout the last year, with good opportunities for the CCG to challenge and advise if appropriate. We will be reviewing the 2016/17 performance report in June 2017.



Water Saving Programme – Achievement of Resource Savings

- We have been briefed on the different elements of the Water Saving Programme, but are not sure yet whether the company is on track to fully achieve the resource savings it has projected in the business plan by 2020. This is important for customers and we would like to review this area in more depth in 2017/18.



Water Saving Programme - Effectiveness of Communications

- The CCG is better informed about the Water Saving Programme communication activity than it was in 2015. However, we would like to further review this area in 2017/18 so that we can advise whether the company's approach to customer communications is effective in helping to secure the number of meter installations required by the business plan through to 2020
- Given the prominence of water resource scarcity, including the effect of this on the environment, we expect the company will want to ensure that installing water meters results in lasting behaviour change by customers, particularly where per capita consumption is very high and some customers may not be particularly sensitive to price/cost. We would therefore like to look at whether the company's engagement with those customers who are being metered makes an impact, and secures lasting behaviour change.



Customer Vulnerability

- We can provide a high level of assurance that the social tariff is in place and has had high and seemingly manageable take up within 2016/17
- In 2017/18 we would like 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).



Customer Engagement (Local Events)

- We can provide a high level of 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 2017. This activity links to the company's stated vision to 'be the UK's leading community-focused water company'
- The company needs to do more to bring the 'community focus' theme of its current business plan to life. Members 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. In 2017/18 we want to hear more from the company about how the community-focus will be further realised and delivered. We expect to challenge the company on whether it will take a community focussed approach to the customer engagement programme to support the development of the next business plan (PR19).



Customer Communication Effectiveness

- The CCG has noted developments in the company's project to improve the format of its bills, which started in 2013. Although changes to the bill format were only rolled out for metered customers in April 2017 we would like the company to evaluate whether the changes have 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.



Value for Money Survey

- We can provide assurance that the Value for Money Survey is being undertaken by the company. It uses a very significant representative sample and has frequent sampling points. Whilst the overall result (a VFM index) was higher in Q3 2016/17 than in 2014 customer perceptions on specific factors such as communication, affordability, trustworthiness and overall satisfaction have all fallen since 2014. We have challenged the company on whether the survey is used and useful, and what difference has it made. We will be asking the company how the insight from this survey will be used in relation to the PR19 business plan.



Readiness for PR19 Customer Engagement Programme

- The company presented its plan for producing the next business plan, including outline proposals for customer engagement, at our March 2017 meeting. This was based on a review of 'what worked' at PR14 and was clearly informed by awareness of Ofwat's requirements and the role of the CCG in the process. We have also been briefed on the governance arrangements the company has put in place and the CCG is clearly shown in these arrangements and is operationally independent
- However, the CCG is concerned about an overly complex approach with risks of slippage and compression in the timetable. We have challenged the company to simplify the outline proposals for customer engagement. The full design and delivery of the customer engagement element also remains dependent on the appointment of a contractor to take responsibility for managing, as well as further designing and delivering, this strand of activity. The company appears to lack the in-house skills to direct and manage the customer engagement strand of the business planning process. Whilst an approach to the PR19 customer engagement has been outlined by the company, a definite plan will not be available to share with the CCG before July 2017. Slippage or compression in the customer engagement programme within 2017 could reduce the influence that customer insight will have on other strands of the business planning process.



3

CCG's role, membership, governance and transparency

The Customer Scrutiny Group (CSG) and Customer Challenge Group (CCG) met on 5 occasions in the period covered by this report. Appendix B lists the formal meetings held and the matters considered at each meeting. The first two meetings listed were operating as CSG. The rest of this section provides information on the purpose of the CCG, its membership and governance, transparency arrangements.

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, 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.**

The CCG subsumed the role of the Customer Scrutiny Group (CSG) which operated throughout 2015 and Spring 2016 with the remit to focus only on Affinity Water's customer engagement and progress to deliver its current business plan (AMP6). In Summer 2016, the role of the group was expanded to include the function that Ofwat asked is carried out in relation to the development of the company's next business plan during the process known as PR19.

3.2

MEMBERSHIP OF THE CCG (AND THE CSG)

At March 2017, 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
- John Ludlow, Public affairs and government relations professional
- Scott Oram, Glaxo Smith Kline
- John Rumble, Hertfordshire County Council
- Gill Taylor, Groundwork East.

Statutory organisation representatives are:

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

The following have also been members of the CSG/CCG within the period of this report:

- John Fox, Tendring District Council (until June 2016)
- David Howarth, Environment agency (until June 2016)
- Yolanda Rugg, Hertfordshire Chamber of Commerce (until August 2016)
- Hazel Smith, Glaxo Smith Kline (until Autumn 2016)
- Jill Thomas, Independent Consumer Advocate (until June 2016)
- Damian Williams, Tendring District Council (until June 2016)
- Laura Willoughby, CC Water (until June 2016).

There has been significant change in membership of the group during 2016. Robin Dahlberg ended his term as Chair in June 2016 and was replaced by Teresa Perchard. Five members decided not to continue due to other commitments, and being unable to continue as members to the end of the PR19 process. We would like to thank all these colleagues for the contribution they have made to the work of the CSG and the CCG over a number of years. We are also grateful to Hazel Smith for recommending that we approach a colleague who works for Glaxo Smith Kline to join the group, maintaining the company's support for this process.

Four new members have joined the group since summer 2016 – Tina Barnard (from September 2016), Gary Clinton, Richard Haynes, John Ludlow (from March 2017) and Scott Oram (from December 2016). They bring a wealth of experience and insight into social and welfare policy, public affairs, community and environment across the areas Affinity Water serves.

There have also been changes in the representatives from statutory organisations CCWater and the Environment Agency and we welcomed Caroline Warner, CCWater and Jonathan Sellars, Environment Agency at our June 2016 meeting.

We did not arrange for the Drinking Water Inspectorate (DWI) to attend any of our meetings this year, and the DWI have not asked to meet with us. We plan to invite them to attend a meeting with the CCG during 2017/18.

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 is able to provide independent challenge. Ofwat also indicated that, by comparison with the arrangements for CCGs at the last price review (PR14), it wished to see improved transparency in the running and governance of CCGs, with transparency on matters relating to appointment and remuneration of members, management of conflicts of interest, access to non-executive Board members, process and secretariat support.

The CCG considers Ofwat's requirements have been met in the revisions to the Terms of Reference agreed by the Affinity Water Limited Board in July 2016. 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.

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. Ofwat made no comment on the revised Terms of Reference and has not raised any concerns with the CCG Chair or the company.

¹ Customer engagement policy statement, Ofwat, May 2016

Current Business Plan (AMP 6)

This section reports on the work the CCG has undertaken since January 2016 in relation to AMP6. It first reports on our reviews of the company's achievement of its performance commitments in the past year before going on to report on how we have addressed the main aspects of our AMP6 brief, as set out in our Terms of Reference.

4.1

DELIVERY OF AMP6 PERFORMANCE COMMITMENTS

Customer Service / SIM /

Customer Experience Improvement:

- **We can provide a high level of assurance to the board that the company has been using customer feedback and customer insight as part of the action it is taking to improve the customer experience and reduce complaint volumes. It has also kept the CCG well briefed throughout the last year, with good opportunities for the CCG to challenge and advise if appropriate. We will be reviewing the 2016/17 performance report in June 2017.**

During the past year the company has regularly briefed the CCG on the achievement of its AMP6 performance commitments. These reports have shown that it has delivered very high standards of water quality, has had low numbers of contacts from customers about water discolouration, and is on track to meet its targets for sustainable abstraction reductions, average water use and water availability. We also understand that the company's commitment to the National Environment Programme (NEP) is on track for delivery of all schemes in Year 2¹.

The company has however shared with us that it has significantly exceeded its target for the number of properties experiencing an unplanned interruption to water supply exceeding 12 hours. The company has faced other challenges with delivering its performance commitments, and improving customer service.

In July 2016 CCWater published its annual complaints report which highlighted Affinity Water as having one of the highest rates of customer complaint in 2015/16.

In October 2016 Ofwat published the 2015/16 results of its 'Service Incentive Mechanism' (SIM) which showed that Affinity Water's customer service compared poorly with the average result for the industry as a whole². CCWater also highlighted in November 2016³ that Affinity Water's performance in restoring water supplies after unplanned interruptions, such as burst mains, was below average for the industry, and that the company had failed to meet its performance commitment in this area.

The report and observations from CCWater were not a surprise to the CCG as the CSG had commented on both these trends in their 2015 annual report. Also the company is very open about its performance and publishes data every month on its website so that customers and stakeholders can see clearly how things are going. It has also been very open with the CCG throughout the past year as it has worked to improve customer service.

¹ Source Environment Agency member March 2017

² IB 06/16 Ofwat publishes water companies' customer service scores, 4 October 2016

³ Delving into Water, CCWater, November 2016

The CCG has been mindful of its brief to challenge and advise the company on how it engages with customers and stakeholders. We look to ensure the company's plans are based on a clear understanding of customers' views and that they are listening to and acting on customer feedback. We noted that the water industry regulator and the statutory consumer body, CCWater, sought further information and assurances from the company about the action it was taking to improve. Our focus has therefore been to seek 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 its performance.

We have received a number of full presentations and briefings from the company on the development of what is now called the Customer Experience Improvement programme. The Director of Customer Relations has attended two of our meetings in the past year to brief us personally and update us on progress. We posed a number of challenges for the company to tell us how it was listening to customer feedback as it decided what action it needed to take.

It was clear to us that the company was responding before Ofwat published its report on the 2015/16 SIM results in October 2016. The company has energetically sought to use, and use better and more quickly, the considerable feedback it has from customer contacts, including the 'Rant and Rave' tool (which provided the company with 78,000 pieces of customer feedback in 2015/16). Our CCWater members have advised us that the company has been working closely with them to respond to the Delving into Water report. The company has also briefed us that complaint volumes within 2016/17 have declined by comparison with 2015/16. Nevertheless, at the time of writing we have not seen or been able to review as a group the full year results for the company's customer service. We expect to do this in June 2017 before the performance report is published to customers. We have therefore decided to rate this issue as 'Amber' until we are assured that customer service results have improved.

4.2

WATER SAVING PROGRAMME – RESOURCE SAVINGS

- **We have been briefed on the different elements of the Water Saving Programme, but are not sure yet whether the company is on track to fully achieve the resource savings it has projected in the business plan by 2020. This is important for customers and we would like to review this area in more depth in 2017/18.**

As the Affinity Water business plan stated '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 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.

As noted above, the company regularly briefs the CCG on its achievement against its performance commitments within the year and in 2017 we expect to review the performance report for 2016/17 before it is in its final form for publication. We also expect to challenge the company on whether it will fully achieve the projected resource savings by 2020.

4

Current Business Plan (AMP 6) *continued*

4.3

WATER SAVING PROGRAMME - COMMUNICATIONS

- **The CCG is better informed about the Water Saving Programme communication activity than it was in 2015. However, we would like to further review this area in 2017 so that we can advise whether the company's approach to customer communications is effective in helping to secure the number of meter installations required by the business plan through to 2020**
- **Given the prominence of water resource scarcity, including the effect of this on the environment, we expect the company will want to ensure that installing water meters results in lasting behaviour change by customers, particularly where per capita consumption is very high and some customers may not be particularly sensitive to price/cost. We would therefore like to look at whether the company's engagement with customers who are being metered makes an impact, and secures lasting behaviour change.**

The Water Saving Programme is a very significant element of the current business plan, and will extend into the next business plan as the goal is to install 280,000 domestic water meters by 2020, encourage the highest water using customers to use less, secure savings from reducing leakage and make 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 this programme and 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 its 2015 report to the Board, the CSG said it could only give the communications plan for the Water Saving Programme limited assurance due to the limited input the group had had, and the late start to the metering element of the programme.

The CCG reviewed the water savings programme communications materials in June 2016. We noted the approach and progress on leakage, home water efficiency checks and universal metering. The free home water efficiency checks are a great opportunity for engaging personally with customers, and learning about their circumstances and water use/behaviour. We were not however sure how, beyond the water efficiency check visit the impact was being measured by the company, for example, whether customers have adopted water use savings and changed their behaviour in any way. We also challenged the company to use the considerable information gleaned about customers during these visits to improve service in other areas, for example through analysis and sharing data across the business. We also posed a number of detailed challenges for the company to consider relating to the visibility of the metering programme in the wider community, as much of the communication seemed to be paper based. Significant stakeholders such as housing associations and other landlords had also not been briefed on the programme. CCG members considered landlords should be briefed.

The company told us they have a relatively high proportion, 30%, of customers who do not contact them after an initial survey for a new meter installation. This raises questions about the effectiveness of communications, and could have significant implications for the achievement of the final target for the programme in 2020. The group has given some advice on ways the company could address this in its communications, and we challenged the company to analyse the factors that might be driving the 'no-contact'.

Prompted by the CCG review the company has held follow up meetings with some CCG members to discuss how it could engage with landlords and housing associations to help reduce the level of 'no contact' with customers. In September, the company briefed the CCG on the analysis it is able to do of the information gathered during home water efficiency checks.

4.4

LIFT (SOCIAL TARIFF) AND SUPPORT FOR VULNERABLE CUSTOMERS

- **We can provide a high level of assurance that the social tariff is in place and has high and seemingly manageable take up within 2016/17**
- **In 2017/18 we would like 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).**

Amongst the water companies in England and Wales, Affinity Water's social tariff scheme has the highest coverage with 277.22 customers per 10,000 registered to receive the social tariff. With the support of its customers, up to 46,000 customers can receive a significant reduction in their water bill if they meet the eligibility requirements of the scheme. The company has kept us informed throughout this year that whilst take up is very high, the scheme has not actually 'sold out' at any point, and the rate of acquiring customers for the scheme has slowed.

The company has not asked us to review the operation of the social tariff this year. Demand for the scheme might increase during 2017 and 2018 and we would welcome the opportunity to help the company to review the scheme, particularly if it feels it needs 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. There is also the question of whether the social tariff is actually being taken up by those customers who are most in need of the help it offers.

In Autumn 2016, the CCG facilitated a meeting between 20 representatives of Citizens Advice Bureaux in Hertfordshire and Bedfordshire to discuss debt recovery and the social tariff, and other questions the advisers had. The company highlighted problems with 'no contact' from its communications to customers in debt. The CABx have taken part in a very positive workshop session with the company to review the debt collection communications in more detail and make suggestions for improvement. We are aware that the company is also working in partnership with the Dover CAB and the national debt advice agency StepChange.

We have noted the company's comprehensive report to Ofwat 'Inclusive service to all' (December 2016) covering all aspects of the services and support provided to vulnerable customers. At our December 2016 meeting we received a high level briefing on the company's Customer Vulnerability Plan which includes a number of good and innovative initiatives. It is clear the company is working with a number of expert partners and charities to improve its services to vulnerable customers. Nevertheless, the CCG would like to review this area of activity in future and we expect to consider how well the company is engaging with vulnerable consumers as part of its PR19 process.

4.5

CUSTOMER ENGAGEMENT ACTIVITY

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'.

Our reviews in the past year have focussed on three issues - the delivery of local community engagement events, further development of a new format for customer bills and the communication and engagement with customers and other stakeholders within the metering element of the Water Saving Programme (which is discussed above).

4

Current Business Plan (AMP 6) *continued*

4.6

COMMUNITY ENGAGEMENT EVENTS

- **We can provide a high level of assurance that in the past year the company has taken action to satisfy the commitment it made in its current business plan to local community engagement, and that it has plans to continue doing this in 2017. This activity links to the company's stated vision to 'be the UK's leading community-focused water company'**
- **The company needs to do more to do to bring the 'community focus' theme of its present business plan to life. Members 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. In 2017/18 we want to hear more from the company about how the community-focus will be further realised and delivered. We also expect to challenge the company on whether it will be taking a community focussed approach to the customer engagement programme which will support the development of the next business plan (PR19).**

We appreciate that 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 eight water resource zones.

However, the CSG's 2015 report expressed concern that the company might have decided to deliver its business plan commitments to report to and engage with customers at a community level by just publishing information on its website. The CSG understood the business plan commitment was to take proactive steps to contact customers and inform them about the company's performance in each community.

The business plan certainly envisages that customers will be able to judge how well the company is meeting their expectations and hold the company to account. It says that a programme of customer and stakeholder engagement 'for our eight communities' will stimulate dialogue on local issues and give opportunities for customers to challenge the company on its performance. Whilst it would be possible to achieve engagement using remote channels, it is difficult to see how the business plan vision of dialogue with customers could be delivered without some locally delivered face to face contact and this explains the CSG's challenge.

During 2016/17 the company held customer and stakeholder engagement events in each of the eight community areas (WRZs). At least one CCG member was able to attend each of these events to observe first hand and provide feedback and advice (and encouragement) to the Affinity Water staff as the programme progressed. Each event took a slightly different format, some were facilitated by a market research organisation, some were with customers and some were with stakeholders such as local councillors. The company team members changed, giving most of the Directors, and the Chief Executive the opportunity to present information about performance to a group of customers or stakeholders and take questions, working in partnership with colleagues from operations and public affairs. The events were well and thoughtfully organised, and were clearly developed and improved as the programme progressed. The Affinity Water staff presenting and dealing with questions all demonstrated excellent knowledge, enthusiasm and good engagement with the audiences and delivery involved people from different parts of the business working together.

At our December 2016 meeting we discussed a report from the Affinity Water team with recommendations for the 2017/18 approach and programme based on learning and experience from the 2016 round of community events. The report included a summary of feedback from customers and stakeholders on a variety of issues, including the issue of whether customers recognise the eight water resource zones as their 'community', or at all.

4.7

CUSTOMER COMMUNICATION EFFECTIVENESS

- **The CCG has noted further developments in the company's project to improve the format of its bills, which started in 2013. Although changes to the bill format were only rolled out for metered customers in April 2017 we would like the company to evaluate whether the changes have 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 CCG is regularly 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 the main items we have reviewed were:

- the format of new bills (March and June 2016)
- the billing leaflet (December) 2016
- the pre-SDS 'signpost' (September and December 2016).

The specific comments and suggestions made by members about these items are not repeated here.

The company's project to develop a new format for bills has arguably been the most significant initiative by the company because it is the communication that goes to the most customers and is about the primary elements of the company's relationship with customers. The project was prompted by customer research in 2013 where customers said they found the bills confusing in a number of ways. We understand the company reviewed the bills produced by other utilities from other companies and decided to develop new bill designs with specific objectives to reduce billing complaints and customer contact; assist and motivate customers to save water, energy and money and encourage customers to sign up to direct debit payments.

In 2015 the company developed a new bill format which was tested with customers and reviewed by internal teams. The CSG also considered the initial proposals and expressed doubts about the ability of the company to deliver an approach which involved over 1,000 variations in billing communications. In 2016 the company updated us on progress with this project and said it was introducing the new format from April 2017. It seemed that the company had simplified its approach, whilst still responding to research with customers and peer review. However, we were subsequently advised that the new format was only being introduced for measured bills from April 2017 and not for unmeasured bills.

4.8

PERFORMANCE REPORTS

- **Members were given an opportunity to comment on the draft customer facing performance report before it was published in summer 2016. However, we did not see and scrutinise the associated assurance reports for 2015/16. This has come to light in the context of the company's review of its assurance framework. This will be addressed for the 2016/17 report, before the customer facing report is published.**

Each year Affinity Water produces an annual report on its business plan performance for Ofwat and publishes the results to customers. Information is published monthly, and broken down by the eight water resource zones, or communities, that Affinity Water serves. 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. At our June meeting we received a briefing on the company's 2015/16 performance out-turn and plans for publishing the information for customers.

4

Current Business Plan (AMP 6) *continued*

4.9

VALUE FOR MONEY SURVEY

- **We can provide a high degree of assurance that the Value for Money Survey is being undertaken by the company. It uses a very significant representative sample and has frequent sampling points. Whilst the overall result (a VFM index) was higher in Q3 2016/17 than in 2014 customer perceptions on specific factors such as communication, affordability, trustworthiness and overall satisfaction have all fallen since 2014. We have challenged the company on whether the survey is used and useful, and what difference it has made. We will be asking the company how the insight from this survey will be used in relation to the PR19 business plan.**

Affinity Water's business plan includes a specific performance commitment to develop a Value for Money Survey¹. Delivering this will demonstrate achievement of the business plan outcome of 'Providing a value for money service'. It was envisaged that the CSG 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 CSG in 2014, and it continues in the brief of the CCG. We have actively sought to fulfil this aspect of our Terms of Reference.

In its 2015 report the CSG said that although it had reviewed initial outputs from the survey (in December 2015) it wanted to review the methodology more fully in 2016.

In June 2016 the CCG received a full presentation on the results of the survey and held a workshop discussion with the research contractors. Their report covered one wave of research undertaken in Autumn 2014 involving 1,900 interviews with customers and a rolling programme of monthly interviews with 400 customers per month through 2015/16. At the time of the presentation to the CCG the survey had accumulated data from contacts with 5,700 customers, with a sampling method across all 8 water resource zones. If the survey has continued to run on the same basis through 2016 the dataset will now

comprise 10,500 customers. Although we appreciate the methodology used is not intended to create an aggregated dataset, a rolling representative survey of this size is nevertheless potentially very powerful as a means of helping the company have recent insight into customer opinion. It could also play a role in the insight used to shape the next business plan. But only if it is used by the business.

The CCG has posed a number of challenges and questions about the methodology used for the Value for Money Survey. The CCG think that a simple, high level indicator has attractions but we are not convinced that the methodology being used is appropriate to undertake on such a scale and frequency due to the influence that customer views on the value for money of their energy bill have on the resulting measure/indicator. We think that to be used and useful the method for this research should provide Affinity Water with an indicator of customer perception that relates clearly to and is driven by factors the company can or might be able to control or influence. That would maximise the power of the research to speak to the company on behalf of customers, and enhance the value for money of the survey. We have also asked how the company is actually using this insight, and what action was being taken in response to it. Essentially our questions have been, is it used, was it useful and what difference it has made?

The company reported in September that it was reviewing our feedback with the research contractors and executive team. Although we expected the company to share a response and revised approach to the model in December 2016 this was moved to the March 2017 meeting. The company has told us it is difficult to measure customer perceptions of value for money and that the survey has not told the company much in isolation that it is not learning from other insight sources. The CCG was consulted about a number of methodology changes intended to make the survey more useable by the business, and the company has committed to further reviews of the usefulness of this tool in 2017/18. We understand that Ofwat's proposals for a standard suite of outcome measures for PR19 may make this survey redundant in future.

4.10

SOUNDING BOARD FOR NEW POLICIES AND PLANS

We have not acted as a sounding board on any issues that are not linked to other areas of our Terms of Reference and this report.

¹ 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'.

5

Getting ready for PR19 – Future Business Plan

- The company presented its plan for producing the next business plan, including outline proposals for customer engagement, at our March 2017 meeting. This was based on a review of ‘what worked’ at PR14 and was clearly informed by awareness of Ofwat’s requirements and the role of the CCG in the process. We have also been briefed on the governance arrangements the company has put in place and the CCG is clearly shown in these arrangements and is operationally independent.
- However, the CCG is concerned about an overly complex approach with risks of slippage and compression in the timetable. We have challenged the company to simplify the outline proposals for customer engagement. The full design and delivery of the customer engagement element also remains dependent on the appointment of a contractor to take responsibility for managing, as well as further designing and delivering, this strand of activity. The company appears to lack the in-house skills to direct and manage the customer engagement strand of the business planning process. Whilst an approach to the PR19 customer engagement has been outlined by the company a definite plan will not be available to share with the CCG before July 2017. Slippage or compression in the customer engagement programme within 2017 could reduce the influence that customer insight will have on other strands of the business planning process.

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 in the past year has been aimed at putting the group into a state of readiness to deliver this part of our role.

In May 2016, Ofwat issued guidance to companies on customer engagement for PR19, and the role of CCG’s in the process¹. Ofwat’s policy and guidance makes it clear that amongst other things companies are expected to demonstrate a step change in their customer engagement at PR19.

Ofwat’s guidance also sets out a wide range of issues that Ofwat expects the CCG to report on in September 2018. It is very helpful for us, and the company to have this guidance which did not exist when the CCG for PR14 was operating. The CCG was fully briefed on the Ofwat guidance in June 2016. The CCG Terms of reference were redrafted by the new Chair to reflect the Ofwat requirements, the CCG members were consulted and these were then agreed by the company board in July 2016.

As noted elsewhere in our report, we have divided our agenda items and challenge log between AMP6 and PR19 matters to assist us, the company and our audit trail. A number of members attended training sessions on PR19 offered by CCWater in Autumn 2016 and the Chair attends quarterly meetings with Ofwat to which all 18 CCG Chairs across England and Wales are invited. These meetings brief and consult the CCG Chairs on Ofwat’s emerging policy on aspects of PR19. The Chair reports back to CCG members on the issues that have been covered and discussed.

Subject to ensuring our newer members have any training and briefing they need on PR19 the above has helped to put the group in a state of basic ‘readiness’ to start work on PR19.

The actual work the CCG has to do on PR19 is highly contingent on the company starting to prepare its future business plan and undertaking the related customer engagement activities.

In the past year, the company has clearly been planning its approach to PR19 including the development of a timetable for business planning, evaluation, customer research and engagement. The CCG has actively sought out briefing from the company on this and PR19 has been on the agenda of every CCG meeting since June 2016. CCG members have been keen to have the opportunity to challenge, and advise, the company at an early stage in this process. The PR14 CCG report showed clearly that by providing challenge before some key engagement activities were undertaken the CCG helped the company to see how it could strengthen the representativeness of its research with customers, amongst other points.

¹ Customer engagement policy statement, Ofwat, May 2016

5

Getting ready for PR19 – Future Business Plan continued

In September 2016, we were briefed on the consultation plans for the Drought Management Plan (DMP) and Water Resources Management Plan (WRMP). Some members of the group have reviewed the customer survey material for the DMP. The group has also made some comments on the content of presentation of the pre-SDS document. We were also invited to comment on some of the content of a draft 'pre-Strategic Direction Statement' (SDS).

Early challenges from the CCG concerned the extent to which there will be customer engagement plans for the DMP and WRMP – essentially how they 'fit' in the work on the business plan and whether the customer engagement approach will be consistent across the company's three, interlinked plans. Members also considered the approach to the pre-SDS signpost was too complex and did not refer sufficiently to the environment.

The CCG appreciates that the company has a complex set of plans it has to produce in the next two years which have different time horizons for production and delivery, different immediate audiences and some are subject to statutory processes and consultation requirements, whereas others are not. It has also decided to produce a Strategic Direction Statement (SDS), and to undertake consultation and engagement about that document before it is finalised alongside work it is doing on its statutory and regulatory plans. In addition, the consultation on the DMP

needed to start in Autumn 2016 in advance of a plan for the whole programme being in place.

Our challenges for the company throughout the discussions in 2016 have primarily concerned its plan for activities on PR19 up to September 2018. We have asked when and how customers will be consulted, on what issues, and whether the approach taken will ensure representativeness. We have also sought a road map for our work in the process which gives us early warning of the issues we will be asked to consider, and have asked to see that against the road map for the whole project and key decision points so that we can see what decision points our work needs to inform. That would help us plan our work in terms of number, nature of meetings and member time and focus. We note that at PR14 the CCG had not been set up when the company was in the planning phase.

The company has provided us with regular briefing on its thinking about how to approach this since September 2016. This has included high level briefing on the key milestones and how the company approached PR14 in three phases, as is explained in the current business plan. The company indicated early that it was minded to approach PR19 in broadly the same way as PR14, particularly the phasing of the project.

6

Other issues

Members have noted a number of other issues they would like the company to consider going forward which do not fit neatly into the issues identified elsewhere within this report. These are:

- **whether the company is highlighting to its customers the environmental benefit of major investments and activities, for example the metering programme and reduction in abstractions**
- **whether the information the company publishes about its performance is actually used and useful to customers**
- **whether the company is assessing the impact of IT outages on customers attempting to transact with the company on-line, whether to obtain information or make payments and manage their accounts.**

Looking ahead - the CCG's 2017/18 work programme

We want to work with the company to create a manageable and predictable work programme for the CCG in the coming year with more strategic and predictable/planned use of our time at meetings, ensuring that when we are asked to review an issue it is not too late for our advice to influence the finished product or a decision, and that we get feedback quickly. There will be some issues that the whole group is and wishes to be engaged with, some issues which are taken on by sub-groups or individual members and some issues where we are simply kept briefed.

The implications of this report are that in 2017/18 the CCG wishes to give particular priority to reviewing 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.

As the company commences its work to develop the next business plan during 2017/18, the CCG will be increasingly asked to review the research that is proposed, the findings and how that has been used in developing the business plan. This strand of our work incorporates review of the customer engagement approaches to the new Drought Management Plan and the next Water Resources Management Plan, the latter representing a significant proportion of the capital investment in the next business plan.

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

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 AWL has developed a genuine understanding of its customers' priorities, needs and requirements
- **Quality of propositions:** whether AWL has engaged with customers on the issues that matter to them; whether evidence and insight obtained from customers has informed the plan; has AWL 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 January 2016 – March 2017

Date	Items covered	Date	Items covered
16 March 2016	<p>CCG Report to Affinity Water Limited (AWL) Board 2015</p> <p>Customer engagement update from AWL</p> <p>Introduction to Amanda Reynolds</p> <p>Briefing from Simon Cocks – culture change/top team changes</p> <p>Redesign of customer bills – reviewed and challenged</p> <p>Water saving programme update</p> <p>Regulation update report covering:</p> <ul style="list-style-type: none"> • Social tariff take up (LIFT) • AIM • Egham incident learning points • SIM 	7 December 2016	<p>CCWater – presentation - Customer Engagement good practice</p> <p>PR19 – AWL high level plan and approach-referencing PR14 approach</p> <p>Community engagement events – review and proposed way ahead</p> <p>Customer experience improvement programme update</p> <p>CCWater Delving into Water report</p> <p>Simon Cocks update</p>
22 June 2016	<p>Value for Money Survey – presentation, review and challenge</p> <p>Revision to Terms of Reference</p> <p>2015-16 Performance out-turn</p> <p>Redesign of customer bills – further iteration</p> <p>Leakage</p> <p>Abstraction Incentive Mechanism</p> <p>Regulation update covering:</p> <ul style="list-style-type: none"> • Community engagement plans • PR 19 • Social tariff take up (LIFT) 	15 March 2017	<p>AWL update from Simon Cocks</p> <p>PR19 – review and challenge</p> <p>Value for Money Survey - briefing on AWL decisions re future</p> <p>Water saving programme</p> <p>CCG draft annual report</p> <p>Forward meeting schedule/agenda planning 2017/18</p>
14 September 2016	<p>Customer experience improvement programme and SIM results</p> <p>Community engagement events – lessons from 2015/16/so far</p> <p>Water saving programme – progress review and challenge</p> <p>PR19 – key milestones</p> <p>Pre-SDS document extract</p> <p>Consultation plans for the DMP and WRMP – briefing and challenge</p> <p>Value for Money Survey – briefing on progress responding to CCG challenges</p>		

Appendix C

Meetings and events attended by the Chair and CCG members January 2016 – March 2017

CCG MEETINGS AND SUBSTANTIVE AGENDA ITEMS JANUARY 2016 – MARCH 2017

Date	Event	Attendee
21 March	Meeting with Environment Agency	Robin Dahlberg
11 April	Ofwat and CCG Chairs quarterly meeting	Teresa Perchard and Robin Dahlberg
12 April	New CCG Chairs and Cathryn Ross, CEO Ofwat	Teresa Perchard
20 April	Ofwat 'workshop' on the development of policy on household competition for water services in England	Teresa Perchard
21 April	WaterUK hosted 'workshop' on customer engagement best practice – mixed audience of industry representatives, CCG Chairs and CCWater	Teresa Perchard and Sarah Clark (AWL)
10 May	Community event, Folkestone	Teresa Perchard and Keith Cane
12 May	Induction visit to Clay Lane Water Treatment Works	Teresa Perchard
27 May	Meeting with Sir Tony Redmond, CCWater, Hatfield	Teresa Perchard
14 June	Ofwat workshop outcome 'measures' and performance indicators for the next price review	Teresa Perchard
22 June	Community event, St Albans	Teresa Perchard and Karen Gibbs
27 June	Affinity Water Board meeting	Robin Dahlberg and Teresa Perchard
11 July	Ofwat and CCG Chairs quarterly meeting	Teresa Perchard
13 July	Ofwat thought leadership event on customer engagement	Teresa Perchard
20 July	Ofwat event on introducing competition into the market for residential water and sewerage services in England	Teresa Perchard and Simon Cocks (AWL)
20 September	Community event, Harlow	Teresa Perchard and Gill Taylor
11 October	Hertfordshire and Bedfordshire CAB social policy group, St Albans, to discuss debt collection and social tariffs	Teresa Perchard with Jacky Welsh (AWL)
12 October	Ofwat and CCG Chairs quarterly meeting	Teresa Perchard
18 October	Community event, Stevenage	Teresa Perchard
2 November	ESAN conference on consumer representation models in essential services	Teresa Perchard
7 November	CCWater training session for CCGs on PR19	Teresa Perchard and Gill Taylor
7 November	Community event, Clacton	David Cheek
10 November	Thames Water workshop for water companies and CCG Chairs on innovation in methods of customer engagement	Teresa Perchard, Emma Grigson (AWL) and Sarah Clark (AWL)
17 November	Meeting with Emma Grigson and Adam Warner to discuss the VFM study methodology	David Cheek
22 November	CCG Chairs and Ofwat to discuss forthcoming consultation paper on Outcomes and Performance commitments	Teresa Perchard

Date	Event	Attendee
11 January	CCG Chairs and Ofwat quarterly	Teresa Perchard
8 February	Blueprint for Water meeting with Affinity Water, Hatfield and the Mimram	Teresa Perchard and David Cheek
17 February	Induction day for CCG members, Hatfield and Clay Lane	Tina Barnard, David Cheek, Gary Clinton, Teresa Perchard and John Rumble
22 February	Community event, Woking	Jonathan Sellars
16 March	CCWater event on retail competition	Teresa Perchard
23 March	Ofwat event on customer participation	David Cheek

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