



# Customer Challenge Group Report

3 September 2018

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## Glossary

### Commonly used acronyms and abbreviations

AWL - Affinity Water Limited  
BP - Business Plan  
dBP- draft Business Plan  
CCG - Customer Challenge Group  
CCW -Consumer Council for Water  
DMP - Drought Management Plan  
dDMP - draft Drought Management Plan  
DWI – Drinking Water Inspectorate  
EA - Environment Agency  
Ofwat – Office of Water Services  
ODI – Output Delivery Incentive  
PC – performance commitment  
PR19 – Price review 2019  
WRMP - Water Resources Management Plan  
dWRMP - draft Water Resources Management Plan

### Key document references

The following key documents are referred to frequently throughout this report are often abbreviated in the body text and either referenced as footnotes or are listed in Appendix 5, which lists all the documents we have received relating to PR19.

- Aide Memoire for CCGs, Ofwat, March 2018
- Customer Engagement Policy statement, Ofwat, May 2016
- dWRMP consultation document, 'Our plan for customers and communities,' AWL, March 2018
- BP consultation document, 'Our future plans', AWL, April 2018
- V2 BP - Version 2 of the Business Plan (draft) – received 23 July 2018
- V3 BP - Version 3 of the Business Plan (draft) – received 1 August 2018
- V4 BP - Version 4 of the Business Plan (draft) – received 16 August 2018

The research reports and papers produced by the company which are referred to most often in this report are as follows, most of these are in AWL's BP submission Appendix 3 and Annexes. Appendix 5 indicates which documents are in AWL's BP submission.

- BP Focus Group report – Ipsos Mori and Arup (doc 73)
- dWRMP Online quantitative and focus group survey report – Ipsos Mori and Arup (doc 74)
- BP acceptability testing – Phase 2 – Ipsos Mori and Arup (doc 84)
- Triangulation report – (docs 91 and 92)
- Paper on PC Stretch (doc 98)
- Phase 3 Bill acceptability report – Ipsos Mori and Arup (doc 109)
- Phase 3 additional resilience research report – Blue Marble (doc 110)

## Section 1

### Introduction and foreword

This is a report prepared for Ofwat by the Affinity Water Customer Challenge Group (CCG) about Affinity Water Limited's (AWL) PR19 Business Plan submission for the period 2020/25.

Ofwat has asked the CCG to 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'.*

Affinity Water Limited (AWL) supplies essential water services to 3.6 million people living in 1.4 million homes in parts of South East England. AWL is a monopoly supplier. Their customers do not have any choice about who their supplier is. If they are unhappy with the service provided, or do not think it is value for money they cannot take their custom elsewhere. To redress this Ofwat, the economic regulator of water and sewerage companies in England and Wales, controls the prices, and levels of service AWL must provide. Every 5 years water companies must submit a business plan to Ofwat which proposes service levels and prices for the next five years. This 'price review' results in a formal decision by Ofwat on what each company must deliver for customers, and at what price.

Ofwat asks that water companies' plans are informed and driven by engagement with customers. At this price review (PR19) Ofwat has set out criteria for effective customer engagement, and outlined what business plans based on effective customer engagement should feature.<sup>1</sup> CCGs are asked to report to Ofwat on whether their company's business plan has met Ofwat's expectations. This report therefore covers how we have carried out our 'independent challenge' role and provides our opinions on the issues that Ofwat has asked us to consider in relation to AWL's customer engagement for PR19.<sup>2</sup> The report is organized in the following sections:

- Summary (Section 2)
- Assessments (Section 3)
- Challenges and disagreements (Section 4)
- Our work and processes (Section 5)

The appendices provide more detailed information about our work and processes, including our terms of reference, CCG member biographies, details of the meetings

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<sup>1</sup> See Ofwat PR19 methodology, December 2017

<sup>2</sup> See <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

we have held and documents we have received relating to PR19, a copy of our challenge log, queries we have raised and a copy of our assessment framework.

## **CCG members**

CCG members have been engaged in a process that started in Summer 2016, when our terms of reference were updated to reflect Ofwat's policy statement on expectations of customer engagement at PR19. As can be seen from Sections 2 and 5 the CCG has held 17 meetings at which PR19 matters have been considered; received more than 111 documents relating to PR19 from AWL; observed focus group sessions, taken part in 'triangulation' workshops, attended events and meetings about PR19, including with Ofwat and kept the AWL board informed of our views and emerging opinions through attending and briefing the Board and our Annual Reports. In addition to this the CCG has a brief to review AWL's current performance for customers and that work has not been set aside in the past year, as can be seen from our Annual Report for 2017/18.

I am enormously grateful to and would like to thank all members of the CCG for their engagement with this process. They have brought a wealth of experience and insight into consumer policy and research, social, economic and welfare policy, community and environmental issues, and public affairs across the areas Affinity Water serves. Their ability to cut through the voluminous complex material that has been presented to us – from AWL and Ofwat - to identify the key points and quickly get to an opinion has been impressive.

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

More information about the profile and expertise of the CCG members is provided in Appendix 2. The Drinking Water Inspectorate did not form part of the CCG at this price review but we have met with them to hear their views on the issues they would expect to see in AWL's business plan and at Appendix 7 include their statement to us in this essential aspect of AWL's services.



Carrying out our role to challenge the company and arrive at evidence based opinions, which also have to be submitted on the same day as AWL's business plan is a complex task, particularly for a group of people for whom this is not their main, or day job. Members have nevertheless given their time to this task because they are genuinely interested in helping to ensure that AWL is listening to its customers and stakeholders; can demonstrate this and is setting out to deliver a good service at a fair price in future.

As with any business the planning process has been an iterative one and much detail gets firmed up as deadlines approach. AWL's plan has undergone some significant changes and developments between June and August 2018, the business plan that is being submitted is different in some important respects to that which AWL tested with customers in April and May. We discuss this in Section 2 – Summary, and also in Section 4 – Challenges and disagreements. Overall the 'up to the wire' experience has been a challenging one for the CCG. We are asked to provide assurance to a regulator on a business plan when we have not been able to review, and challenge, the final plan that has been submitted. Despite this CCG members have been prepared to engage with reviewing drafts of AWL's business plan throughout August, alongside drafts of this report. I am enormously grateful to them for their help, particularly during the holiday period.

### **Acknowledgements**

Finally, in addition to the CCG members I would like to thank a number of key people at AWL without whom it would not have been possible for us to complete this task, on time. Anne Scutt-Webber has acted as the CCG Manager keeping track of all the PR19 related documents we have had and maintaining our virtual filing cabinet; Sian Woods for organising and minuting our meetings – no mean feat with the volume of papers circulated; Lauren Schogger, PR19 programme manager for keeping AWL's business planning on track and Chris Offer, Regulation Director for his overwhelming positivity and resilience in the face of our challenges and my frowns, grumbles and groans. Many other AWL staff have met with us and provided us with expert briefings, presentations and responses to our many questions which has been really appreciated. I would also like to thank Simon Cocks and Pauline Walsh (who have been the Chief Executives of AWL during the PR19 process) together with the Board of AWL for their engagement with the CCG. The company has undergone significant change at the leadership level in the past 12 months, but has allocated much Board time to understanding our role in this process and listening to our views and opinions from a relatively early stage.

**Teresa Perchard**

**Chair, Affinity Water Customer Challenge Group**

## Section 2

### Summary

This report is produced for Ofwat by the Affinity Water Customer Challenge Group and gives our opinions on Affinity Water Limited's (AWL) PR19 Business Plan submission.

Our job is to 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'.*

This report covers how we have carried out our 'independent challenge' role and provides our opinions on the issues that Ofwat has asked us to consider in relation to AWL's customer engagement for PR19.<sup>3</sup> The report is organized in the following sections:

- Assessments (Section 3)
- Challenges and disagreements (Section 4)
- Our work and processes (Section 5)

Appendices provide more detailed information about our work and processes, including details about our terms of references, members, meetings we have held and documents we have received relating to PR19, a copy of our challenge log, queries we have raised and a copy of our assessment framework.

### Our PR19 related activities and evidence base

This report is based on the evidence we have received and been able to review and take into account as a group between June 2016 until mid-August 2018<sup>4</sup>; members' involvement in 17 meetings with the company at which PR19 was either wholly or mainly on the agenda between June 2016 and July 2018; members' attendance at some customer focus group and stakeholder consultation events, and attendance at 43 other meetings and events related to PR19, including 14 with Ofwat attended by the Chair, and 5 meetings with the AWL Board or its 'Regulatory Working Group' since April 2017. A list of all the meetings attended by one or more members of the CCG is in Appendix 3. Appendix 5 lists the 111 PR19 related documents that members of the Group have been given by AWL between Summer 2016 and August 2018. Some additional papers and briefings were received after mid-August which are not listed, notably a briefing on 31 August 2018 outlining AWL's final PR19 bill proposals

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<sup>3</sup> See <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

<sup>4</sup> V4BP was received on 16 August and 4 members of the CCG were able to review that version.



We are required to report to Ofwat on the same day as AWL submits its Business Plan (BP). This means our report has been prepared in parallel with AWL finalising its BP submission, through a number of iterations in August 2018. This was two months later than the company had planned to produce drafts of the BP in plans shared with the CCG in September and December 2017, on which basis the CCG scheduled its meetings to end on 18 July, recognizing that August is a peak holiday period.

We appreciate that the timetable changed as the company needed to respond to the significant stakeholder feedback it received on its draft Water Resources Management Plan (dWRMP) proposals, which were out for public consultation in April and May 2018. At that time AWL was testing the 'acceptability' of three proposals for BP service packages, and average bill levels, with a representative group of customers. AWL has subsequently revised elements of its dWRMP proposals in important respects relating to future water resources. This has had a significant impact on some aspects of AWL's BP proposals, including the proposed level of average household bills. Essentially AWL has moved from presenting customers with proposals for water bills to be lower in real terms in 2025 to a proposal for a real terms increase in charges. There are also a number of differences between the service propositions between May and August 2018. As a result, AWL was required to undertake further 'acceptability testing' with customers in August 2018.

Alongside these developments, drafts of AWL's BP were not available to the CCG in any form before the end of July 2018, and there was significant reworking of the narrative and the bill propositions in August 2018. Confirmation of the final bill proposition was only available to the CCG Chair on Saturday 1 September 2018.

The consequence of the above is that the CCG as a whole has not been able to review and challenge a near final draft version of AWL's BP, together with the final proposals for bills, before submitting this report<sup>5</sup>. Some members of the CCG were able to review Version 2 of AWL's draft Business Plan (V2BP). The Chair of the Group and 4 other members also reviewed Version 4 of AWL's draft Business Plan (V4BP) which was available from 16 August. Only two members of the group have been able to review any of the draft Annexes to V4BP<sup>6, 7</sup>. We believe we have a reasonable understanding of what is *probably* going to be included in AWL's final BP submitted to Ofwat such that it is possible to submit this report. However, there may be differences between the draft BPs we have reviewed and cross referenced in this report. It is also possible that we have referred to something from a draft of the BP which has not been carried into the document AWL has actually submitted. We have asked the company to provide us with a report on the differences between the drafts and submitted final BP in due course.

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<sup>5</sup> See Section 4 for further information and commentary

<sup>6</sup> A draft of Appendix 3 to V4BP was reviewed by the Chair and one member in late August 2018

<sup>7</sup> Each draft BP has been in excess of 200 pages long. Appendix 3 to AWLs V4BP was more than 100 pages as a covering note to annexes of documents and evidence.

## Our assessments

Our opinions on AWL's BP customer engagement are organised according to 19 'Test areas' drawn from the 'Assessment Framework' we developed and agreed in March 2018.<sup>8</sup> We have rated each Test area as follows:

- **Green** – the company's customer engagement meets this test
- **Amber** – the company's customer engagement partly meets this test
- **Red** – the company's customer engagement has not met this test

An overview of our assessments for each of 19 Test areas on our Assessment Framework is below and appears again in Section 3. Our Assessment Framework tests are drawn from our Terms of Reference agreed in July 2016<sup>9</sup>, the criteria set out by Ofwat in its May 2016 policy statement<sup>10</sup> and in its Methodology for PR19 December 2017<sup>11</sup>. We think that our Assessment Framework addresses appropriately all the matters in Ofwat's requirements although the issues are not presented in precisely the same order or format as in their Aide Memoire for CCGs.

### AWL has met almost all our tests:-

- AWL's customer engagement, and BP, meets most of our 19 Test areas that apply to them – we rate 15 areas out of 18 as 'Green'.<sup>12</sup>
- AWL have amassed and used a significant evidence base about their customers' views, needs and requirements from analysis of operational data and existing research. It has also undertaken a range of engagement with customers to help prepare its BP submission. AWL highlights over 15,000 interactions with customers as their evidence base. Of these 3,325 interactions were from quantitative and representative research/surveys with customers about proposals for service levels and bills.
- AWL has used professional independent market research companies, mainly Ipsos/Mori and Arup, to advise on, design and undertake several pieces of research, and facilitate triangulation of the evidence base, at key stages in the customer engagement programme between June 2017 and August 2018. This provides assurance of representative and robust results in some areas.
- AWL has sought to innovate in its customer engagement by using an online 'community of customers' and undertaking research with future customers and secondary school pupils.
- In keeping with its vision to be the leading community focused water company AWL has set out several ways in which it intends to work with local

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<sup>8</sup> See Appendix 6

<sup>9</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-terms-of-reference.pdf>

<sup>10</sup> [https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap\\_pos20160525w2020cust.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf)

<sup>11</sup> <https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review/> and also <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

<sup>12</sup> Test area 13 of the 19 is an account of how the CCG has reviewed and challenged the performance commitment framework so does not have a RAG rating for the company.

communities and stakeholders to 'co-create' and deliver aspects of its business plan, some of which will be piloted before 2020.

- As noted in relation to our Test areas 1 to 7 we consider that AWL has developed and shown an understanding of its customers' priorities, has engaged with customers on issues that matter to them, and insight from customers has informed the development of the BP.
- AWL has strong customer support for its proposed BP outcomes, and has presented clearly in its BP how its proposed performance commitments relate to each of the proposed outcomes.
- AWL is proposing to maintain and improve some aspects of its service to customers, and protection of the environment, as set out in detail in the BP. In Section 3 (Test area 14) we set out how we have challenged AWL to demonstrate that its proposed performance commitments are stretching. We explain that Ofwat is in a better position of knowledge than the CCG to decide if any of the proposed performance commitments are stretching, or sufficiently stretching. Nevertheless, having challenged the company and considered all the evidence available to us and Ofwat's PR19 methodology we have identified 6 of the proposed 19 performance commitments which appear likely to be stretching for the company to achieve. These are the performance commitments related to reducing leakage, reducing per capita consumption, reducing the extent of water supply interruptions, reducing the extent of low pressure, and improved services for vulnerable customers and customers in financial difficulty (which are to be measured through satisfaction surveys)
- In relation to AWL's support for customers who are vulnerable or have difficulty paying their bills the company has undertaken good analysis of need and planning for the proposed services and activities in its BP. The company has established that customers and stakeholders support the approach they propose to take and have demonstrated effective engagement with relevant expert stakeholders and customers to design their services. AWL's Inclusive Services Strategy, which underpins the proposed bespoke performance commitments in the BP, will be a significant business change for AWL.
- We understand – at 1 September 2018 – that AWL is proposing that it should be allowed to increase average bills to customers by 2.07% in real terms between 2020 and 2025<sup>13</sup>. This is a small increase in charges in real terms. The company has evidence from a representative survey (in August 2018) that a majority of customers regard an increase of this scale as acceptable, without considering the likely impact of inflation or the level of sewerage charges as well. In real terms the average bill is proposed to increase in line with the growth in real household disposable income that is forecast by the OBR. The objective affordability of AWL's average bill in 2024/25, in isolation of other pressures on household incomes, is likely to be no worse than it is today if incomes rise as the OBR has projected.

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<sup>13</sup> Email from AWL received on 1 September 2018.

- Transparency, accountability and effective communication will be key to the company achieving the relationship of trust and engagement it seeks with customers, and other stakeholders to realise its vision of being the leading community focussed water company in the UK and achieving the significant challenge of reducing demand for water. The company has described appropriate ambitions to develop and improve its reporting and transparency to customers. It has yet to draw up an operational plan for this, which will require some research and testing with customers as well as stakeholders, but it has made a commitment to do this before 2020.

### **However, three of our Test areas are rated ‘Amber’:**

- We have rated as ‘Amber’ (or partly meeting) three Test areas relating to effective customer engagement on long term risks (Test area 8), the performance commitment framework as a whole (Test area 14) and customer engagement on resilience (Test area 18).<sup>14</sup>
- Test area 8 requires effective engagement with customers on future and long-term issues, including trade-offs and risks, in a way that customers could be expected to understand. We outline in Section 3 how AWL has approached this in relation to the key long-term issue of sufficiency of water resources to meet demand. Based on our involvement reviewing drafts of the dWRMP consultation paper and customer engagement materials, and noting the specific responses of Ofwat and EA to AWL’s dWRMP it is not possible for us to consider that AWL has fully met this requirement.
- Test area 18 is strongly linked to Test area 8. Notwithstanding the challenges of engaging customers with resilience and risk we do not think that AWL has engaged with customers in sufficient depth to inform its resilience strategy. One element of the revised resilience strategy is to embark on investment in ‘additional resilience’<sup>15</sup>. Customer engagement on the long-term implications, costs and benefits of this investment has not been of the depth or nature that would fully satisfy Test area 8 above. It is not therefore possible to say that AWL’s approach to resilience, as described in V4BP, is based on sufficient customer engagement.
- The company should recognise our assessments of Test areas 8 and 18 as we understand the BP will set out proposals for an extension to the timescale for submission of the dWRMP and further customer engagement in 2018/19. The CCG consider that AWL needs to undertake further and better engagement with customers on its long-term water resource management strategy, particularly as there is likely to be significant investment needed in AMP8 2025-2030 and beyond related to the jointly promoted reservoir

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<sup>15</sup> P152 V4BP this was stated to be at a cost to customers of £2 - £5 per year .

development with Thames Water. It is important that customers are fully informed about the long-term implications of this for their water bills.

- Test area 14 concerns three interconnected aspects of the company's proposed BP, referred to as the Performance Commitment Framework - the proposed outcomes, performance commitments (PCs) and levels and outcome delivery incentives (ODIs). Ofwat has asked us to consider a range of questions, including whether customers have been consulted about and support what is being proposed – including the proposed ODIs - and whether the proposed performance commitment levels are stretching.<sup>16</sup> Because of the many different sub-questions Ofwat has asked us to consider in relation to 19 proposed performance commitments there has been a lot of material for us to review and utilise to evidence our opinion, which is covered in full in Section 3.
- AWL has evidence of strong customer support for its BP outcomes, many of the proposed PC levels will improve service to customers and the environment and we have noted 6 out of the 19 proposed PCs that appear to us to be stretching. However, the following points have resulted in an overall amber assessment from us:
  - AWL has only undertaken specific customer engagement about 7 of the 19 proposed PCs. Not all the 19 proposed PCs required customer engagement, for example, 4 PCs are effectively requirements of environmental and quality regulators. However, AWL could have gone further than it did in this area.
  - None of AWL's customer engagement about proposed PCs and PC levels has given customers significant opportunities to indicate choices between different service levels. The approach at both Phase 2 and Phase 3 has been to ask customers if proposed plans are 'acceptable' or not – a top down rather than bottom up approach.
  - AWL's actual proposals for ODI levels were only presented to the CCG in August, primarily through the medium of drafts of the BP, queries that we raised and sight of drafts of the Phase 3 customer acceptability survey questions. We note the evidence that customers found the single proposal made by AWL acceptable<sup>17</sup>. We are not however able to provide assurance that the proposal reflects a suitably wide range of evidence on AWL's customer preferences, which is what Ofwat has asked us to challenge and comment on.

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<sup>16</sup> Ofwat's Aide Memoire for CCGs has 11 questions on performance commitments and 7 questions on ODI's – in theory those questions need to be answered x 19 in relation to AWL's performance commitment proposals so a full CCG response would have 209 answers just on the PCs.

<sup>17</sup> Phase 3, BP Acceptability Survey, Ipsos/Mori August 2018

### Overview of AWL CCG Test areas - RAG rating

1. Has AWL developed a genuine understanding of customers priorities, needs and requirements, drawing on a robust, balanced and proportionate evidence base	<b>Green</b>
2. Has AWL engaged with customers on the issues that matter to them?	<b>Green</b>
3. Has evidence from customers genuinely driven and informed the development of the business plan?	<b>Green</b>
4. Has the company used multiple data sources and triangulated those effectively to develop its proposals, and carry out customer engagement?	<b>Green</b>
5. Has the company presented its customers with realistic options?	<b>Green</b>
5. Has the customer engagement process been ongoing two way and transparent with the company informing customers as well as soliciting feedback from them?	<b>Green</b>
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?	<b>Green</b>
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?	<b>Amber</b>
9. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?	<b>Green</b>
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?	<b>Green</b>
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?	<b>Green</b>
12. Vulnerability - Is the company's approach to vulnerability targeted, efficient and effective? CCG view on the quality of planned support for customers in vulnerable circumstances, taking into account Ofwat's February 2016 Vulnerability Focus report.	<b>Green</b>
13. Performance commitment framework – including Outcomes and ODIs – how have we reviewed and challenged	n/a – info section
14. Opinion on proposed outcomes, performance commitments – both common and bespoke - and outcome delivery incentive in terms of level of stretch, customer engagement and support [Outcomes – green - PC consultation – amber - Stretch – amber - ODIs – amber]	<b>Amber</b>
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)	<b>Green</b>
16. Leakage – has Affinity taken customer views into account in its proposed five year PC levels? (see also response to Q14 above)	<b>Green</b>
17. Transparency – are company plans for reporting on performance 2020 – 25 suitable	<b>Green</b>
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	<b>Amber</b>
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	<b>Green -</b>

## Section 3

### Assessments – 19 Test areas

In this section we provide our views on Affinity Water Limited's (AWL) customer engagement programme. Our opinions are organised according to 19 test areas drawn from the 'Assessment Framework' that we developed and agreed in March 2018.<sup>18</sup> Our Assessment Framework tests are drawn from our Terms of Reference agreed in July 2016<sup>19</sup>, the criteria set out by Ofwat in its May 2016 policy statement<sup>20</sup> and in its Methodology for PR19 December 2017<sup>21</sup>. Ofwat subsequently published a document it called an 'Aide Memoire' for CCGs<sup>22</sup> which lists all the issues which Ofwat has asked CCGs to challenge and comment on throughout its PR19 methodology. We think that our Assessment Framework addresses appropriately all the matters in Ofwat's Aide Memoire, although the issues are not presented in precisely the same order or format.

We used our Assessment Framework to provide AWL and its Board with an interim opinion in March 2018 (see Section 5) and provided an update on any changes in our views to the company and the Board in June, July and August 2018. We have also given the company two drafts of this section in August 2018 to enable them to check any facts and figures and references which we have deployed, particularly as we have had to finalise this report before seeing the final Business Plan (BP).

For each of the 19 test areas we provide an overall opinion as to whether the company's customer engagement and proposed performance commitments fully address the requirements, or not. The Red/Amber/Green rating of each test area means that our opinion is as follows:

- **Green** – the company's customer engagement meets this test
- **Amber** – the company's customer engagement partly meets this test
- **Red** – the company's customer engagement has not met this test
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In relation to each test area we evidence the opinion by describing our involvement and engagement with the issue and summarising the key evidence we have reviewed to arrive at our opinion. We did not want to duplicate with information which is in the company's Business Plan submission. However, for the reasons explained in Section 4, at the time of needing to draft and finalise this report we had not seen the company's final BP and it was difficult to fully achieve this goal. We have needed to refer to drafts of the BP and other information given to the CCG to form a view about what is probably in the final BP submission

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<sup>18</sup> See Appendix 6

<sup>19</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-terms-of-reference.pdf>

<sup>20</sup> [https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap\\_pos20160525w2020cust.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf)

<sup>21</sup> <https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review/>

<sup>22</sup> <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>



### Overview of AWL CCG Test areas - RAG rating

2. Has AWL developed a genuine understanding of customers priorities, needs and requirements, drawing on a robust, balanced and proportionate evidence base	<b>Green</b>
2. Has AWL engaged with customers on the issues that matter to them?	<b>Green</b>
6. Has evidence from customers genuinely driven and informed the development of the business plan?	<b>Green</b>
7. Has the company used multiple data sources and triangulated those effectively to develop its proposals, and carry out customer engagement?	<b>Green</b>
5. Has the company presented its customers with realistic options?	<b>Green</b>
8. Has the customer engagement process been ongoing two way and transparent with the company informing customers as well as soliciting feedback from them?	<b>Green</b>
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?	<b>Green</b>
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?	<b>Amber</b>
9. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?	<b>Green</b>
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?	<b>Green</b>
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?	<b>Green</b>
17. Vulnerability - Is the company's approach to vulnerability targeted, efficient and effective? CCG view on the quality of planned support for customers in vulnerable circumstances, taking into account Ofwat's February 2016 Vulnerability Focus report.	<b>Green</b>
18. Performance commitment framework – including Outcomes and ODIs – how have we reviewed and challenged	n/a – info section
19. Opinion on proposed outcomes, performance commitments – both common and bespoke - and outcome delivery incentive in terms of level of stretch, customer engagement and support [Outcomes – green - PC consultation – amber - Stretch – amber - ODIs – amber]	<b>Amber</b>
20. 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)	<b>Green</b>
21. Leakage – has Affinity taken customer views into account in its proposed five year PC levels? (see also response to Q14 above)	<b>Green</b>
17. Transparency – are company plans for reporting on performance 2020 – 25 suitable	<b>Green</b>
20. 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	<b>Amber</b>
21. 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	<b>Green -</b>

<b>1. Has Affinity developed a genuine understanding of its customers' priorities, needs and requirements drawing on a robust, balanced and proportionate evidence base?</b>	<b>Green</b>
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Overall, we are satisfied the company has met this requirement in preparing its BP. The CCG has been fully informed and consulted about the design of the entire business plan customer and stakeholder engagement programme, and most of the customer research commissioned by AWL since 2016, as we describe in Section 5 of this report.

AWL has summarised its understanding of customers' priorities, needs and requirements throughout different sections of its BP and supporting appendices. For example, in V4BP AWL sets out the four customer outcomes as 'the things that really matter most to customers' (p10). We have seen robust evidence that the expressed outcomes have been tested with and are strongly supported by customers<sup>23</sup>. We consider that the Triangulation Report<sup>24</sup> the company presented to us in June 2018 illustrated well the key knowledge of customer views that the company had identified and understood in relation to each of its proposed performance commitments. In other sections of this report we highlight evidence about customer views which is most relevant to the specific issues we have been asked to consider.

AWL have amassed and used a significant evidence base about its customers' views, needs and requirements and they have undertaken a significant range of engagement with customers to help prepare the BP.<sup>25</sup>

For example, the company says it has drawn on 15,323 interactions<sup>26</sup> with individual customers between June 2016 and August 2018, being the period during which it has been developing its BP, and its DMP and dWRMP. This is a significant number of interactions with customers and we note that the equivalent figure for AWL's AMP6 BP was 'over 12,500'<sup>27</sup>. We consider this evidence base is sufficient - AWL has a customer base of 1.4 million households and serves a population of 3.6 million people.

However, it is important not to conflate quantity of interactions with quality of interactions. Not all the interactions AWL counted as part of its BP planning evidence base were related to or asked customers about the core BP propositions. AWL's evidence base combines a large number of interactions with customers on single issues, particularly issues concerning customer knowledge, behaviour or opinion and satisfaction with current performance, with a smaller number of interactions which are of more depth and forward looking. This is valuable insight, but only a proportion

<sup>23</sup> Ipsos MORI/Arup, June 2018, *Affinity Water Business Plan Acceptability Survey*

<sup>24</sup> Appendix 5 document 91

<sup>25</sup> A full account of AWL's customer engagement programme is set out in Appendix 3 of V4BP.

<sup>26</sup> Business Plan appendix 3 Annex, Over3

<sup>27</sup> P21 AWL Business Plan 2015 - 2020

of the evidence base has been concerned with asking customers about actual proposals for service standards and bills in the future.

The company has provided us with a breakdown of the 15,323 interactions with individual customers.<sup>28</sup> This showed overall that the company drew on 3387 qualitative interactions with customers (through focus groups for example) and 11,936 quantitative interactions with customers (for example through surveys conducted online or face to face). The company has made use of data it already collects through an ongoing 'value for money' survey of customers and designed, with professional market research help, new tools for tapping into customers' views on specific issues, principally the 'online community' of customers which was created during Phase 1 of the customer engagement programme.

Of the 15,323 interactions and pieces of research 11,936 are derived from quantitative research. We consider that the most important for evidencing customer support for the business plan are the quantitative research with representative samples of customers in Phases 2 and Phase 3 of the customer engagement programme. This is because it was from Phase 2 onwards that customers were being asked a range of specific questions about proposed levels of service, and proposed levels of bills and were being presented with proposals in a 'package'. The key quantitative research, in our view, is:

- dWRMP phase 2 customer survey (1000 customers, online, Ipsos MORI/Arup)
- dBP phase 2 customer acceptability survey (825 customers, face to face, Ipsos MORI/Arup)
- dBP phase 3 customer acceptability survey (1000 customers, online, Ipsos MORI/Arup)
- dBP phase 3 additional resilience research (500 customers, online, Blue Marble)

These quantitative surveys account for 3,625 of the 11,936<sup>29</sup> quantitative interactions with customers in AWL's evidence base.

We have noted a number of important discrete pieces of research with customers, including specific research with a small number of vulnerable customers about their experience of and expectations in relation to service disruptions<sup>30</sup>, specific research with a sample of customers about their attitude to drought management and restrictions in water use and specific research with a sample of customers about their attitude to the social tariff and increasing its scope and cost further after 2020.<sup>31</sup>

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<sup>28</sup> Email response 3 August from AWL spreadsheet of PR19 Engagement numbers – not listed in Appendix 5

<sup>29</sup> Almost 11,000 interactions with customers come from the 'online community' of customers with whom there were 5207 contacts in a 5 month period and the rolling 'value for money survey' run for the company by Blue Marble that had 1900 responses in a 12 month period. The online community was not a representative sample. The Value for Money survey asks for opinions on current service not views on future plans.

<sup>30</sup> IPSOS MORI, March 2018, *Affinity Water Customer Engagement Programme Triangulation Report Phase 1*

<sup>31</sup> . Ipsos MORI, February 2018, *Social Tariff Report*

The Phase 2 customer acceptability survey in particular asked customers for their views on the proposed business plan outcomes and proposals for three alternative business plans and average bill levels and was supported by a series of independently facilitated focus group discussions involving 70<sup>32</sup> customers in different socio-economic profile groups. The in-home face to face research methods used for the quantitative survey meant that it was able to include those of AWL’s customers who are digitally excluded and would not be represented in on-line market research panels.

The quantitative pieces of research listed above were all conducted by independent professional market research organisations notably Ipsos MORI and Arup who were engaged by AWL to design and deliver the customer engagement programme and Blue Marble who conduct the rolling Value for Money survey for AWL. The quantitative surveys we have identified as most significant all had sample sizes sufficient to enable the company to analyse the results according to each of its 8 communities, which are based on water resource zones (WRZ). That is important not just because of the company’s community strategy but also because the company has three charging zones and there is a significant difference between the lowest and highest average bill between those three zones. There are also some differences in the socio-economic profile of some of the different WRZ based community areas AWL serves.

<p><b>2. Has Affinity engaged with customers on the issues that matter to them?</b></p>	<p><b>Green</b></p>
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We are satisfied that AWL has engaged with customers on the water supply and service issues that most customers recognise as mattering most to them, although it has engaged with customers to varying degrees of depth and specificity depending on the aspect of service.

For example, AWL has stated in V4BP that the outcomes the BP is aiming at are the ‘things that really matter most to customers both now and over the long term’<sup>33</sup>

These are

- *‘Supplying high quality water you can trust*
- *Making sure you have enough water, while leaving more water in the environment*
- *Providing a great service that you value; and*
- *Minimising disruption to you and your community’*

The company has tested the validity of these outcomes with customers both at the start and the end of its customer engagement programme which is described in

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<sup>32</sup> AWL advised that there were 87 participants in these focus groups if ‘future customers’ are included.

<sup>33</sup> P4 V4BP

detail in Appendix 3 of V4BP<sup>34</sup> It has found significant levels of customer support for these outcomes. We comment further on this in relation to Test area 14 below.

The company reported to us, and repeats in the evidence supporting its V4BP, that it struggled to engage customers on the detail of what achieving those outcomes might need to look like. For example, the output of 'Phase 0' of the customer engagement programme<sup>35</sup> includes that:

*'Customers are broadly positive about different aspects relating to service, associated with their water supply, including quality and reliability. Customers are overall (74%) either very satisfied (43%) or satisfied (31%) with the service they receive from us. They are especially positive about reliability (91%); water is assumed to be "always there". Consequently, water is not something that is given much thought, particularly in comparison to other utilities where customers have more choices to make. Water bills are considered good value for money (86%); and better value for money when compared to other utilities (29%). 87% report no problems with affordability and paying their bill on time.'*

The CCG was presented with a number of findings, as reflected in Appendix 3 to V4BP, that AWL found it hard to get customers to engage in the longer term issues around supply resilience given their relatively high levels of satisfaction and confidence about the reliability and sufficiency of their current water supply, and value for money. Also, AWL found awareness of the company was low and that customers give little thought to water supply and find supply and demand issues confusing.

Notwithstanding this reported lack of interest from customers throughout the customer engagement programme the company has undertaken various qualitative and quantitative research covering questions on different aspects of service mainly concerning the following topics:

- Leakage, and the proportion by which it should reduce;
- Personal consumption levels, and the extent to which customers think this can be reduced or how much water they can save
- Risk of supply interruptions
- Risk of restrictions in water use in the event of a drought and attitudes to paying more to reduce this risk
- Reliability of water pressure
- Preparedness to support customers who are unable to afford their bills
- A single proposal for bill rebates and increases (rewards) linked to company performance (ODIs)
- Preparedness to support environmental projects
- Reducing the amount of water drawn from the environment
- Perceptions of value for money and satisfaction (drawn mainly from rolling surveys)

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<sup>34</sup> Version 1 of Appendix 3 to AWL's BP was placed in the CCG 'sharepoint' site on 22 August – 3 CCG members have been able to review it. ,

<sup>35</sup> See Appendix 3 V4BP

There have been some discrete pieces of research, for example on customer expectations for compensation in the event of supply interruptions, which we have noted from reviewing V4BP but which we have not seen.

At a late stage in the customer engagement programme AWL commissioned quantitative research with customers<sup>36</sup> to test attitudes to increases in bills to expand the water treatment plant at Sundon, and also to invest 'now to ensure there is sufficient water in future'. This 'Phase 3' acceptability survey with customers was prompted by the company deciding to make some relatively substantial changes to its dWRMP in response to stakeholder views.

In section 14 below we comment that only 7 of the 19 performance commitments proposed in V4BP were the subject of specific customer engagement about proposed performance commitment levels – for example water quality, aspects of customer service performance or service features, extent of mains bursts do not appear to have been the subject of any specific customer engagement to establish customer views on the level of service the company should be delivering in future.

The company has looked in depth with a small number of informed stakeholders at how it could improve its services for customers in vulnerable circumstances and/or who have difficulty affording their water bills (inclusive services). These are issues which the generality of customers do not regard as significant for them, but they matter a great deal to a small proportion of AWL's customers.

Below the high level of the BP outcomes we have not seen much evidence gathered about the relative priority that AWL thinks its customers attach to the **level** of service that the company should provide for different aspects of service, or the priority they would give to particular service improvements in future. This is perhaps a consequence of a customer engagement programme which has had a large number of interactions with customers which are shallow in nature (width versus depth) and which have generated high level views from customers rather than exploring their preferences for different service levels and trade-offs in a way that could have driven company choices in framing the BP.

There is some evidence about customer priorities which validates AWL's chosen range of customer engagement topics, for example a survey in Phase 3 of the customer engagement programme<sup>37</sup> asked customers to indicate the priorities they attached to 10 aspects, all of which are features of AWL's V4BP. Issues to do with making sure there is enough water in the future, reducing the amount of leakage and maintaining and updating the infrastructure were rated highest by customers. Keeping bills low, supporting vulnerable customers and helping customers who struggle to pay their bill were only considered extremely important by a small proportion of customers, as was 'promoting ways to use less water'. We note that water quality and customer service did not feature in the Phase 3 survey (by Blue Marble) which asked customers to rate the importance of different service attributes,

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<sup>36</sup> Phase 3 Final Acceptability Survey, August 2018, Ipsos MORI and Arup

<sup>37</sup> Blue Marble 'Additional Resilience Investment Research' Topline findings, 3 August 2018

although water quality is part of the BP outcome customers rated highest in the Phase 2 research.

AWL decided not to commission any willingness to pay (WTP) research in support of its business plan development. This was presented to the CCG at a meeting in December 2017 at which we noted the decision and asked if the company had sought advice from Ofwat<sup>38</sup>. Because AWL decided to deploy ‘acceptability testing’ rather than starting with customer WTP for specific service attributes it could be said that they have used a ‘top down’ rather than a ‘bottom up’ approach to the development of the BP. We have not seen evidence that AWL has, or has deployed, detailed knowledge of the relative importance customers attach to different aspects of service and potential trade-offs.

<p><b>3. Has evidence and insight obtained from customers genuinely driven and informed the development of the business plan?</b></p>	<p><b>Green</b></p>
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Evidence and insight obtained from a broad range of engagement activity with customers has clearly *informed* the development of the business plan. The company can point to evidence of very strong customer support for the four proposed outcomes, and high levels of customer acceptability for its proposed bill and service package to 2025, referencing some of the performance commitments which are proposed in V4BP<sup>39</sup>.

The plan seems to be acceptable to a significant majority of customers – though at a lower level than the PR14 plan which had over 90% customer acceptability. AWL also describes in the narrative to the V4BP how its proposals for improving customer service and information for customers and its support for customers who are vulnerable or in financial difficulty has been informed by insight about customer aspirations and expectations and the needs and requirements of customers and those who represent and advise them.<sup>40</sup>

That said many of the proposals for performance commitments are very strongly informed and influenced by the expectations of AWL’s economic and quality regulators who in some areas have set expectations for levels of service which are different to those which customers seem to have preferred when given a choice for lower levels of bills and costs. We discuss this more fully in relation to Test area 14 below (Performance commitment framework).

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<sup>38</sup> See Appendix 5 Challenge Log, Challenge 11.

<sup>39</sup> See mainly dWRMP phase 2 customer survey (1000 customers, online, Mori/Arup); dBP phase 2 customer acceptability survey (825 customers, face to face, Mori/Arup) and dBP phase 3 customer acceptability survey (1000 customers, online, Mori/Arup) all described in Appendix 3 to V4BP

<sup>40</sup> Chapter 7 V4BP – Delivering Great Customer Service



Similarly, in relation to water quality we were briefed by the Drinking Water Inspectorate (DWI) at our December 2017 meeting that AWL has a high risk of lead in drinking water in some parts of its supply area due to old supply pipes. They have written to us to say they support AWL’s BP proposal for facilitating compliance with the lead standard.<sup>41</sup> The Inspectorate say they expect that the Company will have a strategy in place for managing lead in drinking water that should form part of a risk-based programme of work that includes a range of measures to address lead in identified high risk areas, and target high risk properties and vulnerable consumers. The DWI said to us that

*‘In AMP7 the Company proposes an extensive programme of lead pipe replacement/refurbishment in a high-risk area with a view to reducing or removing orthophosphate treatment in this area as a pilot for the Company’s long- term lead strategy. ‘*

We have identified one example where the company is making proposals to significantly improve performance which is driven strongly by customer experience as evidenced in complaints and operational data rather than pressure from regulators or stakeholders. This is relating to water pressure where the company is proposing a bespoke performance commitment we understand - to reduce the average hours of low pressure that households experience from 12 hours per annum to 8.7 hours. In response to our queries AWL has shown us comparative performance information to show AWL’s performance on water pressure is currently the worst amongst companies in England and Wales.

<p><b>4. Has the company used multiple data sources and triangulated those effectively to develop its proposals, and carry out customer engagement?</b></p>	<p><b>Green</b></p>
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The company has used multiple data sources, including commissioning new research, analysing operational data, and using existing research both internal and external to the company. In V4BP<sup>42</sup> AWL has provided an account of its ‘triangulation’ process, including details of a wide range of data sources that AWL have referred to. The BP drafts we have seen refer to multiple data sources throughout various chapters, and we would expect this to continue to be a feature of the final BP submission.

Based on our engagement with the company since Summer 2016 we would highlight the following points in relation to AWL’s use of multiple data sources and triangulation:

- A feature of the brief for the 2017/18 customer engagement programme undertaken by contractors Ipsos MORI and Arup was to review and report on the insight the company already had from its operational data. Outputs from

<sup>41</sup> Appendix 7 – DWI letter to AFW CCG June 2018

<sup>42</sup> Chapter 3 and Appendix 3 V4BP

this analysis were shared with the CCG and workshop sessions were planned and held with the CCG to ‘triangulate’ evidence from operational data and newly commissioned data. These sessions also informed planning of subsequent phases in the customer engagement programme.

- We have seen evidence that the company has drawn on wider evidence, eg from research at PR14 or research and data from CCWater and Ofwat that relates to specific performance commitments. The company has documented the sources it has referred to or relied on, and the key findings that were relevant and shared that with the CCG.<sup>43</sup> This has been done primarily to meet the requirement for the company to evidence there is customer support for the proposed performance commitment levels and to prove the degree of stretch involved in each performance commitment – see Test areas 13 and 14 below.
- The company provided us with a specific presentation in March 2018 which described all the insights from operational data and its Value for Money (VFM) survey which were informing the development of the business plan.<sup>44</sup> The company highlighted particularly the significant proportion of complaints received that were about water pressure as evidence of a link between its operational data insights and the proposed performance commitment and service improvements in the business plan.
- At the conclusion of the customer engagement programme and before the AWL board was asked to approve the BP for submission in July 2018, we understood the company undertook a series of triangulation sessions internally involving board members and senior members of staff with independent facilitation to review all the evidence it had at that time relating to the business plan, including customer insight. AWL consulted CCWater members of the CCG about the methodology it proposed to use (in view of the good practice guidance CCWater had issued) and received a positive view from CCWater. The company has shared the results of this triangulation activity with the CCG (end July)<sup>45</sup>. We understood that there would be a further triangulation and report in view of the additional surveys (Phase 3) due to take place in late August relating to the ‘additional resilience’ proposals included in the dWRMP which impact the BP for 2020/25. We have not seen and are not able to comment on this last triangulation exercise.

The CCG has challenged the company throughout the process to demonstrate it was using as fully as possible the insight it has from the rolling ‘Value for Money’ survey that its present business plan commits it to undertake.<sup>46</sup> This was expected to

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<sup>43</sup> The document is called the Triangulation Tool and is referenced as Arup, August 2018, Triangulation Tool. Appendix 3 to Business Plan (annex 1 Over 2)

<sup>44</sup> See Appendix 5, document 52 ‘What our customers are telling us and how this is informing the Business Plan

<sup>45</sup> See Appendix 5 documents 91 Triangulation - What customers want through PC lens and 92 Triangulation – what customers want by theme

<sup>46</sup> See CCG Annual Report 2016/17. Challenge 17 on our AMP6 Challenge Log says as per the Annual Report ‘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.

provide an ongoing structured customer feedback to the company to inform decisions the company makes about its delivery. We have seen evidence that the survey data has been used, though it has not perhaps fulfilled the central guiding role that it could have done, or the role that was envisaged for it in the PR14 Business Plan as a mechanism for continuous 'dialogue' with customers. The survey design is essentially a rolling satisfaction survey and is not designed to capture customers' views about priorities for service improvements.

The CCG is aware that the company commissioned research with customers on a range of issues including additional investments in water resources and the overall level of ODI rewards and penalties AFTER it had undertaken the triangulation described above.

We note the company states that the challenges of *'taking the, sometimes conflicting, needs and expectations of customers and stakeholders into account were addressed in triangulation'*.<sup>47</sup> We are aware of, and have noted in this report, the different expectations expressed by AWL's stakeholders (primarily Ofwat and the EA) compared to their proposed plans, which were generally acceptable to customers. The company states it gives a greater weighting to the views of regulators,<sup>48</sup> which assume are also regarded as stakeholders, but it is not easy to see clearly in V4BP where there are differences of view between customers and stakeholders differences and how the company has weighed the interests of these different parties in deciding what to propose in its BP.

We have not been able to review Triangulation Report 2 (which we understand to be the final triangulation report) so cannot comment on whether it shows clearly areas of corroboration and conflict or how the company resolved contradictory evidence or balanced the views of stakeholders, regulators and customers. It would have been helpful if the specific points of conflict the company had needed to reconcile and take a decision on were spelt out in the body of V4BP. Essentially that would seem to be balancing customer preferences for the lowest bill, including positive responses to the Phase 2 proposals for bills that are lower in real terms in 2025 against the expectations of regulators which result in increases in bills. In the end AWL has been able to balance those interests by establishing customer acceptance for a small increase in bills.

See also discussion in Test area 14 below.

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<sup>47</sup> Page 27 V4BP, paragraph 7.

<sup>48</sup> Page 58 V4BP 'The highest weighting is given to responses from our regulators (EA and Ofwat)'

<b>5. Has the company presented customers with realistic options?</b>	<b>Green</b>
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For an option to be realistic it would need to be represented accurately and be a sensible, practical proposal which is reasonably likely to be achieved.

The options the company presented to customers are primarily those in the public consultation document on the Business Plan, and also the consultation document on the draft Water Resources Management Plan (dWRMP). Both plans were the subject of qualitative and quantitative research with representative groups of customers in Spring 2018 <sup>49</sup>

Though not all performance commitment levels formed part of the business plan acceptability survey (see section 14 below) our view is that in the main the options presented to customers were realistic. As we have highlighted in section 14 most of the proposed performance commitments maintain present levels of performance or are imposed on the company as regulatory obligations. Where a level of service is being maintained, and there is a track record of delivery then there is a reasonable likelihood it can be achieved – it is therefore realistic.

The company did not describe any specific standards it would achieve for customer service except ‘great’, with a vision of simpler interactions and getting things right first time. There were no examples of customer service improvements given to customers which looked improbable or unlikely to be achieved, although a specific level or standard of service was not described, and customers were not given any choices in this area.

There are two areas where it could be argued that the company did not actually present realistic proposals to customers.

First, customers were asked if they supported plans to reduce leakage and to reduce the volume of water the company takes, or abstracts, from the natural environment.

In relation to leakage customers tended to support the proposed option to reduce leakage by 11%. Ofwat has said it expects companies to propose at least a 15% reduction by 2025, or provide strong justification why not. The company’s presumption therefore is that a lower figure would not be acceptable to Ofwat, and has now selected the option of 15%. Was it realistic for the company to present the 11% reduction target to customers?

Also, in relation to the volume of abstraction two of the three business plan options the company presented in its Phase 2 customer acceptability testing research included the same proposed level of reduction of 10 Ml/d between 2020 and 2025. It

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<sup>49</sup> see Appendix 3 V4BP.

is not clear that this option, and AWL's 'preferred' plan, contained in its dWRMP consultation, was ever going to be acceptable to the Environment Agency,<sup>50</sup> In these circumstances it was arguably not realistic to propose this to customers, who tended to support the lower cost plans which included a 10 MI/d reduction in abstractions.<sup>51</sup>

The second area where the options presented may not have been realistic concerns the absence of specific proposals in the business plan consultation for investment in increasing the capacity and resilience of water resources available to Affinity Water. Customers reading the business plan consultation document were told that the company understood customers had an expectation they would make sure there was enough water and that the plan set out '*how we will continue to meet your expectations*'. Customers were told and asked about plans to address leakage, to source water more sustainably and to encourage customers to use less water through a variety of means, including metering. In relation to the issue of restrictions on water use during a severe drought the company referred in general terms to the possibility of building new infrastructure<sup>52</sup>. However, there were no specific details of what might be involved in building new infrastructure or what it might eventually cost, and customers could be forgiven for assuming that all of the 'choices' set out in the consultation document would deliver enough water to meet their expectations for the prices quoted.

Following the public consultations on the BP and the dWRMP – ie between June and August 2018 - the company has been engaged in developing proposals for investment in water resources infrastructure in 2020/25 and beyond which it will be asking customers to pay for, over and above the bill levels proposed in the Phase 2 business plan consultation. We consider that this is corrective action by the company to ensure that the business plan it actually submits is realistic in relation to water resources, and the requirement to achieve an appropriate level of resilience and protection of the environment. However, the nature and depth of customer engagement on potential investment in water resources has been very limited.

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<sup>50</sup> In its representation on AWL's draft WRMP the EA stated '*The preferred plan does not comply with regulatory requirements and does not demonstrate it will deliver resilience for its customers or protect the environment.*'

<sup>51</sup> Business Plan acceptability survey report, Ipsos MORI, June 2018

<sup>52</sup> 'We aim to reduce the likelihood of us having to take water from sources we would not normally use. This could include us building new infrastructure such as reservoirs and sharing more water with other companies' p12 'Our future plans' April 2018

<p><b>6. Has the customer engagement process been ongoing two way and transparent, with the company informing customers as well as soliciting feedback from them?</b></p>	<p><b>Green</b></p>
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This test is drawn directly from Ofwat’s May 2016 policy statement on customer engagement. Within Appendix 3 of V4BP the company states that it understood this aspect of Ofwat’s expectations for its approach to customer engagement. The company also states that it sought to secure:

*‘broader and better engagement, and participation in the PR19 process and draw from global best practice to adopt innovative engagement techniques that will enable us to have more informed and collaborative engagement’<sup>53</sup>*

AWL has met this requirement mainly due to the extended period over which engagement with customers and stakeholders has taken place, together with the use of tools such as publishing consultation documents and holding events (in addition to market research focus groups) for customers and stakeholders to receive presentations about proposed plans and ask the company questions about those proposals.

For example, from our direct experience, and as AWL have reported in Appendix 3 of V4BP, the company has been informing customers and soliciting feedback from them on a range of issues relevant to the BP proposals since Summer 2016. The CCG was asked to comment on materials for a ‘pre-SDS’ consultation with customers in Summer 2016 and in December 2016 we were presented with a draft brochure aimed at customers explaining the work the company would be doing to consult customers to produce its next business plan<sup>54</sup>. The engagement with customers and stakeholders has, therefore, been **ongoing** since Summer 2016.

Between Summer 2016 and August 2018 the company has asked customers and stakeholders for their views on a range of issues from their awareness of and satisfaction with AWL, to their preferences for different business plan propositions with different levels of service in some areas. In Appendix 3 of V4BP the company describes all the engagement activities it has undertaken and the volume of interactions with customers and stakeholders that each has had.

In addition to the document ‘Your Community’s Water’, which set out the programme for developing the business plan between Summer 2017 and Spring 2018, the company published three further documents for customers and stakeholders inviting views about aspects of the eventual BP, a drought management plan consultation document, a dWRMP consultation document, and a draft BP consultation document.

<sup>53</sup> AWL V4BP Appendix 3 p12.

<sup>54</sup> Appendix 5 – Document 6 – ‘Your Community’s Water’

We understand the company also wrote to a wide range of stakeholders about the development of its next WRMP in Autumn 2017.

AWL's approach has not, however, included a significant amount of feedback to customers and stakeholders as the planning process has been underway. The company originally set out intentions to run a microsite for the business planning process<sup>55</sup> but this does not seem to have been implemented. For example in a paper to the CCG in March 2017 the company said:

*'We plan to develop a micro-site for our customers and stakeholders to use to see our planned engagements, what engagement we've carried out, what we have learned, and how that engagement has influenced our plans. This will help us demonstrate transparency to our customers, something Ofwat wishes to see.'*

The CCG was asked if it supported this idea, and a proposal for the company to revamp the 'Let's Talk Water' brand for its PR19 engagement. We were positive in response as this seemed likely to help the company meet Ofwat's criteria for an effective customer engagement programme.

If the company had established the proposed micro-site, this would have improved the transparency of the process. It could also have provided a useful way of interested customers and stakeholders to find out where things had reached and to make contributions, maintaining their engagement. It could also have been a means of providing and evidencing the 'two way' communication envisaged by Ofwat's expectations. We note that the company has published some documents on its corporate website but the approach has not really matched the proposal made in Spring 2017, for example, none of the research with customers and findings has been published on the relevant page of the company's website about the Business Plan<sup>56</sup>, although at the time of writing the statement of response and a report of one deliberative event has been published about the DMP.

AWL has noted in Appendix 3 V4BP that it set an objective to provide customers with feedback on how their views have influenced its plans and the way it does business, and that it intends to do this following submission of the business plan. Within its customer engagement programme we understand that those customers who volunteered to take part in the online 'community of customers' were given feedback on and thanked for their contributions.

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<sup>55</sup> Appendix 5 – Document 11 -PR19 Customer Engagement Strategy – proposed high level plan

<sup>56</sup> <https://stakeholder.affinitywater.co.uk/business-plan.aspx>



<p><b>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?</b></p>	<p><b>Green</b></p>
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We consider that the engagement with customers has been sufficiently diverse taking into account the materiality of the issues that were presented to customers in the BP consultation in Spring 2018, where all proposed bills were expected to be lower in real terms in 2025 than they were expected to be in 2020.<sup>57</sup> We expect that AWL's final proposed BP is different, and involves a small increase in average bills to 2025. The phase 3 research with customers testing the acceptability of this was online and, although it appears to be with a sample whose socio/economic profile is representative of AWL's customer base it will, by definition, not have included any customers who are digitally excluded or who lack the literacy and numeracy required to complete such a survey.

As noted earlier in relation to Test area 1 the company has gathered, analysed and drawn on a significant quantity of interactions with customers through qualitative and quantitative research and analysis of operational data and existing tracking surveys. Of the 15,323 interactions with customers reported by AWL the pieces of research we identify as most important for evidencing the **diversity** of the reach of AWL's customer engagement programme are the quantitative research with **representative** samples of customers in Phases 2 and Phase 3 of the customer engagement programme. All the sample sizes (ranging from 825 to 1000 customers) were capable of representing each of AWL's 'communities' which are based on water resource zones and the quantitative surveys were conducted by professional market research companies. The dBP Phase 2 customer acceptability survey (825 customers, face to face, Ipsos MORI/Arup) was the representative sample most likely to include hard to reach customers who are digitally excluded or who have low levels of literacy and/or numeracy.

We note that in V4BP the company has provided an account of their engagement with customers on the issues addressed in their Business Plan<sup>58</sup> at Section 3 and Appendix 3. We note that in Appendix 3 the company states that

*' For PR19 we have strengthened our targeted engagement to ensure we heard from as many different types of customers as possible and used a range of approaches, both qualitative and quantitative to gather, test and value opinions and preferences.'*

<sup>57</sup> Our future plans, AWL, April 2018

<sup>58</sup> Chapter 3 and Appendix 3

AWL has outlined (in V4BP Appendix 3) that in addition to drawing on an evidence base that is overall representative of its customers it set out to target four groups of customers. We have noted below the specific research relating to each target group:

**Vulnerable Customers** – 12 people in depth interviews about vulnerability and affordability issues and 8 stakeholders at a focus group discussion

**Low pressure/ No Water for more than 12 hours** – 5 customers in depth interviews

**Relatively more engaged customers** – 2000 customers in the online community at Phase 1 – recruited from approaches to 90000 customers and 40 customers responding to water saving initiatives (Hubbub project)

**Future Customers** – 17 future customers at a focus group; 107 secondary school pupils at focus groups and 895 completed an online survey

As we have noted in relation to Test area 1 above AWL's customer insight evidence base for this BP is stronger on breadth than depth. It has also made significant use of online research methods and some social media (facebook) to engage with customers and seek their views. By definition online and social media engagement will not include customers who are digitally excluded or visually impaired. It is also important that the large volume of online 'interactions' the company has had with groups of customers that are not representative of customers as a whole (the 2000 online customer community and the 895 secondary school children) do not outweigh in the company's consideration the small volume of in depth contacts with vulnerable customers in vulnerable circumstances who may not be digitally included. This means the phase 2 BP acceptability research conducted by Ipsos MORI face to face in customer's homes is significant for evidencing that AWL has obtained views about its proposed BP from a sufficiently diverse range of its customers in a representative sample.

Finally, in light of the recent changes in relation to non-household retail markets (which is now open to competition amongst 23 business retailers in England and Wales) we challenged the company on whether and how it had engaged with business customers about the levels of service it proposed, particularly in relation to drought management and potential restrictions in supply which could affect businesses<sup>59</sup>. AWL responded that

*'The non-technical summary (consultation document) of the draft Drought Management Plan was circulated to all retailers of our non-household customers in August 2017. No representations were received as a result of this. The WRMP pre-consultation document was circulated to all 23 retailers of our non-household customers in summer 2017. No feedback or responses were received. The non-technical dWRMP summary (consultation document) was circulated to the 23 retailers in March 2018.'*

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<sup>59</sup> Challenge 8, See Appendix 5

AWL told us they would also send reminder communications at various times during the public consultation period (on the dWRMP) and that the 23 retailers had been invited to attend the stakeholder forums the company was holding across its supply areas. We have not seen a report which says whether or not the retailers responded or attended these events.

<p><b>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?</b></p>	<p><b>Amber</b></p>
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The key future and long- term issue for AWL is sufficiency of water supplies. For example, its BP consultation document states

*‘Our biggest challenge is to continue to be able to provide enough high-quality water for customers into the future’*

In its dWRMP consultation document AWL describes factors including climate change, population growth, protecting the environment, the need to support economic growth and for water to be used more wisely which require the company to plan for resilient supplies and affordable bills. These are the future, long term issues where there are clearly trade-offs and risks which AWL has considered and on which customers should be engaged.

AWL’s main vehicle for engaging customers and stakeholder with the long-term issues, trade-offs and risks has been its dWRMP, and associated customer and stakeholder engagement. Customers and stakeholders were asked through a consultation document, consultation events and specific research whether they thought AWL had ‘struck the right balance’ in its preferred plan and given an alternative.

In its dWRMP consultation document aimed at customers and stakeholders AWL set out 10 challenges ranging from demand growth (linked closely to population growth of 8% by 2025, rising further beyond that, to potential reductions in the volume of water the company draws, or ‘abstracts’ from the environment. A range of questions were published for customers and stakeholders to consider, specific research was commissioned with customers, as part of AWL’s Phase 2 research, a number of focus group sessions were held with customers about the dWRMP and eight independently facilitated stakeholder events were held.

The CCG was asked to review and comment on drafts of the dWRMP consultation document, including the proposed questions, and also the draft questionnaires and customer stimulus material for use with customers as part of Phase 2 quantitative and qualitative research. Members made a number of comments about the appropriateness of including an option of 11% leakage reduction (when regulators had indicated a view that anything less than 15% needed to be well justified) and the approach, in the drafts, of framing questions for customers expressing the capital expenditure required to achieve particular ambitions, over, in the drafts, a period to

2080<sup>60</sup>. CCG members' views on the draft dWRMP customer engagement materials were that questions were not framed in a way customers could be expected to understand and members made a variety of suggestions for simpler clearer drafting.

The nature and timing of AWL's customer engagement on the dWRMP meant that the more explorative 'focus group' research was being conducted in parallel with rather than informing the quantitative research. A number of CCG members also observed focus group research sessions and noted that due to these sessions being designed to get a response to the propositions AWL had already framed they either did not involve discussion of long-term or trade-off issues with customers, or allow customers to introduce issues and ideas the company had not already thought of. The company's consultation and customer engagement about its dWRMP seemed to us to be designed to validate rather than drive the company's proposals and assumptions.

The CCG has noted responses to AWL's dWRMP consultation from Ofwat and the Environment Agency which are very strenuous<sup>61</sup> in their critiques of AWL's dWRMP and its presentation to customers. For example:

- Ofwat note that AWL is forecasting a water supply deficit 'in the early 2020s' in three of its supply zones – this near-term urgency was not in our view articulated clearly to customers in the customer engagement materials.
- Ofwat expressed concerns about the 'process adopted for plan development', 'the effectiveness of the consultation', the 'favourable positioning' which potentially 'influences customer responses' of AWL's preferred plan in the consultation document and the limited evidence of customer participation in the development of the dWRMP.
- EA commented that AWL's dWRMP did not meet the challenges, placed unacceptable pressure on the environment and overall lacked ambition
- EA also said that 'we have significant concerns that the company has asked leading questions, against the advice of its customer challenge group'
- EA considered AWL should, in effect, re-do its customer engagement on the dWRMP.

Based on our involvement with reviewing drafts of the dWRMP consultation paper and customer engagement materials, and noting the specific responses of Ofwat and EA highlighted above, it is impossible for us to consider that AWL has met the requirement to engage effectively with customers on future and long term issues, including trade-offs and risks, in a way customers could be expected to understand and have any influence over. This also applies to Test area 18 – Resilience.

The company has clearly engaged with customers on some related aspects of the principal challenge it faces of providing sufficient water to meet demand whilst protecting the environment. It has asked customers questions about attitudes to

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<sup>60</sup> Reference document in Appendix 5 which lists our feedback on the dWRMP materials.

<sup>61</sup> Environment Agency representation on Affinity Water's water resources management plan, 17 May 2018 and Ofwat, Affinity Water – draft water resources management plan 2019, 23 May 2018

leakage, the environment, personal consumption and has asked customers for their views on the acceptability of different bill and service level packages. In response to regulator and stakeholder feedback on its dWRMP the company has revised its business plan proposals to include some investment in ‘additional resilience’ which in the period 2020/25 relates to the costs of preparatory work to make the case, with Thames Water, for a new regional storage reservoir close to the River Thames in Oxfordshire. We have not seen the details of this proposal and related investment – and what customers will get for any increase in their bills in 2020/25 and beyond. Ideally the company should have engaged with customers on its revised dWRMP proposals in a way that helped them to understand what the longer term implication for bills and service might be as a result of potentially significant investment in new water resources extending way beyond 2025 as this is a significant departure from the preferred plan it previously consulted them on. However, AWL has not yet explored this in any depth with their customers. The company’s proposal to re-consult about its dWRMP in Spring 2019 perhaps acknowledges this.

<p><b>9. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?</b></p>	<p><b>Green</b></p>
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The drafts of AWLs business plan we have seen (V2 and V4) make commitments to work in partnership and collaborate with customers and stakeholders. For example the company aims to be the UK’s leading community focussed water company, and has set out a variety of priorities and themes for its approach which include words like ‘collaboration’ and ‘communities’. The company describes a number of key challenges in drafts of its business plan<sup>62</sup> which cannot be addressed without action by customers, for example demand growth from population growth and high levels of customer consumption in their central area.

We have identified the following from the Business Plan which seem appropriate examples of co-creation and co-delivery with customers and other stakeholders aimed at these challenges:

- To achieve significant reductions in per capita consumption clearly requires action by customers sufficient to achieve the company’s business plan performance commitment. The company has outlined a number of ways in which it intends to secure customer engagement and involvement in this endeavour
- The development of Community Model<sup>63</sup>, if it is put into operation, shows a change of company culture – from ‘telling’ to ‘working with’ communities and suggests that the communities would be defined by customers – not by water resource zones.

<sup>62</sup> For example pp38 and 39 of 23 July draft BP and p79 of V4BP which cites 8.5% population growth 2020/25 and various WRZ maps which show per capita consumption ranging from 119 l/p/d to 173 l/p/d.

<sup>63</sup> As described in Chapter 8 of V4BP

- The company has made commitments to undertake a number of . projects which involve elements of co-creation and co-delivery – for example working with customers at a community level, working with housing associations to retrofit water efficiency measures, a project to develop water re-use through rainwater harvesting at Heathrow Airport.<sup>64</sup> These projects seem, however, to be trial or pilot projects to test the company’s community model, and are to be completed before 2020.
- The business plan also proposes that the company invests in 8 local environmental projects which are also ‘innovative’ working with local partners and organisations as part of the implementation. The CCG has not been involved in the identification of these projects – only the development of the proposal to have a performance commitment framed in this way, which a sub-group of the CCG met with the company to discuss in 2017/18.
- The company’s Inclusive Services Strategy has been developed with input from a range of partner/stakeholder organisations and the delivery of the strategy, including the more detailed design of some aspects of it relies on partnership working<sup>65</sup>

In addition to the above the company has outlined approaches to working together more closely with other companies in the South East region on issues relating to water resources and co-ordination, water saving campaigns and also the design and administration of the priority services register (working also with energy companies) and the social tariffs making it easier and simpler for customers to sign up or apply for these across a number of companies.

In response to the various the drafts of the Business Plan we have seen we have queried with the company that some of the projects they refer to seem to be delivered before 2020 rather than 2020/25. The implication is that it could be clearer which projects relate specifically to the proposed BP performance commitment to deliver 8 local environmental innovation projects and which are just new approaches to the existing water savings programme or the community model approach or both.

AWL could have gone further in this area, but they have clearly considered how aspects of their BP could be co-created with customers and communities and their existing commitment to community focus is clearly a good vehicle for a co-creation approach. Putting their Community Model into practice and demonstrating an effective approach to partnership work with community stakeholders will require a culture change .in the company and will need to be well supported by effective communications and an effective approach to stakeholder and partnership relationship development

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<sup>64</sup> See p175 of 23 July BP version and pp133/34 of V4BP.

<sup>65</sup> see page 113 of 23 July BP – this is more fully explained in the papers the CCG has received relating to the Inclusive Services Strategy than it is in V4BP .

<p><b>10. Has the company effectively informed and engaged customers about its current performance and how this compares with other companies in <u>a way customers could be expected to understand?</u></b></p>	<p><b>Green</b></p>
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Helping customers to understand how the company's performance compares to others is important to helping them make a meaningful judgement that the company's proposals represent a fair deal. Ofwat's PR19 methodology has emphasised this expectation and the water industry organised together to create a shared resource of comparable information about performance called 'Discover Water' which creates a single shared 'hymn sheet' of information about price and service delivery by the water companies in England and Wales. This resource has been available in a website for the company and its customers to use since Autumn 2017.

The company has taken a fairly minimal approach to utilising comparative information in its customer engagement materials and has only done so in response to prompts and challenges from the CCG. At mid-March 2018 the CCG had not seen any customer engagement or stimulus materials that referenced comparisons. We were given drafts of the Business Plan and WRMP consultation documents and challenged the absence of comparative information in both of these documents. The company made changes to the Business Plan consultation (but not the dWRMP consultation document) as a result.

The following comparative information was included in the business plan consultation and showed primarily through charts how AWL and its customers compared to an 'Industry' average [ref]:

- Size of average bill
- Leakage % reduction .
- Per capita consumption l/p/d .
- Interruptions to supply minutes per property served (though the performance commitment proposed at that time concerned the % probability of an interruption longer than 3 hours so it is difficult to see how customers could compute these two)
- Mains bursts per 1,000 km

We have not verified that the 'industry' average figures used by AWL in the BP public consultation document were correct.

A number of the questions posed by AWL in its dWRMP and BP public consultation documents were very complex – for example asking customers to make a choice between a '1.7% chance' and a '0.5% chance' of *'needing to use additional water from sources where we would not normally take water'*<sup>66</sup> and reducing the likelihood of interruptions longer than 3 hours to 0.8% or 1.5% from a current likelihood of 6%. Even if suitable comparative performance information was available for both these issues they are also quite abstract concepts which require quite high levels of

<sup>66</sup> P13 dWRMP public consultation document



numeracy, and literacy to comprehend. In light of this it may not have been realistic for the company to go much further in the use of comparative information than it did. For example, there is some evidence from the report of the focus group qualitative research in Phase 2<sup>67</sup> that consumers found the information on a number of proposed BP performance commitments confusing – and that was with the benefit of facilitation.

The company did not consult customers about any specific proposals for customer service improvements as part of its BP consultation document and this is an area where the company could have used more comparative performance information, for example by presenting comparative performance information on complaints or customer satisfaction

<p><b><i>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?</i></b></p>	<p><b>Green</b></p>
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Based on information we have had by email from the company on 1 September 2018 confirming the final level of bills the company is proposing the plan is probably affordable for customers – and we set out our basis for that view below. However, we have not seen or been able to review the detail of AWL’s analysis comparing their proposed bill increase to projections in household income in the period 2020/25.

There have been a number of changes to AWL’s proposals for future bills between April/May and September 2018. The proposals AWL put to customers in April and May as part of its public consultation about the BP were for the average water bill to reduce in real terms by 2025, whilst service standards improved in some respects. This made the question of judging affordability reasonably straightforward.

Since June 2018 the company has changed its business plan proposals in response to stakeholder responses about its dWRMP, notably from the Environment Agency, Ofwat and the Government on significant water resource issues. The changes to AWL’s plan have increased AWL’s proposed bills for 2020/25. AWL’s final proposition is no longer ‘pay less for more’ as presented to customers in April and May 2018<sup>68</sup> The company now proposes a small increase in bills by 2024/25. As there have been a variety of bill levels given to us since April/May 2018 these are summarised in this report.

We consider below each of the questions that Ofwat has asked us to consider on affordability.

<sup>67</sup> Ipsos Mori report on Focus Groups Phase 2

<sup>68</sup> See Business Plan Consultation Document ‘Our Future Plans’ April 2018 – xxx Annex Ph2.10annex of AWL BP

### ***Is the proposed plan affordable for all customers?***

At 1 September 2018 our understanding is that AWL is proposing a business plan for the period 2020/25 where the overall average water bill will be **£174.41** in 2025 in real terms, ie without factoring in inflation. This is **£3.54** more than the **£170.90** that AWL currently expect the average bill to be in 2020. It is a small, 2.07% increase in real terms to the average bill over 5 years which the company says is 0.4% per annum in that period.

The company's PR14 business plan forecast that its proposed real price reductions to 2020 were such that the Affinity Water average bill was expected to be only 0.29% of customers' disposable income in 2020.<sup>69</sup> From V4BP (p8) we note that the company has undertaken some analysis of projected real household incomes and considers that its proposed water charges will represent a declining share of customers' projected disposable income by 2025. We have not been able to review this analysis of affordability in any detail because it has not been presented to us in sufficient time – it appeared first in V4BP which some members of the CCG received on 16 August 2018 and, for example, the sources the company has used were not explained in V4BP.

We note that the Office for Budget Responsibility (OBR) economic forecasts only project 5 years hence, to 2022 and the latest forecast is

*'But real earnings growth over the next five years is expected to remain subdued, averaging just 0.7 per cent a year. Growth in real household disposable income per person is expected to average only 0.4 per cent a year.'*<sup>70</sup>

If AWL's proposal for average bills is consistent with the amounts included in V4BP it would seem to us that, in real terms, their average bill is increasing in line with real household disposable income as forecast by the OBR (provided that trajectory is maintained to 2025). Therefore, the objective affordability of the average bill in 2025/26 relative to household incomes, and in isolation of other pressures on household incomes, may be no worse than it is today.

We have not seen the evidence AWL is expected to put forward that the proposed bills will be a declining share of customer income, on average.

It might be reasonable to expect that the small real terms increase in bills will not, on its own, increase the number of AWL's customers who would have difficulty paying their bills. AWL considers that the demographic make-up of its customer base – as a whole – is similar to the national average<sup>71</sup>. However, we have noted that AWL's customer base has a higher proportion of AB and C1 households (27.43% AB to 22.3% national profile and 32.23% C1 to 30.91% national profile). It also, therefore,

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<sup>69</sup> see p67 AMP6

<sup>70</sup> [cdn.obr.uk/EFO-March\\_2018.pdf](https://cdn.obr.uk/EFO-March_2018.pdf)

<sup>71</sup> Appendix 3 of AWL's BP .

has fewer C2 and DE households and has a slightly higher proportion of owner occupation than the national profile.

We note the following from various AWL BP research which tends to support the company's view that most customers have no difficulty paying, or affording, their water bill at present:

- 87% of customers report no problems paying their water bill <sup>72</sup>
- 76% of customers report no difficulties in paying their overall water bill (including water and sewerage services)<sup>73</sup> .
- 96% of customers say they can afford their current water bill, although a quarter of those say they find it 'a stretch' and 3% cannot afford their current bill.<sup>74</sup> .

We note that in the Phase 3 research by Ipsos MORI 14% of customers said found it difficult to pay their bill, although they always paid it on time, and a further 4% found it difficult and sometimes pay late as a result. This seems to echo the findings from the smaller survey by Blue Marble at around the same time, and also AWL's statement in V4BP that 19% of customers are financially stretched <sup>75</sup>(

It does not seem to us that there is evidence the proposed increase in bills will present increased affordability difficulties for AWL's customers.

What has been of concern to us in this context is that the company has shifted its proposition in terms of average bills significantly since April and May and we have found it difficult to track and reconcile the different bill figures and form an assessment.

As highlighted in section 2 above and section 14 below, the company initially consulted customers about the acceptability of a plan which delivered improvements to its performance for customers between 2020 and 2025 for a bill that was lower, in real terms, by 2025. There have also been a number of changes to AWL's view of the level of the bill in 2019/20 between the consultation and research with customers in May 2018, briefings for the CCG in July and V4BP circulated to the CCG in late August.

Below are the different levels of bills that have been presented to customers and the CCG between May and August for 2019/20:

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• <sup>72</sup> Phase 2 Acceptability survey, Ipsos MORI-Arup, 825 face to face customers, April/May 2018

<sup>73</sup> Phase 3 acceptability survey, Ipsos MORI/Arup, 1000 customers, online, August 2018

<sup>74</sup>Blue Marble, 500 customers, online August 2018

<sup>75</sup> p114, V4BP.

<b>Document</b>	<b>2019/20 average bill</b>	<b>2024/25 average bill</b>
Our Future Plans April 2018 (and Phase 2 Acceptability Survey)	£165 (on page 5) £170 (on pp 17/18/19)	Plan A - £158 Plan B - £161 Plan C - £168
18 July briefing for the CCG (slides tabled at meeting) .	£170	Various numbers quoted according to what changes to the plan were proposed. Main proposals were £172.40 inc CRI at 2.8 and abstractions at 33 M/ld and £175.90 inc 'additional resilience' various costs
Phase 3 Acceptability Survey – Ipsos MORI/Arup	£168.77 (fig 3.1 report)	£172.40 (fig 3.1 report)
Phase 3 Additional Resilience Investment – Blue Marble	£175 (draft of Q9 circulated to CCG – no year for this bill level stated)	Seems to have been expressed as £1-£2 extra per annum Or £3-£5 extra per annum Presumably on the '£175' in Q9.
V4 BP	£172.40	£175.90
Email 1/9/2018	£170.90	£174.41

After receiving the briefing on 18 July we raised a number of queries with the company about the different amounts for the 2019/20 bills in the above – which range from £165 to £175. A response was provided late in August. The most significant area we raised concerned the different amounts for the 2019/20 bills. The company has said that when it quoted a bill of £165 for 2019/20 this was '*the level of the bill that was forecasted at the time of the PR14 final determination*'. We cannot see a good reason for using that figure in the material presented to customers which also quoted a different amount of £170 as the 2019/20 average bill. We are not able to verify or explain why AWL has expressed so many different 2019/20 average bill values in the research listed above (ranging from £165 to £175).

***Is the plan affordable for future customers?***

At 1 September we have not seen any longer term economic forecasting or analysis of changes in household income growth since the PR14 plan from AWL to be able to comment on this

***Is the plan affordable for customers struggling or at risk of struggling to pay their bills?***

The Business Plan identifies that 280,000 households in 'our region' [(which we assume is just within AWLs supply areas)] are financially stretched with a gross

income less than £20,000 per annum, equivalent to 19% of AWL's customers<sup>76</sup>. There is no comparable information for the population as a whole to enable us to see if AWL faces more significant challenges in this area than other companies in England and Wales. The company also identified that customers' disposable incomes have only risen by 0.2% in 2016 and 2017 and are not expected to rise more than nominally after this<sup>77</sup>.

As we have noted above based on our own review of the OBR forecasts it does not seem to us that the proposed small increase in bills will present any greater affordability difficulties for AWL's customers. We had found the company's initial proposals to offer improved service for a real terms reduction in bills by 2024/25 much easier to assess from a future affordability perspective, and noted that at Phase 2 the lowest proposed bill and service package attracted the greatest support, particularly amongst lower income customers.

We note that the company is proposing to continue and expand its 'social tariff' scheme which in 2018/19 assists 50,000 eligible households so that 35000 more customers are assisted between 2020 and 2025<sup>78]</sup>

The company has developed, and provided the CCG with adequate opportunities to review and challenge proposals for, an '**Inclusive services strategy**' which covers both its support for customers in vulnerable circumstances and its support for customers who have difficulty affording their water bills, including the provision of the 'social tariff' scheme which provides a significant reduction in bills for customers who have difficulty paying their bills, and meet certain criteria.

The CCG was asked to review and challenge the company's customer engagement on these issues through a sub-group of CCG members which met with the company at the start of the review and when the review was largely completed in June 2018. The CCG agreed terms of reference for this sub-group at its meeting in September 2017. A number of documents were circulated to those meetings, notes made and circulated to the whole CCG and emails and queries were exchanged between meetings.<sup>79</sup> CCG members were invited to observe focus group and stakeholder discussion sessions relating to this review and have also, between meetings, been asked to comment on drafts of quantitative customer survey questions relating to the social tariff. Quantitative surveys were undertaken with customers about the social tariff on three occasions, first a standalone survey by Ipsos MORI in Feb 2018<sup>80()</sup> second some questions were included in the Phase 2 Business Plan acceptability survey<sup>81</sup>, at the end of July 2018 we understood further research with customers was being undertaken on the level at which they would support increases to bills to allow expansion of coverage of the social tariff.<sup>82</sup>

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<sup>76</sup> page 114 V4BP

<sup>77</sup> V2BP

<sup>78</sup> P109 V4BP

<sup>79</sup> See documents 26,28,38, 42, 70 and 100 in Appendix 5

<sup>80</sup> Ipsos MORI, Feb 2018, Social Tariff Survey, Business Plan Appendix 3, Annex Ph1.4

<sup>81</sup> Ipsos MORI, June 2018, Affinity Water Business Plan Acceptability Survey, Business Plan Appendix 3 Annex Ph2.4

<sup>82</sup> Phase 3 – Final Acceptability Survey Ipsos MORI and Arup August 2018

The company has undertaken appropriate analysis and planning for the proposed services and activities in its Business Plan which are aimed at supporting customers who are struggling or at risk of struggling to pay. The company has also established that customers and stakeholders support the approach they propose to take and they have demonstrated good engagement with relevant expert stakeholders and customers. We would like to highlight the following features of the work undertaken on this:

- AWL undertook comprehensive analysis of a range of external data (from Acorn, RNIB, Experian and government data on indices of deprivation and health inequalities) to identify the extent and location of customers who are financially vulnerable in their supply area. The company told us it has used this analysis to plan improvements in their communications.
- AWL consulted widely with a comprehensive range of charity and other stakeholder organisations in its area during this review. It approached discussion with those stakeholders in a very open way (we remotely observed a meeting with stakeholders at first hand as if it was a market research focus group), and it was independently facilitated.
- AWL has established a number of partnerships with voluntary and charitable organisations that it intends to work with to co-create aspects of its 'Inclusive service strategy' and monitor its performance in delivering those services, through a twice yearly 'audit' of how easy Affinity Water is for those partners, acting on behalf of customers, to deal with. (Elements of this proposed stakeholder audit also relate to test area 12 below – Vulnerability).
- AWL has undertaken three waves of quantitative research with representative samples of customers to establish customer support for the maintenance and potential expansion of the current social tariff as proposed in the BP<sup>83</sup>. The first survey in January 2018 established that 75% of customers supported the company providing support and assistance to customers in financial difficulty, with 65% in favour of paying more, through their water bills, to enable the company to continue to offer a social tariff. The second survey asked a range of questions about support for customers in debt and specifically asked a question of extending the coverage of the social tariff scheme. AWL's customers were asked if they supported adding £1.50 or £3 a year to bills to enable either 25,000 or 48,000 more customers to be assisted by the scheme. These options each only secured a minority of support, which together suggested that support for an additional £1.50 added to bills might only be 47%. Notably 39% of customers in this survey did not support an increase in bills to increase the coverage of the social tariff. The third survey, in August 2018 made it clear that bills already include £3 to cover the cost of the social tariff scheme under which 51,000 customers have capped water bills if they are on a low income. Customers were asked specifically if they supported an increase to their bill of an additional £1.50

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<sup>83</sup> Ipsos MORI, January 2018, 500 Customers; Ipsos MORI May 2018 825 customers and Ipsos MORI July 2018 XX customers

so that AWL could assist an additional 25,000 customers by 2025, 60% of customers surveyed supported this and 6% said they did not mind. .

- AWL has developed proposals in partnership with other water companies in the South East to adopt a consistent approach and alignment of eligibility between the social tariffs they offer, making it easier and simpler for customers and their representatives (eg debt advice agencies) to make applications in situations where a customer receives water and sewerage services from different companies.
- In response to engagement with stakeholders the company has identified a number of improvements it plans to make to its support for customers in or at risk of being in financial difficulties including increased flexibility of payment options, training of staff, introduction of a 'breathing space ' (temporary debt recovery forbearance policy), payment holidays for some customers and continuation of its offer of 'home visits' to discuss all the assistance the company might be able to offer or refer the customer to.

In addition to the above the company is taking a new initiative to in effect earmark some of its expenditure on debt recovery/management as two funds – a 'Customer Assistance Fund' and a 'Trust Fund'. We were briefed about these Funds in June 2018 that each would be £500k per annum, making a total commitment of £5m for the period 2020/25. We understand the Customer Assistance Fund to be a form of proactive debt write off scheme whereby a proportion of a customer's debt to the company is written off if they make some payments. This approach has been used successfully by other companies. We sought clarity about the nature of the Trust Fund particularly as we wanted to understand if the company was establishing an independent charitable fund. We were told in a briefing paper in June 2018 that

*'the Trust Fund will provide financial support via a credit towards the customer's water service charge. For customers who have arrears from >=3 years and whom agree to make payments based on their affordability, will be offered a payment matching scheme. This will match the agreed level of payments made by the customers with a credit against the customer's water service charge. It is expected that customers will need to make repayments for at least 3 months before the matched payment will be applied to the account. In addition, customers who are diagnosed with a terminal illness can also be subject to severe financial pressures; from reduced household income and additional expenses, on top of the mental stress of the illness. Cases would be considered on an individual basis with the trust fund being used to make a direct credit towards the water service charge, meaning little or no payment would be needed for an agreed period. A budget of £500,000 pa from 2018/19, running into AMP7 will support the trust fund.'*<sup>84</sup>

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<sup>84</sup> P17 – Document 70, Appendix 5

We are not sure what the real difference is between these two ‘funds’ or budgets. We were sent a further briefing paper in July 2018 <sup>85</sup> which stated the Trust Fund would be £500k *for the AMP* so £100k per annum, and the Customer Assistance Fund would be £500k per annum, a total of £600k per annum for the two funds. V4BP states different figures again for these funds as £0.4m for the Customer Assistance Fund and £0.1m for the Trust Fund per annum, a total of £500k per annum<sup>86</sup>.or £2.5m for the period 2020/25 There have therefore been a number of changes to the company’s proposals for the two proposed new ‘funds’ in terms of their value since June 2018. We are not able to say if the amount now budgeted will be sufficient to meet demand and need, but we welcome the wider range of tools that the company is now proposing to deploy. We note that in V4BP the company discusses how it has drawn on research about good practice in debt recovery and is planning to provide a more personalised response to customers who have, or may, have difficulty paying their bills and, as noted above, a wider range of initiatives than in the past for payments and ‘breathing space’ arrangements. <sup>87</sup>

AWL provided the CCG with the opportunity to challenge its debt recovery effectiveness and efficiency through the Affordability and Vulnerability sub-group of the CCG. It presented us with information in June 2018 about the challenges it faces from an increased customer base in the period 2020/25 and c50,000 customers moving from an unmeasured and predictable charge collected in advance to a measured charge, collected in arrears. We note that V4 of the BP describes some key information about the proportion of accounts in arrears. The company also indicated to us in a meeting in June 2018 <sup>88</sup> that it was projecting it’s provision for bad debt will reduce in the period .2020/25. We note V4BP indicates that <sup>89</sup> AWL’s bad debt as a percentage of revenue is in the bottom quartile of companies in England and Wales and the company is targeting a significant improvement in this.

<p><b>12. Vulnerability - Is the company’s approach to vulnerability targeted, efficient and effective? What is the CCG view on the quality of planned support for customers in vulnerable circumstances, taking into account Ofwat’s February 2016 Vulnerability Focus report.</b></p>	<p><b>Green</b></p>
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The company has developed and provided the CCG with adequate opportunities to challenge proposals for an ‘**Inclusive services strategy**’ described in Chapter 7 of the BP submission. This covers support services the company will deliver for customers in vulnerable circumstances. The strategy also covers proposed support for customers who have difficulty affording their water bills, including the provision of a ‘social tariff’ scheme which provides a significant reduction in bills for customers

<sup>85</sup> Reference to 16 July ‘CCG response paper’ doc 100 Appendix 5

<sup>86</sup> P106 V4BP

<sup>87</sup> P119 V4BP

<sup>88</sup> Reference vulnerability and affordability working group slides June 2018

<sup>89</sup> P 176 V4 BP



who have difficulty paying their bills and meet certain criteria. (see also Test area 11 above)

The Business Plan includes a proposed bespoke performance commitment based on customer satisfaction with the services provided by the Priority Services Register (PSR).

The company has made a commitment to significant business change, before 2020, by seeking and achieving independent accreditation from BSI (18477) that it meets the requirements of that standard for Inclusive Service provision.

In terms of the process followed to arrive at this strategy we would like to highlight the following points, though the company has provided a full account in its Business Plan supporting material:-

- the company undertook the review of its services and support for customers who are vulnerable or have difficulty affording their water bills from September 2017 onwards.
- the CCG was asked to review and challenge its customer engagement on these issues through a 'sub-group of CCG members which met with the company at the start of the review and when the review was largely completed in June 2018. The CCG agreed terms of reference for this sub-group at its meeting on 6 October 2017. A number of documents were circulated to those meetings, notes made and circulated to the whole CCG and emails and queries were exchanged between meetings. (See documents 26,28,45,70 and 100 in Appendix 5).
- CCG members were invited to observe focus group and stakeholder discussion sessions relating to this review.

We would like to highlight the following features of the work undertaken by the company in this area which enable us to provide a high degree of assurance for the view we have taken on the quality and appropriateness of the company's plan development and customer and stakeholder engagement.

- AWL undertook comprehensive analysis of a range of external data (from Acorn, RNIB, Experian and government data on indices of deprivation and health inequalities) to identify the gap between the number of customers in its supply areas that might potentially benefit from its priority services, and the priority services register. They have used this analysis to set a target to significantly increase to 'circa 92,000' the number of customers on their PSR by 2025, from 25,000 in 2018<sup>90</sup> and set out a plan of action designed to achieve that. Achieving that level of take up represents a stretching goal, though take up is not a business plan Performance Commitment the plan commits to this goal, and supporting actions.
- AWL have been working collaboratively with other utilities, including UK Power Networks locally and the water and energy industry trade body led

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<sup>90</sup> P120 V4 BP – the company had advised us in June 2018 their goal was an increase to 100,000 as shown in document 70 – Appendix 5. The figure could therefore change again in the final BP.

projects to identify how to bring about improved data sharing between utilities to maximise take up and use of individual company’s PSRs

- AWL consulted widely with a comprehensive range of charity and other stakeholder organisations in its area during this review. It approached discussion with those stakeholders in a very open way (we remotely observed a meeting with stakeholders at first hand as if it was a market research focus group, and it was independently facilitated).
- AWL undertook in depth research with a small number of vulnerable customers to understand their experience as customers of Affinity Water.
- AWL has established a number of partnerships with voluntary and charitable organisations that it intends to work with to co-create aspects of its ‘Inclusive service strategy’ and monitor its performance in delivering those services, through a twice yearly ‘audit’ of how easy Affinity Water is for those partners, acting on behalf of customers to deal with. (Elements of this proposed stakeholder audit also relate to test area 11 above – Affordability).

The quantitative research on customer support for the social tariff is referred to in relation to test area 11 above.

Comment is also provided on the proposed bespoke Performance Commitment and its level in relation to test area 14 below.

<p><b>13. Approach to the performance commitment framework – including Outcomes and ODIs – and CCG scrutiny activities</b></p>	<p>n/a – this section explains our approach</p>
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Ofwat has asked the CCG to provide a view on how the company has approached developing its business plan outcomes, performance commitments and the levels of those commitments, including whether there has been customer engagement and whether the proposed levels are sufficiently stretching.

In total there are 17 different questions that Ofwat has set out in its PR19 Methodology relating to performance commitments and ODIs. These are summarised in the ‘Aide Memoire’ for CCGs in questions 6 (a) to (j), 7 (a) to (g) and also 5(b).

Many of Ofwat’s questions overlap because they concern essentially whether the company has consulted customers about the proposals in the business plan, whether the proposals reflect customer views and, in relation to performance commitment levels whether they are sufficiently stretching. Answering the latter question requires reviewing past and current performance, and comparative performance and taking account of the particular circumstances of the company. Arguably the judgement of whether the performance commitments are sufficiently stretching is one that the company’s regulator is better equipped to make than us because Ofwat has significantly greater resource including access to a wide range of

comparative performance data and engineering and economic expertise, than an 'armchair auditor' such as the CCG.

In this section we outline what we have done to engage with, consider and challenge the company on the performance commitments it is putting forward in its business plan. In section 14 below we provide our opinion on the various aspects of the 18 performance commitments Affinity Water has proposed that Ofwat has asked us to give an opinion on.

Between Autumn 2017 and July 2018 the CCG was presented with information and considered various aspects of the company's performance commitment framework as it developed. We received papers from the company about the issue of performance commitments at our meetings in September and December 2017 and March, June and July 2018.<sup>91</sup> In addition we formed two working groups, at the company's request, to help them develop proposals for bespoke performance commitments in relation to environment and resilience issues and vulnerability and affordability issues. Those working groups both met twice between Autumn 2017 and Spring 2018 and the meeting dates are noted in Appendix 3. Appendix 5 lists all the papers that the CCG has received relating to PR19:

In March 2018 we agreed our Assessment Framework (Appendix 6) and shared this with the company. It was presented to the AWL board on 22 March 2018. It included the following test questions that we told the company we wished to be able to answer in relation to performance commitments. We indicated we would need to challenge the company and comment on:

- 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
- 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.

Our challenge log records a number of challenges we have posed in relation to the performance commitment framework whilst the company was developing its proposals. See in particular challenges 9, 11, 13, 19, 21, 25, 27, 28, and queries noted in Appendix 4

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<sup>91</sup> Appendix 3 lists the CCG meetings at which PR19 issues were covered.

Because the company has continued to develop its performance commitment framework, including proposals for ODIs, after the last meeting of the CCG on 18 July the CCG has a whole has not seen and been able to challenge the company on those aspects which had not been finalised at that point, which includes a specific ODI proposition. This makes the task of assurance challenging as the Group has not actually seen the complete proposition before it needs to produce its own report which needs to be comprehensive and robust, and submitted on the same date as the company’s plan. Unlike the company and the regulator most CCG members are volunteers and within a month of us needing to submit this report, allowing time for members to review and comment on drafts over a busy holiday season some key inputs to our assessment were not actually complete or finished by AWL.

To assist Ofwat and AWL and enable the CCG to produce a report by 3 September we have therefore drawn on the evidence we had until a certain date. The Chair reviewed several draft versions of the Business Plan, those dated 23 July, Version 2 dated 31 July and Version 4 received on 16 August. She raised queries with the company about the performance commitment framework as listed in Appendix 4. Responses to those queries have been circulated to all members of the CCG and are in document 106 listed in Appendix 5. Some members have read Version 2 of the BP and some have read V4 of the BP to enable them to comment on this report.

Our opinions are, therefore, based on a combination of briefings from the company, particularly the 18 July briefing, two drafts of the Business plan (version 2 and version 4) and specific queries raised until mid-August 2018. A number of queries and challenges were raised on version 2 of the draft BP (23 July) relating to which performance commitments are stretching and the detail of the ODI evidence base relating to ‘customer preferences’<sup>92</sup>

<p><b>14. <i>Opinions on proposed outcomes, performance commitments – both common and bespoke - and outcome delivery incentive in terms of level of stretch, customer engagement and support</i></b></p>	<p><b>Amber</b></p>
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This test area covers three interconnected aspects of the company’s proposed Business Plan which it refers to as the Performance Framework being the proposed outcomes, performance commitments and outcome delivery incentives. As noted above Ofwat has asked us to consider a range of questions in relation to these including whether customers have been consulted about and support what is being proposed and whether the proposed performance commitment levels are stretching.<sup>93</sup>

Because of the range of different aspects and different sub-questions Ofwat has asked us to consider there has been a lot of material for us to review and utilise to

<sup>92</sup> see Appendix 5 challenges 19, 21, 25, 27 and most of the Queries raised between 18 July and 14 August also listed in Appendix 5]

<sup>93</sup> Aide Memoire for CCGs has 17 sub-questions about performance commitments and ODIs, in theory each question needs to be considered for each of the 19 performance commitments.

evidence the opinions given below. This section therefore provides an overall summary opinion on each main aspect and key points of evidence we have noted – particularly in relation to the assessment of the performance commitments of which there are 19. We have not included all the detailed material we have considered on each of the 19 performance commitments but have done so for the six performance commitments that we consider are potentially stretching. We have also commented on data about the proposed performance commitment on mains bursts

### **Our overall assessment of AWLs Performance Commitment Framework is Amber**

We have rated the different components of the Performance Commitment Framework as follows:

- Outcomes = Green
- Performance commitments evidence of customer support - Amber
- Performance commitments stretch - Amber
- ODIs reflect customer preferences – Amber

#### **Outcomes – Green**

The company is proposing four high level outcomes in its BP as outlined on page 4 of V4BP. The company has tested customer support for the four outcomes primarily through a representative quantitative survey in Spring 2018<sup>94</sup>. This found customer support for all the outcome statements was very high indeed – ranging from 95% of customers giving ‘supplying high quality water you can trust’ a score of 8-10 in terms of importance to 81% of customers giving ‘minimising disruption to you and your community’ a score of 8-10. No customers said these outcomes were unimportant. We note from V4BP that the company is presenting the proposed Outcomes prominently within the plan and that the performance commitments are shown to relate clearly to those proposed Outcomes, which will aid communication and reporting.

The four high level outcomes are very similar to those included in the company’s current business plan. In September 2017 the company proposed to the CCG that if it intended to continue using the same outcomes in its next business plan it did not need to test customer support, as that had been established at PR14. In principle that might have been appropriate, particularly in light of independently facilitated customer focus group sessions CCG members had observed in Summer 2016 which reported on company performance. At those sessions feedback was specifically sought from customers on whether the outcomes made sense to the customers present. No issues of concern about customer recognition of the current BP outcomes were identifiable from those focus group sessions.

However, the CCG challenged the company<sup>95</sup> on its view that it need not test the outcomes with customers, particularly in light of two things. Firstly, the importance

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<sup>94</sup> Phase 2 Acceptability Survey, Ipsos MORI, June 2018

<sup>95</sup> see Challenge 22 on the Challenge Log – Appendix 4

that Ofwat ascribes to the outcomes in its PR19 methodology. Second, we were presented with two proposed redrafts of the Business Plan outcomes and we could not agree that the proposed changes either had the same meaning, or were simpler or easier for customers to understand. The company subsequently decided to include its proposed outcomes in its Business Plan consultation document and acceptability survey in Spring 2018.

### ***Performance Commitments – evidence customer support - Amber***

The company is proposing 19 performance commitments (PC). 9 of these are called common performance commitments, so will be proposed by all water companies in relation to their water supply. 10 of the performance commitments are bespoke and have been developed by Affinity, either as new performance commitments at this price review or to retain and continue existing performance commitments.

AWL's approach was essentially to establish if its proposed plan was acceptable to customers, with very few options in what was proposed and no bottom up development of standards and expectations. The main quantitative and representative evidence base is the Phase 2 Business Plan acceptability survey which interviewed 825 customers face to face in their homes in April/May 2018.<sup>96</sup> Additionally, a quantitative on-line survey concerning the dWRMP with 1000 customers has some relevant findings. No other pieces of research we have seen explored customer views on specific performance commitments. We note V4BP includes results of testing acceptability of one plan option with customers<sup>97</sup> which includes specific references to 7 of the 18 performance commitments.

Our main observations on the evidence of whether customers support the proposed performance commitments and the levels of service are as follows:

- Only 7 of the 19 performance commitments were specifically set out to customers with – in the Phase 2 Acceptability survey - options they could, in theory, express a preference between. The 7 PCs which were presented to customers were leakage, per capita consumption, risk of severe restrictions in a drought, interruptions to supply, low water pressure, environmental innovation projects, sustainable abstraction. The performance commitments were presented in packages with other proposals so customers were not able to do a 'pick and mix' within the survey on the business plan, there was therefore no exploration of customer views on different levels of service for different aspects of service.
- 4 of the 19 performance commitments are arguably ones which customers are not able to influence because the question of whether there is such a performance commitment and its level is determined by a quality or environmental regulator – the Drinking Water Inspectorate or the Environment

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<sup>96</sup> Phase 2 Ipsos MORI report ref needed

<sup>97</sup> Affinity Water Phase 3 Final Acceptability Survey – August 2018, Ipsos MORI/Arup

Agency. In these cases it may be reasonable for the company not to engage with customers or seek their views as the company will be under an obligation to comply. However, in respect of one of these types of performance commitments - proposals for abstraction reductions – the company did present options to customers, and other stakeholders, implying that customer views could influence the proposals. The proposed PC relating to river restoration projects was also developed after the BP and dWRMP public consultation. (the 4 PCs relating to quality/environment obligations which were not consulted on are CRI score, river restoration projects, AIM, mean zonal compliance)

- 8 of the 19 performance commitments were not subject to any specific engagement with customers as to the proposed performance commitment or the level. These are the performance commitments on:
  - Voids
  - Gap sites
  - Unplanned outage
  - Mains bursts
  - CMEX
  - DMEX
  - PSR satisfaction
  - Ease of use [although there was stakeholder engagement about this proposal which was more appropriate]

In relation to the 7 performance commitments where there was specific customer engagement we note that customers tended to support what seemed to be the cheapest options when these were presented as part of proposed plans, which also tended to have a lower level of performance commitment level than that the company has chosen for its Business Plan.

The company has therefore decided to put forward a higher cost plan which includes higher levels of performance commitment in some areas which were not in the plan most preferred by customers when customers were presented with options in the Phase 2 acceptability survey. For example, on leakage more customers supported those plans which had the lowest bills and included only an 11% leakage reduction.

We appreciate that the phase 3 Acceptability survey secured high levels of customer acceptability, but it presented no options or alternatives and its starting point was a higher cost bill than was proposed in Phase 2. Customers in the Phase 3 Acceptability survey were not asked if they would find more acceptable a lower in real terms bill in 2020/25 than that which was presented.

We appreciate that some of the levels of service represented in performance commitments are being driven by environmental and public policy stakeholder expectations and either customers cannot influence the performance levels or public policy stakeholders' views are predominant. For example, in relation to *sustainable abstraction* – when given any options customers supported more the cheapest

business plan which included only 10 MI/d abstraction reductions. It is noted that the dWRMP quantitative survey found 43% of customers supporting 39 MI/d and 28% supporting 10 MI/d. It is, however debatable whether the company should have given customers an option of 10 MI/d reduction in abstractions as even if that was the level of service most strongly supported by customers (perhaps because it was presented as lowest cost) it would not meet the requirements of the environmental regulators.

We have similar observations on per capita consumption (although we understand the company has revised its proposal to 129 l/p/d when it had proposed 124 l/p/d in Phase 2), risk of drought and interruptions to supply.

In relation to the proposed performance commitment for **environmental innovation projects** – the company is proposing to deliver 8 projects but customers were asked if they supported two levels of expenditure – £2 million or £6 million depending on the plan option presented. It is therefore not possible for us to say if the business plan proposal is in line with customer views or not as the propositions are different and we are not clear how the company has decided to move from a proposal put to customers to spend a given amount to a proposal to undertake a certain number of projects of a scale or outcome that is not yet defined.

We understand that the company commissioned a second Acceptability survey in July/August 2018<sup>98</sup>. From this we observe that customers were presented with one plan outline and asked for their views on its acceptability. We note that the amounts presented for the level of bills in 2018/19, 2019/20 and 2024/25 are different to the amounts presented in the first Acceptability survey.

The 7 performance commitments set out to customers in the second Acceptability survey were

- 15% reduction in leaks
- 33 million litres less water taken from the environment (we assume this is MI/d)
- Reducing personal water usage to 124 litres per person per day
- Reducing the risk of interruptions to water supply to a 0.8% chance per year (1 in 130)
- Reducing the chance of needing to use severe drought restrictions to a 0.5% chance or 1 in 200 per year
- Investing in eight new environmental pilots to test new innovations (no detail indicated of results or spend)
- Reducing periods of low water pressure to 8.7 hours low pressure per year.

We understand that the second – ie Phase 3 - acceptability survey found the plan including the 7 performance commitments listed above was acceptable to 82% of customers.

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<sup>98</sup> Phase 3 Final Acceptability Survey, Ipsos MORI and Arup August 2018 – cross reference to BP annexes needed



The report on the second Acceptability survey notes that the level of acceptability reduced to 62% when inflation was added to the amounts presented for bills and further to between 41% and 51% when the expected costs of sewerage charges were added.<sup>99</sup>

We consider the company has obtained appropriate quantitative evidence from representative surveys which shows customer support for some of the proposed performance commitments across two acceptability surveys. We observe that the second acceptability survey was online in nature and whilst it was a relatively large sample of 1000 will by definition not have included any AWL customers who are digitally excluded.

We observe, however, that none of the customer engagement relating to specific performance commitments has afforded customers with significant opportunities to indicate choices between different service levels. When presented with choices most customers tend to prefer the package which is cheapest, particularly customers on lower incomes. The second acceptability survey findings in relation to bill levels with inflation and sewerage charges would tend to suggest that customers are far more sensitive to price information than information about proposed service levels. This is not surprising given the quite complex and abstract nature of the way the proposed service levels are expressed, eg to express a reduced level of risk or a large quantity of water in multiples of megalitres per day.

The Phase 3 Acceptability survey was commissioned and completed after the CCG had last met in full as a group. Some members of the Group have been able to read the report of that exercise and we note that when presented with one option for a plan – which also costs more - customer acceptance was higher than it had been for any of the, different, plans presented in Phase 2. For example, customer acceptance of the plan presented at Phase 3 was overall 82% whereas the overall acceptance of the three Phase 2 plans ranged from 78% to 74%. We would consider this difference as due to context and timing. For example, the Phase 2 research involved face to face surveys in customer homes whereas the Phase 3 research was online. The Phase 2 sample was more likely to have included customers who are digitally excluded or who have low levels of numeracy and literacy.

### ***Are the performance commitments stretching - Amber***

Ofwat has asked the CCG's to challenge companies on their approaches to setting performance commitments including how well they reflect customers' views **and how stretching** they are' and says companies should

*'engage with their customers on their performance commitment levels and challenge the level of stretch in their performance commitments with their customers, CCGs and other stakeholders.'*

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<sup>99</sup> Phase 3 Acceptability Survey, Ipsos MORI-Ipsos, August 2018

We have challenged the company to prove to us that the proposed performance commitments are stretching but we find it difficult to determine whether or not that is the case.

We have noted Ofwat's PR19 methodology in relation to determining 'stretch' involves a range of process and other considerations including cost benefit analysis, reviewing historical performance and comparative performance. For some potential performance commitments Ofwat has indicated a minimum level that it would expect companies to put forward (for example achieving upper quartile performance for water quality and water supply interruptions). It has also indicated that in some areas companies should develop proposals from a minimum of 20% improvement and also examine the maximum possible improvement they could make, justifying why that is not possible to meet that perhaps on grounds of cost. Customer preferences will be a very important component of such an analysis and, as we have noted above, only a few of AWL's proposed performance commitments have been referred to acceptability testing research. Neither have we seen any analysis to show how it would not be possible or would be too costly and unacceptable to customers for AWL to achieve the maximum possible improvement in its performance commitments.

Ofwat has also indicated that a performance commitment might be stretching if it involved some of the following characteristics:

- significant changes in operating practices or culture for the genuine benefit of customers and / or the environment;
- developing a broad range of performance commitments, which, taken as a package, represent a stretching challenge across a wide range of the company's services and a number of price control areas;
- definitions for performance commitments, which allow for fewer (or no) exceptions;
- performance commitments jointly owned by more than one company to achieve shared outcomes, for example, companies working together to achieve the best, lowest cost or most sustainable outcome for a catchment;
- performance commitments that involve engagement with people, groups and stakeholders from across society to help deliver what matters to customers and the environment.

The 18 July briefing paper from AWL<sup>100</sup> provided us with a variety of information about each proposed PC, including the company view on whether, and the extent to which the proposed level of the performance commitment, ie the standard of delivery or performance the company will provide to customers, is **stretching**. Because we had not seen the final Business Plan at the time of finalising the text of this report we have primarily used 'the 18 July paper'<sup>101</sup> to help form our opinions, not least because all the key information we asked for was presented in one place, whereas it

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<sup>100</sup> Document 98 in Appendix 5

<sup>101</sup> Document 98 in Appendix 5

has been scattered within the drafts of the Business Plan we have seen. We have, however, reviewed the material included in the drafts of the business plan that we have seen (primarily Versions 2 and Version 4) and raised a number of queries with the company asking them to provide evidence to demonstrate how stretching the performance commitments are (see Appendix 4 for a list of those queries).

It seemed from the 18 July briefing paper given to the CCG that some of the levels of the PCs being proposed could not be judged as to whether they are stretching or not. . This is because some proposals were described as a promise to **maintain** current service/serviceability levels. Some of the proposals are new measures and there is either no track record for Affinity Water of delivering in the way that the performance commitment is measured, or there is no comparative information to enable a view on whether the proposal is stretching by comparison with the industry as a whole. In some of those cases it may be arguable the proposed performance commitment meets Ofwat's requirements for 'stretch' because of the novelty or business transformation that may be involved although the company has not presented that argument to us. we have taken it into account in our assessment

Based on the information we have had from the company, the responses to our challenges and having regard to Ofwat's PR19 methodology<sup>102</sup> . we have identified 6 performance commitments, of the 19, which might be regarded as potentially stretching, either because of the degree of improvement the company is committing to deliver to customers or because the proposed commitment involves some significant business change which is novel or new for the company to take forward.

CCG members can see that AWL is making a number of inter-related commitments to use less and save more water, and wishes to engage its customers in that task on a sustained basis when its population is rising, many of its customers are accustomed to using significant volumes of water for personal consumption and the water resources available are under stress and the company is able to draw less on them in future. In this context performance commitments related to volumes of water may be more challenging to achieve as a collection of measures than in isolation of each other. The company faces a number of challenges with engaging customers not least low levels of customer awareness of the company.

The six performance commitments we have identified as **potentially** stretching are

- Leakage
- Per Capita Consumption
- Water supply interruptions
- Water pressure
- Customer satisfaction – users of the PSR
- Ease of use survey – PSR customer/representatives.

However, we consider that ultimately the judgement as to whether a performance commitment level is stretching for AWL to prove to Ofwat and for Ofwat to judge as it

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<sup>102</sup> Ofwat PR19 Methodology, Appendix 2

is far better equipped to do so having knowledge of performance across the entire water industry in England and Wales and access to expert engineering advice, which is not available to us. We are satisfied we have challenged the company to demonstrate this performance commitment is stretching and the information given in its final BP may have improved as a result.

We discuss the key facts and information we have considered about these six measures below. If Ofwat would like to review the information we have about the other measures that is available on request.

### ***Leakage***

AWL proposes a 15% reduction target – reducing to 137.7 MI/D by 2025 from 162 MI/D in 2020 (a 24 MI/D reduction). Notwithstanding its 14% reduction target in AMP6 Affinity Water has a fairly high level of leakage in 2017/18 in terms of litres of water per property per day (that leaks) – at 115 litres per property per day Affinity's performance is below the overall industry average but it is the 5<sup>th</sup> highest, amongst 18 companies in England and Wales.<sup>103</sup> Many other companies are achieving better than this, and thus comparative performance would point to the need for the company to respond to Ofwat's challenge to propose at least 15% as a target reduction in leakage. Objectively it would seem to be stretching for the company to significantly improve its leakage performance, although a 15% reduction may mean it remains the 5<sup>th</sup> highest for leakage if other companies do likewise or better in future. The company has made significant investments in new leak identification systems within its current business plan, and has a significant proportion of its metering programme to complete in AMP7 so is therefore arguably better placed to meet the challenge of making further leakage reductions than it was in 2015. We understand that the percentage of distribution input that is expected to leak in 2020 is 17.92% and by 2025 that will only have reduced to 16.75%. The company has also told us that up to 30% of leakage was derived from customer supply pipes and that supply pipe leakage would be reduced by the meter installation programme the company has ongoing into its next Business Plan period.

### ***Per capita consumption (PCC) –***

AWL proposes reducing average PCC to 129 l/h/d by 2025 from 147.4 l/h/d. V4BP states this is a 13% reduction in consumption. Objectively it looks to be stretching to secure customer reductions in consumption. However, AWL do have a significant metering programme that is overall expected to result in 18% reductions in consumption and a substantial proportion of meter installations to households in that programme are yet to be moved to measured charging, whereas their meters have already been installed – so the price signals are not yet being received by customers. Members of the CCG would expect the metering programme to be a major factor in achieving the proposed reduction in customer demand and some of Affinity's water resource zones already use less than the targeted consumption

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<sup>103</sup> <https://discoverwater.co.uk/leaking-pipes>

levels and have highest penetration of water meters (eg Dour). The proposal might, therefore, be achieved mainly or partly as a result of the metering programme.

The company has told us that the metering programme (called the Water Saving Programme), including its home water efficiency checks, is only expected to deliver a 6.8% reduction in consumption between 2020/25. We have found it hard to marry that response with the 18% consumption reduction from metering figure which is also provided by AWL.

It is possible that this is because 40% of homes already had a meter at the start of PR14, so any reduction in consumption amongst those households had already been realised. We think that by the end of 2020 more than 60% of AWL's customers should have been metered, although not all will have been switched to a measured basis of charging, leaving a minority of households to be metered by 2025. So, the projected 2020/25 reduction in PCC will only result from new meter installations and some of those installed in 2019 where there may yet be a customer response. This might explain why the remainder of the water saving programme is only expected, on its own, to result in a 6.8% reduction in PCC.

If other measures will be needed to achieve the balance of a 5.6% reduction in PCC then a real shift would be needed in the impact and effectiveness of AWLs communications with customers to bring about significant and long lasting behaviour change. The customer evidence AWL has obtained is that customers generally think they can use a little less water, rather than a lot less water, presenting a challenge to behaviour change. We have noted a number of activities mentioned in various drafts of the business plan which are designed to influence customer consumption but have not been able to evaluate what these are likely to contribute to achieving the reduction in PCC the company is proposing. If this performance commitment is stretching it may be because the company does not yet have a sufficiently clear delivery plan for achieving significant customer behaviour change, or has not articulated it clearly enough to us. It may be clearer in the final Business Plan.

### ***Water supply interruptions***

AWL proposes to reduce the extent of water supply interruptions from on average 6 minutes per property in 2020 to 3 minutes per property by 2025. Objectively the proposed performance commitment that, on average, customers should not experience more than 3 minutes per year where their water supply is interrupted, by 2025, looked stretching because AWL's performance in this area has not met current targets. However, it was difficult for the CCG to see how company's current performance related to other companies. We asked the company to explain whether this is unplanned or planned interruptions to supply. We also asked the company to explain how the targeted performance of 3 minutes per property on average by 2025 compares to the current business plan target (if it was met). The company gave us further information in response to these queries which showed current performance expressed in the same way as the new measure (minutes per property). This showed us that the company's current performance target – if it was met - is equivalent to 18 minutes per property on the new measure. The company has not been meeting this level of performance and our understanding of the data provided

is that AWLs **actual** performance has been equivalent to 33 minutes per property. It therefore does appear stretching for the company to achieve the proposed level of performance.

### ***Low pressure***

AWL proposes a bespoke measure without any comparative information. This has come forward from the analysis of operational data showing this is a significant area of customer complaint. The proposal is – we understand - to reduce the average hours of low pressure per household from 12 hours per annum to 8.7 hours. It is not clear what the trajectory is as the measure is to be reset each year. Objectively this looks to be an improvement to reduce the average hours that properties receive low pressure from 12 hours per annum to 8.7 hours per annum by 2025. It is not easy for us to see how stretching or difficult this is in the absence any comparative information on this measure. We asked the company to provide information about its performance where there **is** comparative information available and to explain how the ‘average’ hours indicator will enable it, and customers, to see how many customers are actually affected by low pressure and whether this is changing over time. The company’s response has been to show us that in terms of the number of properties per 10,000 properties which are below a reference level of water pressure AWL has ‘the worst’ performance amongst the water companies in England and Wales and is an outlier. We have not been able to review in any depth beyond this. It appears that the proposed performance commitment, if achieved, will deliver a level of service improvement to customers. We do not know how difficult it will be for the company to achieve this, and therefore how stretching it is. It would seem from the comparative information available that all other companies are able to provide a significantly better level of service to their customers than AWL does today, which would suggest there is good knowledge and experience within the industry at large on what is required, and it is an industry norm that better performance is delivered to customers. AWL agreed to consider a KPI for this area which would enable it, and us, to see how many customers are affected by low pressure problems as an overall average hours per annum can disguise extreme problems experienced by a few customers

### ***Satisfaction with the Priority Services Register services***

This is a new bespoke performance commitment measure so there is no baseline of data available to judge if the proposed performance commitment level of 82% is stretching. We have seen some data from the company which analyses the responses of customers who are on the PSR to the company’s general customer satisfaction survey. With a 2017 average score for this group of 4.52 out of 5 it could be argued that 82% is a lower target than current actual performance, which would seem to be 90.4%. A paper circulated to the CCG on 5 June 2018 also suggests that 82% is the 2017/18 performance the company is achieving on its ‘Rant and Rave’ customer feedback/survey. That would tend to suggest that 82% is not stretching. However, this is a new measure and the data we have seen is arguably not comparable and the company is planning to significantly increase the population of customers who are on the PSR. Most importantly the proposed performance commitment relates to a significant business change from AWLs Inclusive Services Strategy which we have reviewed and are content that it represents a significant business change.

### ***Easy to deal with/ease of use customer/stakeholder survey***

This performance commitment is to measure the extent to which those people who represent vulnerable customers and contact the company regard AWL as easy to deal with. This is a new bespoke performance commitment which will be measured via a twice yearly audit of the opinions of third party representative organisations. It is impossible to form a view on whether the proposed level is stretching. As noted above in relation to satisfaction with the PSR this relates to a significant business change from the company's Inclusive Services Strategy which we have also reviewed and are content it represents a significant business change.

### ***Mains bursts***

Finally, in respect of mains bursts the company sought to convince us that proposed performance commitments designed to 'maintain' performance for customers could be regarded as challenging, including the proposal to maintain performance on mains bursts at the same level for 15 years.

The company provided us with data on the proportion of water mains it has renewed in AMP4, AMP5 and AMP6. It also said that it had started to increase investment in trunk mains in AMP6 (which was indicated in its current BP) and reminded us of its trunk main 'hotspots' programme – which we had reviewed in September 2017 with our AMP6 remit and following concerns about the extent of unplanned supply interruptions. We have noted the company response to our queries but conclude, as with the other infrastructure related performance commitments discussed above that ultimately this is a judgement for Ofwat to make as it is far better equipped to do so having knowledge of performance across the entire water industry in England and Wales and access to expert engineering advice, which is not available to us. We are satisfied we have challenged the company to demonstrate the performance commitment relating to mains bursts is stretching and the information given in its final BP may have improved as a result.

### ***Conclusion on 'stretch'***

Ultimately we think this is judgement for Ofwat to make. They are much better resourced than the CCG to make a judgement about what stretching performance looks like for a water company. Ofwat has access to performance and cost data for the entire water industry in England and Wales which we do not and we are not an engineering consultancy. We consider we have discharged our obligation to challenge the company to prove to us that its proposed performance commitment levels are stretching. We have identified the 6 performance commitments above which appear to us to most likely to represent stretching commitments for the company taking into account Ofwat's PR19 Methodology statement<sup>104</sup>.

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<sup>104</sup> Appendix 2 of Ofwat's PR19 methodology deals with this issue

### **Output Delivery Incentives (ODI's) - Amber**

The company's proposals for ODIs are described in Section 4 of V4BP. ODI's are a means by which water companies in England and Wales can be rewarded for their performance by being allowed to charge customers more if they outperform in delivering their business plan. Conversely the company can be penalised financially if it fails to deliver by being required to reduce customer bills

Ofwat asks companies to develop their ODIs in consultation with their customers and for CCGs to challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preferences.

There are a range of questions in Ofwat's Aide Memoire for CCGs about ODI's and we consider each of them below explaining how we have engaged with and challenged the company on the issue and the evidence we have reviewed.

#### ***How well do the proposed ODI payment rates reflect customer preferences?***

We challenged the company to share with the CCG, and include in its business plan, the high level and clearly explained output and key findings of that analysis, and show how the proposals for ODIs in the business plan relate, at all, to customer preferences. However, apart from the material AWL has presented in various drafts of its BP we have not been given any specific evidence to judge how well the proposed ODI payment rates reflect customer preferences.

V4BP <sup>105</sup> says in effect that the company has undertaken desk research and analysis to 'uprate' the ODI approach it developed at PR14 and develop 'a benefit transfer database' (which we understand draws on research across the water industry). We have not seen this analysis and cannot therefore assure it. AWL states it is important to establish the value that customers place on different service attributes – their preferences and priorities – and that the 'bottom up' element of its ODI setting methodology provides

*'an absolute valuation of service attributes.... also provide a relative valuation between service attributes. This is particularly relevant in establishing our overall ODI proposals as incentives rates need to reflect customer preference and priorities, in this case expressed implicitly through the relative valuation of service attributes'.* <sup>106</sup>

We noted that in its discussion of the pros and cons of the 'top down' approach in the 23 July draft of the BP <sup>107</sup> the company said it had used customer preferences to divide the total value of the proposed incentives between different performance commitments so the company must have a simple list of service features ranked in order of customer priority and preference that it could have shared with us, Ofwat

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<sup>105</sup> P50 V4BP

<sup>106</sup> P50 V4BP

<sup>107</sup> Page 23 23 July draft BP



and customers, to provide assurance that its proposals reflect customer preferences.

We have challenged the company to indicate what the actual values in £ per annum are that customers would ideally place on performance and underperformance in relation to different aspects of service and explain how this compares to the value(s) the company is actually proposing for ODIs in its BP. This is so that we can see how far the proposed values of the ODI payments align with or meet customer expectations or not. The simple interpretation of the material we saw in V2 BP is that there is a significant gulf between customer preferences and the Ofwat policy (the top down approach) and that the company has decided to adopt and not go outside the Ofwat policy of an indicative maximum value of ODIs of +3% of RORE. Without full disclosure by the company it has not been possible to see how far this goes towards meeting customer expectations. .

We have also reviewed V4BP which describes the company's proposals for ODI's on pp 50 – 56. We note that the company says that it has undertaken detailed design of each ODI. The V4BP also refers to a number of pieces of research and analysis AWL has undertaken or referred to in developing its ODI proposals, including a 'benefit transfer database' (para 32 p50) the output from which has been reviewed by its Reporter. Our understanding is that this database and analysis would provide the evidence about the value that customers place on different service attributes, and their relative valuation. As we have not seen the output from that database and analysis we cannot provide any assurance that the ODI proposals relate to customer preferences. We also noted a reference to research to explore compensation levels for supply outage – which we believe is related to the analysis the company has done on ODI levels (page 33) which we have not seen and therefore cannot refer to.

We note that the company has asked a representative sample of customers in its Phase 3 Acceptability Survey<sup>108</sup> whether or not they accept a proposal whereby if AWL were to 'beat' its targets up to £0.50p might be added to the average household water bill per year and if AWL were to 'fail to beat' their targets a reduction of up to £4 might be applied to the average household water bill per year. These amounts were considered acceptable by 71% and 73% of customers respectively. The survey also established that a minority of customers, 39% supported water companies being 'regulated by performance incentive systems, with as many customers having no view and 22% opposing. Establishing high levels of customer acceptance for one proposal does not establish that the proposal reflects customer preferences.

Finally we understand that achievement of the proposed PC relating to completion of a number of river restoration projects is included within the company's proposals for ODIs <sup>109</sup> These schemes are driven by the Water Industry National Environment Programme (WINEP) and are arguably an environmental obligation that AWL will be expected to deliver. Customers have not been asked for their views on whether the proposed rewards and penalties for this PC are appropriate. We also understand

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<sup>108</sup> Phase 3 Acceptability Survey, Ipsos MORI and Arup

<sup>109</sup> Page 54 V4BP

that the company has not clarified the proposed projects with the EA and is not expected to do so before the BP is submitted.

### ***In Year or in Period ODIs?***

We note that Ofwat assumes any ODIs are 'paid' (charged to customers) each year 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. On the basis of the 23 July version of its Business Plan (V2BP) AWL had adopted the approach assumed by Ofwat.

### ***Reputational only ODIs***

AWL is proposing that 3 of its 19 performance commitments are reputational which means that if the company fails to deliver, or if it exceeds its performance commitment it is neither penalised or rewarded financially. The three 'reputational only' performance commitments are proposed to be the two new performance commitments relating to aspects of delivering services to vulnerable customers and Mean Zonal Compliance (water quality) which is being retained by the company as a measure in order to have a simple and clear means of reporting water quality to customers once the CRI measure has been introduced.

We note that Ofwat only allows a company to propose a reputational-only ODI, if it can provide convincing evidence that this is appropriate. This includes evidence from its customer engagement or if it can demonstrate that a performance commitment is not well suited to a financial ODI. Ofwat also says research is required to support proposals for reputational only ODIs and that if a company has proposals of these types the CCG is expected to consider and comment.<sup>110</sup>

The company has not made the case to the CCG as to why there should be no financial penalty for failing to meet these three 'reputational' performance commitments.

### ***ODIs for resilience performance commitments***

We note that Ofwat's methodology expects that companies should only propose financial ODIs related to resilience performance commitments if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances. We understand that the performance commitments relating to resilience are:

- Water supply interruptions =>3hrs
- Leakage (MI/d)
- Per Capita Consumption (PCC)
- Risk of severe restrictions in a drought
- Complete environmentally focussed pilot projects in each community
- Sustainable Abstraction, average annual reduction

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<sup>110</sup> Ofwat Aide Memoire for CCGs

- Abstraction Incentive Mechanism

Although Ofwat has not asked the CCGs to comment on this point the company has only provided us with evidence to address this issue through drafts of the BP received on 23 July, 31 July and 16 August. We are not able to comment on whether the proposals within the draft Business Plan versions are in line with Ofwat’s methodology or not.

**ODIs for Asset health performance commitments**

We note that Ofwat’s methodology expects that companies can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences. We understand that the performance commitments relating to asset health<sup>111</sup> are:

- Mains bursts
- Unplanned outage
- Low pressure to areas that receive longer/repeated instances (hours)

The company has only provided us with evidence to address this issue through drafts of the BP received on 23 July, 31 July and 16 August. The circumstances of our reviewing those drafts has not facilitated challenge of the company. Based on our review of V4BP we can see that AWL is proposing outperformance payments for mains bursts, unplanned outage and low pressure. The company has not provided us with any specific evidence to prove that these proposals provide benefits for customers or reflect customer preferences.

If the company is proposing to include **outperformance** payments in relation to its performance commitments on mains bursts we note that the level of the performance commitment will have remained the same for 15 years by 2025 and find it difficult to see why the company should receive a reward for outperformance.

<p><b>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)</b></p>	<p><b>Green</b></p>
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AIM stands for the Abstraction Incentive Mechanism. It is a scheme of regulation designed to provide financial incentives to the company to voluntarily constrain the amount of water that it takes (abstracts) from water resource locations regarded as environmentally sensitive, although the company has a licence, from the Environment Agency (EA) which permits it to take more water. Ofwat, the Environment Agency and the company – who are the primary audiences for this

<sup>111</sup> (p.27 of Annex 2 of Ofwat PR19 methodology)

report – are all familiar with the details of this scheme and how it is expected to operate and it is not our role here to explain it in full.

The company needs to submit details in its business plan of the specific locations (water sources such as rivers and streams) which will be part of its AIM. We understand this can be found in Appendix 3 of the Business Plan (as at Version 4 of the BP). Ofwat has asked us to provide assurance that the company has engaged with local stakeholders about its proposals, and identified the specific sites in liaison with the Environment Agency.

The company undertook to address this test area by way of a specific briefing for the CCG on 17<sup>th</sup> May 2018.<sup>112</sup> The company told us that its engagement and liaison about its *future* business plan proposals for AIM consisted predominantly of:

- Consulting stakeholders via its main consultation on the draft Water Resources Management Plan (dWRMP) – where the company has proposed an overall reduction in the volume of water that it would abstract from the local environment.
- Consultation with the EA on specific features of its *current* AIM scheme (notably early warning triggers and changes to the operation of the Misbourne catchment)
- Continued ‘open relationship’ with local river groups and NGOs – although no specific details were provided of what that meant in practice
- Presenting information to Ofwat and other water companies on suggested changes to the operation of the AIM scheme

The company reported that it had given presentations to three local groups (Ver Valley Society, Colne Valley Fisheries and Dacorum Environmental Forum) on the benefits assessment of sustainability reductions (presumably those already made rather than proposed) and a National Environment Programme (NEP) study relating to the Bulbourne catchment

The company showed us a list of 20 locations that it was at that time considering including within its AIM scheme.

It was apparent that the company had not at that point completed either its stakeholder engagement or dialogue with the environment agency on the specifics of AIM. Stakeholder engagement on the WRMP has also been conducted at a very general level and it was not apparent from the presentation given to the CCG that many local stakeholders in the 20 specific locations identified for the AMP7 AIM scheme had been approached by the company directly.

The Environment Agency indicated to the CCG during our review and challenge session with the company in May 2018 that it thought the company needed to undertake more work on this issue and undertake clearer engagement with stakeholders. We therefore rated this issue as ‘Amber’ until the EA could provide us with advice that there had been further engagement and consultation, including with

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<sup>112</sup> document 69 Appendix 5

the EA. At 17 August we noted that Version 4 of the company's Business Plan said that it had submitted final details of its AIM proposals to the Environment Agency. The EA member who represents the EA has advised us on 23 August 2018 that during July and August they have been in discussion with AWL with regard to the AIM incentives and they were able to confirm the statements made in V4BP concerning AIM. On this basis we are content to rate this test area as Green.

<b>16. Leakage – has Affinity taken customer views into account in its proposed five year PC levels? (see also response to Q14 above)</b>	<b>Green</b>
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Yes the company has taken customer views on leakage into account. The company has sought customer views on the issue of leakage, as well as stakeholder views through both qualitative and quantitative research. For example as part of its Business Plan acceptability testing with a representative sample of customers<sup>113</sup> the company set out 3 different business plan options which included proposals for two different possible performance commitments to percentage reductions in leakage – 11% or 15%. The company has also shared with the CCG the various research findings and insight it has considered and taken into account on the question of customer views on leakage by means of a 'triangulation' report which was presented to the CCG on 18 July<sup>114</sup>. The triangulation report we were shown on 18 July showed relevant evidence from customers, stakeholders and other research that supported, or potentially contradicted, the company's proposals for each performance commitment the company was proposing – at that time - to include in its business plan. In relation to leakage we have noted the following findings which the company has taken into account:

- Leakage is important to customers – the 'triangulation report' we have seen says it is "an emotive issue' and that 'customers are shocked at level of leakage, perceive it as 'very high' and do not appreciate being asked to save water or temporary restrictions because of this'. (*phase 0 signpost focus group, phase 1 online community –leakage survey, phase 2 future customers schools survey*).
- Customers feel their responsibility is to not waste water, but it is the water companies' responsibility to avoid excess wastage from burst mains or leaks (*phase 1 online community –leakage survey*)
- Leakage is seen as a visible sign of underperformance and a key part of the 'contract' between company and customers. (*phase 1 online community – leakage survey, phase 2 dWRMP/BP qual research*)
- 71% of customers strongly back continuing to find ways to reduce leakage, (*phase 2 dWRMP survey*).

<sup>113</sup> Ipsos MORI phase 2 business plan report

<sup>114</sup> Refer to document in our Appendix 5 Arup, July 2018, *Customer Engagement Programme, Triangulation Phase 2 Appendix 3 Annex Ph2.1 to AWL BP*

- A large proportion of customers [taking part in an on-line community/panel the company established in phase 1 of its customer engagement] think that Affinity Water should meet or exceed Ofwat's leakage expectations (*phase 1 online community –leakage survey*)
- operational data for 2017/2018 shows that 27% of customers claim that external leaks is the main reason for contacting the company, and this proportion has increased (*VfM2017/2018 Summary*).

However, customer views on what the appropriate *level* of a performance commitment should be varied, particularly when they were presented with proposals including bill impacts. For example, whilst many participants in focus group discussions about the proposed business plan options felt that both 11% and 15% leakage reductions were too modest.<sup>115</sup> by contrast the responses to quantitative research found more support for an 11% reduction in leakage, in both cases when customers were presented with the likely costs of achieving reductions:

- 38% of customers preferred Option 1 -reducing leakage by a further 11% - compared to 31% who choose the more expensive Option 2 which would target a further 15% reduction. [*phase 2 dWRMP survey*]
- 78% of customers preferred Plan J – which included reducing leakage by 11% compared to 74% who preferred Plan L, the more expensive plan [*phase 2 BP acceptability survey*]

This perhaps reflects the nature of the research within which questions were asked. In the business plan acceptability testing customers were asked to choose between three differently priced service ‘packages’ with a total bill cost for all the items, and it is clear from the report on the related focus group discussions that not all elements of those ‘packages’ were well understood by customers.<sup>116</sup> Also the company has reported to us – as reflected in the ‘triangulation report’ – that:,

- Customers want more comparative information to be shared on leakage (*phase 1 on line community –leakage survey*)

We appreciate that the company has responded to the views of customers **and** stakeholders’ in preparing its business plan. Stakeholder views from Ofwat and the EA were both clear that the highest of the two leakage reduction targets were preferred by them.<sup>117</sup> There is evidence that customer views on leakage have been sought and considered.

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<sup>115</sup> Ipsos Mori/Arup Phase 2 Business Plan Acceptability focus group report .

<sup>116</sup> Reference for focus group report

<sup>117</sup> EA Representation on AWL draft WRMP, 17 May 2018 p6 (which says ‘we would expect the company to comply with Ofwat’s challenge of reducing leakage by 15% by 2025’) and Ofwat representation on AWL’s draft WRMP 23 May 2018 p3 (which says ‘the draft plan presents limited ambition’....’only includes leakage reduction of 10% by 2025’

<b>17. Transparency – are company plans for reporting on performance 2020 – 25 suitable</b>	Green
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Reporting performance to customers effectively is important to Affinity delivering its business plan commitments – it needs to be more effective at engaging customers to join with it in meeting the challenge to reduce demand. It knows that customers are more likely to ‘do their bit’ if the company is seen to and known to be doing its bit, particularly on leakage reduction. It is also asking customers to accept an increase in bills to 2025, albeit small, in an economic climate that is difficult to predict post Brexit. The areas Affinity Water serves are heavily reliant on London and the services economy, and arguably tourism, and there is a degree of uncertainty about what the impacts of Brexit may be on those areas and markets. Other factors such as customer trust and satisfaction are all informed by knowledge. Finally, the company is proposing to share gains from its level of gearing with customers and this will require reporting and transparency.

We have challenged the company to set out clearly and succinctly its plans for reporting on performance between 2020 and 2025 so that we could arrive at a view on whether the plans are suitable. Through the three drafts of the Business Plan which different members of the CCG have reviewed we have observed different information presented – and in different parts of those draft business plans.

For example, in the 23 July version of the Business Plan the company seemed to be planning to continue with its present approach of reporting information about its performance according to its 8 water resource zones [WRZs]. This approach consists of publishing monthly reports in-year on the company website showing results against each of the performance commitments in the business plan. An annual report on overall performance, which includes details for each WRZ is published in July each year alongside the company annual report and accounts. On page 72 of the 23 July BP draft the company said *‘this approach works for us operationally and we will continue in this way’*. This continued to appear in the Plan at V4BP, page 129 of Version 4.

However, in the 23 July version within the chapter called ‘Community Model’ there was some discussion of a number of points relevant to reporting which arguably contradict the approach outlined above, including that customers ‘struggle to relate’ to the 8 WRZ areas the company uses for performance reporting. We also recognise that problem. We note that Version 4 of the BP includes the same discussion.

The 23 July draft of the Business Plan also included a section called ‘Increasing transparency of reporting’ (p77 in 23 July draft and p193 of 31 July draft). This draft section was largely discursive however and indicated that the company had not yet finalised its reporting framework for AMP7. The company said, in the 23 and 31 July versions, that it wished to do more to understand what data customers want to see and to encourage them to pull data from the company rather than have it pushed at them. The company also said it wanted to make it easier and more accessible for

communities to get hold of the most up to date data and it sees the benefits of the Discover Water website for providing customers with a *'solid set of standard information'* allowing them to compare AWLs performance with that of other companies.

As the company issued further drafts of its Business Plan in August we asked them to highlight clearly for us where we could locate information in the Plan about their plans for reporting on performance so we could make a judgement on suitability of the proposals. In relation to Version 4 of the Plan – received on 16 August – we were advised to go to page 115 to find details of the company's proposals for reporting performance to customers. Paragraphs 38 – 40 page 115 of Version 4 describe the company's current approach and the indication is therefore that this will continue. The current approach includes the role of the CCG in reviewing and reporting on company performance, publication of monthly performance information and an annual performance report and events held in each WRZ based community. The only change the company is proposing for the future is to *'promote mini-reports which are more accessible on social media channels'* and it is *'piloting customer engagement sessions in each community'*. (p115 Version 4)

With our AMP6 role we have challenged the company a number of times to evaluate the effectiveness and use of its online and offline reporting to customers. We have also suggested that the annual performance report for 2017/18 includes information about governance and financial performance to improve transparency to customers. We note that Ofwat amended its PR19 methodology on 31 July 2018 stating that it expected companies to *'boost transparency around dividends and levels of executive pay'*,<sup>118</sup>

On 26 August AWL sent the CCG Chair by email updated text relating to transparency and reporting which it expected to include in Section 3.8 of Chapter 3 of the BP. To an extent this repeated what we had noted in earlier drafts of the Business Plan as mentioned above but made it clearer that the company does wish to develop and improve its approach to reporting – to understand what customers and community partners want to see, providing more tailored data in a relevant and accessible way and using the comparative data available from the Discover Water website. The company outlined a list of third party organisations and individuals that it would like to work more closely with to make its data available and said it wishes to develop natural capital approaches to assessing its impact and effectiveness, and to work with the CCG to develop its reporting for 2020 onwards, including testing the approach with customers in 2018.

It would have been helpful if AWL had put forward in V4BP some specific and worked up details for improvement and change in reporting that is required to help it to engage with customers and engage them with the delivery of its business plan. For example the V4BP says that the company will succeed in its plans if it has raised awareness and engaged customers effectively. However, the company has indicated an ambition to develop and innovate in its reporting and transparency

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<sup>118</sup> Ofwat Press Notice PN 32/18 31 July 2018



beyond its current approach and to have tested new approaches with customers in 2018.

Transparency, accountability and effective communication will be key to the company realising its vision of being the leading community focussed water company in the UK. The company seeks a relationship of trust with customers and stakeholders and more importantly engagement with customers, and other stakeholders is required if the company is to meet its significant practical challenges of achieving reductions in demand for water. In this context the company has described appropriate ambitions to develop and improve its reporting and transparency to customers. It has yet to draw up an operational plan for this, which will require some research and testing with customers as well as stakeholders but has made a commitment to this before 2020.

<p><b>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</b></p>	<p><b>Amber</b></p>
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Prior to circulating drafts of its BP from 23 July 2018 onwards AWL had not outlined to the CCG how its assessment of resilience would **be informed by engagement with customers and understanding of their behaviour**. The company’s assessment of resilience, underpinning its draft Water Resources Management Plan, has largely been a technical and engineering process and a dialogue with political and regulatory stakeholders. The three drafts of the BP circulated to CCG members have all contained chapters dealing with resilience, although there have been substantial changes to the drafting and presentation between V2BP and V4BP.

From Chapter 9 of V4BP (Ensuring long term resilience) the company sets out a range of resilience issues including operational, financial and ‘corporate’ and risks from climate change, economic and social change, technology and cyber threats. Chapter 9 explains the methodology the company has gone through to assess 78 potential shocks and stresses and then assess risks and resilience and identification of interventions and solutions. AWL states that in determining intervention options it

*‘analysed customer and operational data and consulted with customers and CCG on our plans’ (p149 V4BP)*

It is also said, in V4BP, that assurance of its ‘risk-based approach to increasing resilience’ was obtained from engagement with customers in Phase 3 of the customer engagement programme and that ‘for ease of consultation with our communities and customers these shocks and stresses were grouped together into 12 categories based on their impact on customer outcome delivery’ (p149 V4BP).

We can see that AWL has referenced customer expectations in its V4BP chapter on resilience as follows:

- *‘Customers expect us to be well-prepared to mitigate the impact of those risks and want us to invest now for the future’ (p138 V4BP)*
- *‘Our community focus vision is driving resilience in the whole business, ensuring that customers take priority in our resilience strategy’*
- *‘Communicating with customers on resilience is best done by framing it in a broader way, asking about long-term priorities and helping them to understand possible risks and trade-off priorities’ p141 V4BP*

The main customer insight/evidence relating to resilience that AWL has obtained from its PR19 customer engagement is outlined on pp142 and 143 of V4BP. There is some qualitative insight that customers expect water supply without interruption, and at good pressure and do not have any immediate concerns about resilience or expect that water supplies will run out – although some of the challenges from climate change and population growth were recognised in some focus group and other qualitative research. The only research finding involving a resilience issue, and customer views about trade-offs, concerned drought management where customers tended to accept temporary restrictions on usage, and support efforts to save water, above increases in water bills.

Engaging with customers on resilience issues connected with water supplies may be complex and challenging, and could require significant effort to establish customers’ views and expectations, and their tolerance of risk. We also acknowledge that the company reported low levels of awareness, and engagement, amongst customers, indeed the company lists ‘disengaged customers and communities’ as a current shock/stress. We would agree that if the company is to achieve the target it has set for per capita consumption between 2020/25 it will need engaged rather than disengaged customers and that customer behaviour change is an important element of achieving the plan outcomes, and delivering a resilient supply over the longer term.

However, notwithstanding the challenges of engaging customers with resilience and risk it is not apparent to us that AWL has engaged with customers in any depth to inform its resilience strategy. Given that one element of the resilience strategy is to embark on investment in ‘additional resilience’ at a cost to customers of £2 - £5 per year (p152 of V4BP) this is the area where customer engagement with the long-term implications, costs and benefits of this investment was most necessary. As discussed in relation to Test area 8 above the depth and nature of customer engagement on this has not yet been sufficient, therefore it is not possible to say that AWL’s approach to resilience, as described in V4BP, is based on sufficient customer engagement.

That is not to say AWL is adopting the wrong approach. We are simply asked to give an opinion on the extent and nature of customer engagement. We expect it would be unlikely that customers would disagree with the company’s commitment to managing risks around IT and third-party incidents that could interrupt supplies. There will be many other service aspects where customers, and stakeholders, are likely to support efforts to increase resilience if engaged appropriately on these issues.

<p><b>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</b></p>	<p><b>Green</b></p>
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Our understanding is that the company submitted one ‘cost adjustment claim’ to Ofwat concerning the expected additional costs of water treatment at a treatment works called ‘Sundon’. This investment appears on p71 of V4BP as an ‘innovative conditioning treatment plant to improve utilisation of imported water’.

The CCG understands that Ofwat’s Information Notice 18/02 reminded companies that early submissions were requested on any cost adjustment claims, by 3 May 2018. Companies were asked to submit appropriate evidence to support any cost adjustment claims including:

*‘where appropriate, is there evidence-**assured by the customer challenge group (CCG)** – that customers support the project?’*

and

*‘does the proposal deliver outcomes that reflect customers’ priorities, identified through customer engagement? Is there **CCG assurance** that the company has engaged with customers on the project, and this engagement [has] been taken account of?’*

The company did not notify the CCG before 3 May 2018 of any cost adjustment claims that would require customer support and scrutiny by the CCG. On 29 March 2018 the CCG challenged the company to indicate on this before the cost adjustment claims had to be submitted to Ofwat on 3 May 2018. The company response about a week before cost adjustment claims had to go be submitted to Ofwat was that the company had not decided whether or not to make a submission to Ofwat. It appeared too that the costs of this measure were consequential on one environmental obligation to reduce abstractions in a certain location and as a consequence of using water from Anglian which required more treatment than the groundwater AWL would otherwise have abstracted it is necessary to increase the cost of treatment so as to comply with water quality standards. The company had done no exploration with customers relating to this specific project and was clearly not going to be able to do so before the deadline for submission of cost adjustment claims.

It is debatable therefore whether customer support could influence the decision to invest in these treatment works. The CCG Chair queried if it was likely that customers would have not supported ensuring their water meets drinking water

quality standards. If so it was arguably not proportionate to instigate customer engagement on a single investment, particularly if the company was not clear that it would have to make the investment.

Subsequently the company included a single question in its Phase 3 acceptability survey about the costs of water treatment at Sundon.<sup>119</sup> This question explains that the company proposes to import water from Anglian Water to ensure that it has enough water to supply to customers across its whole area and that the water would need to be treated. Customers were told that the cost of this was 'already included in the bill amounts provided in previous questions' (a projected bill of £172.40 in 2020/25 an increase from a projected bill of £168.77 in 2019/20). Overall 82% of customers found this proposed bill acceptable, when expressed without inflation or sewerage charges. We do not know exactly how much this specific investment has added to the proposed bills in V4BP (which are a different amount to that in the Phase 3 Acceptability survey) and have not seen any evidence that AWL has explored alternatives with customers if there are any.

The company did not engage with the CCG in any detail on this cost adjustment claim in sufficient time, as Ofwat had asked companies to do. However, the specific issue in AWL's case is arguably a consequence of environmental and drinking water quality requirements. We are not in a position to evaluate or comment on the cost efficiency of what is proposed, or if there were any alternative options that could have been explored with customers.

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<sup>119</sup> See Appendix 3 V4BP Phase 3 Acceptability Survey, Ipsos MORI and Arup

## Section 4

### Challenges and disagreements

In this section we report on any areas of disagreement between members of the CCG and describe the challenges we have given to the company and any areas of disagreement between members of the CCG. of which there are none. It reminds readers of our primary brief as articulated by Ofwat, sets out the *process* within which we have challenged the company and summarises the *specific content challenges* we have posed. Appendix 4 provides our Challenge and significant enquiry records and Appendix 5 lists all the documents we have received relating to PR19 and AWLs business plan, and customer engagement.

#### a) *Areas of disagreement*

CCG Members have sought to arrive at a consensus of opinion on the matters we have to report on. There are no matters on which any individual members disagree with the opinions set out in Section 3 and summarised in Section 2

#### b) *Our brief to challenge the company*

Ofwat has set the brief for CCG's to

*'provide independent challenge to companies and independent assurance to us on:*

*the quality of a company's customer engagement; and  
the extent to which the results of this engagement are driving the  
company's decision making and being reflected in the company's  
business plan.'*<sup>120</sup>

Ofwat expects that the CCG's independent assurance will be provided in the form of an assurance report which will set out the evidence of **how** a CCG has carried out its independent challenge role. This section, when read with section 5 and appendices 4 and 5, and our Annual Reports, aims to address the issue of how we have addressed our brief.

#### c) *Content specific challenges*

AWL's business planning process has been an iterative one extending over a period of around 18 months. It has involved the production of three different, interlinking, plans between Spring 2017 and August 2018 (the Drought Management Plan, the Water Resources Management Plan and the Business Plan. Over this period of more than a year the CCG was asked to 'review and challenge' a variety of documents and drafts of customer facing material and survey questionnaires as part of the company's iterative process. Comments made on draft material have often arisen in meetings, teleconferences and in emails from individual members of the CCG to the company and not all of these have been recorded as 'challenges' per se, even if they were communicated with a challenging style/approach. Appendix 5

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<sup>120</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Aide-Memoire-for-Customer-Challenge-Groups.pdf>

provides a list of the documents we have received, including drafts of materials, relating to PR19.

The Affinity Water CCG has provided challenge to the company on its PR19 customer engagement and business planning since September 2016. We have provided challenges through the following means:

- scrutinising and reviewing proposals from the company at CCG meetings (minutes of which are published on our website page<sup>121</sup>);
- scrutinising and reviewing proposals from the company at meetings of sub-groups established to consider performance commitments on environment and resilience issues and vulnerability and affordability issues;
- registering specific ‘challenges’ on a Challenge Log (which is published on our website page and included at Appendix 4 to this report)
- presenting views of the CCG at meetings of the Affinity Water Limited (AWL) Board and committees of the Board (see Section 5 and Appendix 3)
- Publishing opinions on the company’s progress within our Annual Reports for 2016/17<sup>122</sup> and 2017/18<sup>123</sup>
- providing challenging comments (often incorporating specific drafting suggestions) on drafts of customer stimulus material;
- raising queries on drafts of the PR19 Business Plan (version up to 14 August 2018) designed to challenge the company to explain and justify proposals and aspects of proposals clearly, and to help us finalise our assessments and assurance report for Ofwat;
- providing the company with two drafts of our report (on 31 July and 14 August 2018) giving them the opportunity to comment on our assessments and provide further evidence where we have not been able to assess their customer engagement and proposed business plan elements as ‘green’ or meeting the requirements set out by Ofwat.

Our Challenge Log (see Appendix 4) records challenges we have registered on a range of issues including the following:

- how and when the company planned to engage with customers to prepare its PR19 business plan, how it would use the results and how it would reach a diverse range of customers— see for example challenges 4,7,8a,10
- how the company would consult with customers about the draft Water Resources Management Plan (WRMP) and draft Drought Management Plan (DMP) – see for example challenges 5, 8a,8b
- capability of the company to deliver its customer engagement programme – see for example challenge 18 and 2016/17 Annual Report
- how the company is engaging with business customers – in relation to the DMP and WRMP particularly – see for example challenge 20b and

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<sup>121</sup> <https://stakeholder.affinitywater.co.uk/ccg.aspx>

<sup>122</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-Annual-Report-Final-Jan2016-March2017.pdf>

<sup>123</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-Annual-Report-April2017-March2018.pdf>

- whether the company was showing in its customer engagement material how its performance compared with that of other companies – see for example challenge 31
- the appropriateness of AWL’s proposal not to consult customers about its proposed business plan ‘outcomes’ – see for example challenge 22
- the company’s decision not to conduct willingness to pay research – see challenge 24
- whether the company was intending to submit any cost adjustment claims, and if so if it was going to engage with customers on the issue in sufficient time before submission – see challenge 27
- how the company was intending to follow Consumer Council for Water’s guidance on acceptability testing – see challenge 28
- whether the evidence and insight from customers was ‘genuinely driving’ the development of AWL’s business plan – see challenge 29 and provisional assessment presented to March 2018 AWL board meeting.
- whether the company’s proposed performance commitments are stretching and what evidence the company can present to the CCG to prove this – see for example challenge 32 and specific queries raised with the company between 23 July and 14 August in relation to three different versions of the Business Plan.
- What the company’s proposals for ODIs actually are, and what evidence there is that the proposals reflect customer preferences – see notes of CCG meeting on 18 July and specific queries raised with the company between 23 July and 14 August
- The appropriateness of proposals for research with customers in August 2018 on what the company has called ‘additional resilience’ elements of expenditure it was considering adding to its plans subsequent to acceptability testing of service and bill packages with customers in Spring 2018.

The detail of the recorded challenges, and queries, can be found in our published minutes, in Appendix 4 and in 111 documents listed in Appendix 5 which are available on request.

In addition to the above the following challenges appeared in our Annual Reports for the past two years which were presented to the AWL Board before publication.

*‘..... 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. (Annual report 2016/17)*

*‘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.’*  
(Annual report 2017/18)

#### **d) Process challenges**

We have been challenged in carrying out our brief by the process within which AWL’s BP has been developed, in particular the timeliness of completion.

It is important to understand the context and process that the CCG has been working in, both in terms of the general characteristics of the process and the specifics of the process adopted by AWL for its PR19 business plan production. There are a number of features to the work of the CCG in this process which make the task of providing ‘assurance’ challenging.

First, a professional audit and assurance function will assure a completed activity or assess an activity at a particular point in time, reviewing all the evidence available. Ofwat has asked us to give an opinion on

*‘the extent to which the results of this [customer] engagement are driving the company’s decision making and **being reflected in the company’s business plan**.’<sup>124</sup>*

However, we are also asked to provide a report assuring a business plan regardless of whether we have actually seen the final version of that plan.

The CCG wished to have been able to review an entire and complete business plan before making this report. This would also have enabled the CCG to actually challenge the AWL board before it ‘signed off’ the BP for submission. That has not been in practice been possible. The company set out plans in September and December 2017 which would have enabled us to review a draft BP in June 2018 before it was considered by the AWL Board. But those timetables were not met.

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<sup>124</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2018/03/Aide-Memoire-for-Customer-Challenge-Groups.pdf>



At the time when the CCG needed to produce and agree this report – during August 2018 - the CCG members had not actually had a realistic or meaningful opportunity as a group to consider and challenge a complete version of the company's business plan. It is difficult to assure something that is not actually finished, and which one has not actually seen. It is not really possible to say if the customer engagement is reflected in the company's business plan if the completed business plan is not available to the CCG with a realistic opportunity for the group members to review it before we have to agree our own report.

The CCG has been undertaking its challenge and assurance role in effect in relation to component activities and building blocks and other 'work in progress' by the company on the way to producing its business plan document and taking a view on what is probably included in the final business plan submission. The CCG has, been presented with a panoply of materials and analysis relating to the different plans AWL has been producing <sup>125</sup> at different times and with many moving parts. It has not been easy for members of the CCG to see 'the whole thing' or 'how it all fits together', particularly where analysis that should ideally have been presented early in the project of developing the business plan was presented quite late.<sup>126</sup> the company was also designing and commissioning some further customer engagement surveys after our last scheduled meeting in July 2018, results of which were circulated mid-August.

This is an unusual position for an assurance function to be in. We are asked to assure a business plan but have only, in effect, seen background material and working papers and drafts.

The company was aware well in advance that most members of the CCG had very limited availability during August 2018 to be able to read or comment on drafts and that the August period did not provide a meaningful opportunity for the CCG to fulfil its challenge role in relation to the Business Plan submission.

The CCG could have taken the view that it was not able to provide any assurance report if it had not actually seen the BP, or a substantially complete and near final version of it without sufficient time to be able to meaningfully challenge the company on it. The Chair consulted Ofwat about this, setting out the reality that the CCG's report would need to be largely based on evidence available to members by the end of July 2018. Ofwat were not prepared to consider the CCG delaying its report until after it had been able to review the complete BP.

In the circumstances of late availability of near final versions of the AWL BP and very limited availability of CCG members in the second half of August 2018 we agreed to develop our draft report and opinion based on the best information we had available to us at the end of July 2018. Members have therefore been asked to use as the 31

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<sup>125</sup> DMP,dWRMP and BP

<sup>126</sup> This was particularly apparent when some different – fuller - analysis of operational data was produced in Spring 2018 compared to that presented to us as an output from the first phase in Summer 2017. It was difficult to connect up the evidence and place it in a clear narrative.

July 2018 draft of AWLs BP, and the information they have had through the process of the company developing its plans the basis for their opinions.

The 31 July version of the AWL BP was therefore made available to all members, but it was still very much work in progress, being over 200 pages at that point without the Finance section – or proposals for bill levels - and none of the detailed annexes relevant to the CCG's interests were available at that date. The Chair and statutory organisation members of the CCG have all, however, reviewed additionally the company's 14 August 2018 version 4 of the draft BP, and sought to keep abreast of the company's plans in relation to proposed bills, enabling them to make some late changes to the CCG report at the end of August to reflect an awareness of the company's likely proposals for customer bills between 2020 and 2025.

**Nevertheless, this report is made without all CCG members having had what we would consider to be a reasonable opportunity as a group to review, consider, challenge and assure the final AWL BP before it was submitted.**

Second, The CCG role includes a strong degree of advisory activity into the process that is being assured – suggesting redrafts of survey questions and research and consultation stimulus material for example. It is unusual to provide assurance of a process or activity one has influenced and helped to shape. The role of the CCG therefore combines elements of advice and influence as well as opinion forming and assurance.

Third, CCG members are predominantly volunteers who have primary commitments to jobs and family and it would be unreasonable to expect them to be available for many days to review hundreds of pages of draft BPs at the height of the summer holiday season. Some of the working papers presented to the Group in 2017/18 have been voluminous and overly complex. The model and practice of CCG assurance, including the many detailed questions Ofwat has set in its methodology seems ill suited to the nature of such groups. For the model to work effectively requires companies to deliver draft plans and supporting evidence in sufficient time to allow the group to satisfactorily and fully complete its task. It also requires Ofwat to simplify its requirements and amend its processes to allow CCG's to submit their assurance reports after they have actually been able to review the final business plan submission. This was recommended by some CCG Chairs after PR14. The case for it seems stronger at PR19 as Ofwat has provided quite prescriptive and detailed expectations on the issues CCG's are to challenge and assure.

board. On this basis the CCG members planned their work for the year, noting that most members are lay, part-time and volunteers.

However, the timetable presented by the company in September 2017 which was advised to still be on track in December was not delivered. Although the CCG programmed an additional meeting on 18 July 2018 a draft Business Plan was still not available at that date, and

## Section 5

### Our Work and Processes on PR19 2016-18

This section reports the activities of the CCG relating to the PR19 business plan customer engagement between Summer 2016 and August 2018. It is drawn largely from the CCG's 2016-18 Annual reports and Minutes which are published on our website page<sup>127</sup>

Between June 2016 and the end of August 2018 the Customer Challenge Group (CCG) and its members:

- held a total of 17 full meetings and other 'specific issue' meetings at which PR19 matters were considered and attended a range of events on PR19 related issues hosted by Ofwat and CCWater. A list of all the meetings held or attended by CCG members relating to PR19 matters is at Appendix 3.
- took part in 3 triangulation and 'workshop' sessions with AWL 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.
- 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.
- attended and observed a range of focus groups and stakeholder events with customers,
- raised 28 challenges and 33 queries in relation to PR19 and AWL's draft BP, a list of which can be found at Appendix 4.
- received a total of 111 documents relating to PR19 ranging from customer engagement plans and timetables to presentations and board papers, draft customer survey questionnaires and focus group stimulus material and drafts of publications aimed at customers and stakeholders relating to variously the Drought Management Plan (dDMP) the draft Water Resources Management Plan (dWRMP) and the draft Business Plan itself (dBP). A list of all the PR19 related documents received is at Appendix 5.
- The CCG Chair attended 5 meetings of the AWL Board and its Regulatory Working Group and in March, June and August 2018 briefed the AWL board on the expected content of the CCG report as the Group's opinions developed.
- An independent member of the AWL board was included in papers for and attended a number meetings of the CCG in 2017/18. The Chief Executive and Chair of AWL also met with CCG members in December 2017 and July 2018 respectively.

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<sup>127</sup> <https://stakeholder.affinitywater.co.uk/ccg.aspx>

## Processes

In its policy statement on customer engagement for PR19 <sup>128</sup> 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<sup>129</sup> 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 AWL'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 AWL'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 attended meetings of the AWL Board and its Regulatory Working Group.

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

The rest of this section describes our activities in 2016/17, 2017/18 and so far in 2018/19. It is supported by appendices to this report covering the following:

- CCG Terms of Reference and the Protocol for PR19 (Appendix 1)
- Membership (Appendix 2)
- List of meetings held and attended and agenda items relating to PR19 (Appendix 3)
- Challenge records (Appendix 4)
- List of PR19 related documents received (Appendix 5).
- Assessment framework agreed March 2018 (Appendix 6)

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<sup>128</sup> Customer engagement policy statement, Ofwat, May 2016

<sup>129</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG/Protocol-Mar-18.pdf>

### **2016/17 - PR19 related activities**

The Customer Challenge Group was formed from the Customer Scrutiny Group that the company had retained following PR14 with terms of reference concerned with monitoring the company's performance for customers and advising on the effectiveness of communication with customers, including the reporting of performance. A new Chair for the group was recruited in Spring 2016 and a number of new members were also recruited.

During 2016/17 our PR19 related activity was mainly concerned with putting the Group into a state of readiness to deliver the PR19 element of its role, although the company did undertake some customer engagement that would feed into its PR19 business plan in this year, particularly in Autumn 2016 and Spring 2017, and the CCG was briefed and consulted about those activities.

In May 2016 Ofwat issued guidance to companies on customer engagement for PR19, and the role of CCG's in the process.<sup>130</sup> Ofwat's policy and guidance made it clear that amongst other things companies are expected to demonstrate a step change in their customer engagement at PR19. Ofwat's guidance also set out a wide range of issues that Ofwat expected the CCG to report on in September 2018. CCG members were briefed on the Ofwat guidance in June 2016.

In Summer 2016 we established appropriate governance, protocols and support arrangements, initial briefing and training for new members, established a forward plan of meetings and topics for us to consider and identified links with the AWL Board. The CCG Terms of reference were redrafted to reflect Ofwat's requirements, of May 2016, the CCG members were consulted and these were then agreed by the company board in July 2016 and published. The Terms of Reference are summarised in Appendix 1 and are published on our website page<sup>131</sup>.

From Spring 2016 the Chair was invited to attend 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. A number of members attended training sessions on PR19 offered by CCWater in Autumn 2016.

As the CCG has a 'dual role' (see Terms of Reference - Appendix 1) we have divided and labelled our agenda items and challenge log between AMP6 and PR19 matters to assist us, the company and our audit trail. Appendix 3 lists all the meeting agenda items since June 2016 that have related to PR19.

The CCG established a Challenge Log to record the challenges it has raised with the company, whether they concern performance under the current business plan or the development of the next business plan (PR19). A copy of the challenge log items relating to PR19 since Summer 2016 can be found at Appendix 4.

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<sup>130</sup> Customer engagement policy statement, Ofwat, May 2016

<sup>131</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-terms-of-reference.pdf>

We have established and maintained records of all the documents relating to PR19 that we have received, whether at meetings or between meetings, and whether in draft or final form. Many of those documents have been available to CCG members via a secure 'sharepoint' webspace acting as a shared 'filing cabinet' enabling members to retrieve documents at any time they wished. Appendix 5 includes a list of the 111 PR19 related documents that the CCG has been given by the company since September 2016.

During 2016/17 the company was planning its approach to PR19 including the development of a timetable for business planning, evaluation and customer research and engagement. The CCG actively sought out briefing from the company on this. PR19 has been on the agenda of every CCG meeting since June 2016. CCG members were keen to have the opportunity to challenge, and advise, the company at an early stage in this process. The PR14 CCG report<sup>132</sup> 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.

Since September 2016 the company has provided us with briefing on how it intended to approach its PR19 customer engagement since September 2016. This included high level briefing on the key milestones it had set for the programme, and how the company had approached PR14 in three phases, as is explained in its 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.

In September 2016, we were briefed on the consultation plans for the Drought Management Plan (DMP) and draft Water Resources Management Plan (dWRMP). Some members of the group reviewed the customer survey material for the DMP. The group was also invited to comment on the content and presentation of a 'pre-Strategic Direction Statement document' (SDS) which, if it had been developed, would have set out a long-term strategic direction for the company within which its 5- year business plan could be positioned.

Early challenges posed by the CCG concerned the extent to which there would be customer engagement plans for the DMP and WRMP – essentially how they 'fit' in the work on the main PR19 Business Plan and whether the customer engagement approach would 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.

Our main challenges for the company throughout the discussions in 2016 and the early part of 2017 concerned its plan for activities on PR19 up to September 2018. We asked when and how customers will be consulted, on what issues, and whether the approach taken would ensure representativeness. We sought a road map for our work in the process which gave us early warning of the issues we would be asked to consider, and asked to see that against the road map for the whole project and key decision points so that we could see what decision points our work needed to inform.

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<sup>132</sup> <https://stakeholder.affinitywater.co.uk/docs/CCG-minutes-271113.pdf>

That would help us plan our work in terms of number and nature of meetings and member time and focus.

The CCG noted in its annual report for 2016/17 that it appreciated that the company had a complex set of plans (the DMP, the WRMP and the BP) that it *had* to produce which had different time horizons for production and delivery, different immediate audiences and some were subject to statutory processes and consultation requirements, whereas others were not. We noted that the company had also decided to produce a Strategic Direction Statement (SDS), and to undertake consultation and engagement about that document before it was finalised alongside work it was doing on its statutory and regulatory plans.<sup>133</sup> In addition the consultation on the DMP needed to start in Autumn 2016 in advance of a plan for the whole customer engagement programme resulting in the Business Plan (PR19) being in place.

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.<sup>134</sup> We were also briefed on the project governance arrangements the company had put in place, and the CCG was clearly shown in those arrangements and as operationally independent.<sup>135</sup>

We reported to the AWL Board, and in our Annual Report for 2016/17 that we were concerned about an overly complex approach with risks of slippage and compression in the timetable. We challenged the company to simplify the outline proposals for customer engagement. We also commented that the full design and delivery of the customer engagement element remained dependent on the appointment of a contractor – from Spring 2017 – who would take responsibility for managing, as well as further designing and delivering, this strand of activity. The company appeared therefore 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 had been outlined by the company a *definite plan* was not going to be available to share with the CCG before July 2017 after the appointment of the contractor. We warned that slippage or compression in the customer engagement programme within 2017 could reduce the influence that customer insight could have on other strands of the business planning process, particularly if customer insight was expected to drive the planning in any way.

### **2017/18 PR19 related activities**

The CCG considered the company’s approach to customer engagement at each of its meetings in 2017/18 through both the main CCG meetings (which also look at current performance issues) and a variety of other specific meetings and correspondence.

In 2017/18 our work on PR19 included the following activities:

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<sup>133</sup> at some point in 2017 the company decided not to proceed with producing an SDS

<sup>134</sup> See document 8 Appendix 5

<sup>135</sup> See document 11 Appendix 5

- review of a report on 'learning from PR14' produced by consultants (Create 51) - Spring 2017
- Review of the brief for AWL's customer engagement programme contractors- Spring 2017
- AWL 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
- Reviewed 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
- Took part in a 'triangulation' session with the company and their customer engagement contractors to Reviewed analysis of the company's operational data informing the business plan – March 2018
- Reviewed the company's developing high level narrative and strategy for proposed bills – March 2018

During 2017/18 – as in 2016/17 - many PR19 related documents were circulated to CCG members for review and comment between and at CCG meetings and 'triangulation' sessions.<sup>136</sup> 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.

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<sup>136</sup> See Appendix 5 for list of all the PR19 related documents we have received



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.

As noted above 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 produce 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 and there is a need for responsiveness and flexibility as a 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 a 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.

In November 2017 the Chair attended the AWL 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.

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 for that was

delayed impacting not only the Water Resources Management Plan but the development of the draft Business Plan which includes some important features from the WRMP. While the company sought to mitigate this slippage by bringing forward some engagement activities to run in parallel it undoubtedly limited the time for the company and CCG to reflect on the implications of the engagement activities and limited the quality of activities as qualitative and quantitative research was undertaken in parallel on both the WRMP and the Business Plan on issues where insight from the qualitative research should ideally, in our opinion, have informed the design of quantitative research questions. For example, Ipsos/Mori's report of focus group discussions in Phase 2 highlights customer confusion about the different elements of the business plans presented. As the quantitative research, using the same questions, was underway in parallel it was not possible to use this insight to improve the quantitative survey design and give greater assurance that customers are likely to have understood the questions and propositions.

In addition to the general slippage and subsequent compression of customer engagement activities members of the CCG have also felt that insufficient time has been made available for them to comment and challenge on the detail of survey questions before they are put to customers.

### **Developing our PR19 Assessment framework**

Our PR19 Assessment framework was developed in two stages. A draft was first developed in Autumn 2017. This included the test areas set out in our Terms of Reference that had been agreed in Summer 2016 (and these had also been drawn from Ofwat's May 2016 policy statement). We added to that a number of additional items expected to be in Ofwat's PR19 methodology. Ofwat had shared with CCG's a draft of a so-called 'Aide Memoire' listing points the methodology expected CCGs to consider. We agreed our Assessment Framework in early March 2018.

Ofwat subsequently published the document it called an 'Aide Memoire' for CCGs<sup>137</sup> which lists all the issues which Ofwat has asked CCGs to challenge and comment on throughout its PR19 methodology. We undertook a cross referencing exercise between our agreed Assessment Framework and the Ofwat 'Aide Memoire' and are satisfied that our Assessment Framework addresses appropriately all the issues in Ofwat's Aide Memoire, although the issues are not presented in precisely the same order or format. The Chair sought advice from Ofwat on whether our assessment framework seemed to match with their requirements but Ofwat declined to provide any comment or assurance that our approach was likely to address their requirements.<sup>138</sup> It would have been helpful to have had a steer from Ofwat if there appeared to them to be any omissions, not least because our assurance role is requested by Ofwat. On the basis that they had no comments we see no reason to think we have omitted anything significant.

Our assessment framework considers 19 different aspects and can be found in Appendix 6 to this report. We conducted a provisional assessment – although we had yet to see the results of substantive customer research on the draft business

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<sup>137</sup> <https://www.ofwat.gov.uk/publication/aide-memoire-customer-challenge-groups/>

<sup>138</sup> Email from Jon Ashley 19/02/2018

plan and draft WRMP. The CCG Chair briefed the AWL Board on our views at a strategy meeting in March.

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. We said in our Annual Report that we needed to see more evidence and/or the company needed to take corrective action to address our concerns in full.

Finally, in our Annual Report for 2017/18 we said:

- *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.*

## **2018/19 PR19 related activities**

Between April and August 2018 the CCG has:

- CCG members attended several dWRMP and BP consultation events with stakeholders and observed several customer focus group sessions as part of Phase 2 of AWL's customer engagement programme.
- The whole group met twice – in June and July 2018 – to consider the outcomes of AWL's phase 2 customer engagement activities (which were in the field in April and May), likely final proposals for key elements of the BP and proposals for a Phase 3 acceptability testing with customers. Appendix 3 lists the items covered at those meetings
- The Affordability and Vulnerability sub-group met to review AWL's conclusions and final proposals for Inclusive services;
- The Chair attended the AWL board meeting on 20 June and provided an update on the CCG's assessment for the Board meeting on 20 August.
- The group was circulated a large number of documents during July and August including drafts of survey questions for Phase 3 of the customer engagement programme, top-line results and reports from that research and three drafts of AWL's business plan. Appendix
- The Chair and members raised a number of queries with AWL in July and August relating to the proposed bills and whether performance commitments were stretching.
- The Chair drafted and circulated to members for review 3 versions of the main assessment section (section 3) of the CCG report giving all members an opportunity to contribute their views on the overall assessment and the content of the report during August.