

# Service incentive mechanism (SIM) 2010-11 – company performance

## About this document

The service incentive mechanism (SIM) is designed to encourage the companies to provide better service to customers. It also allows customers to compare the performance of their water company with others. The SIM score measures the experience of customers who have contacted their water company to make a complaint or report a service failure, as well as for more routine transactions such as paying their bill or other enquiries.

This document presents the results of the first full year test of how the SIM mechanism is functioning. We have presented annual company results, noting that, as with any new measure, there are some areas where the consistency of reporting could be improved. We have explored this further with an independent horizontal audit of company data systems and high-level findings are included in this report. We are taking the issues arising forward with an industry working group, following discussions at an industry workshop.

The SIM scores presented in this report will not be used when we consider service incentives when we next set price limits. But we do intend to use SIM data from 2011-12 to 2013-14 for this purpose.

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## 1. Overview

### 1.1 What is the SIM?

The service incentive mechanism (SIM) is an incentive mechanism designed to encourage the companies to provide better service to customers. It also allows customers to compare the performance of their company with others. It measures two aspects of customer service delivery:

- where customers have made contact when something has gone wrong – for example, phoning about a billing error or writing to the company to complain; and
- a customer survey measures how well the companies have handled all types of customer contacts, not just when things have gone wrong.

### 1.2 What is the purpose of the SIM?

The purpose of the SIM is to incentivise the companies to:

- **reduce customer impact of service failures** – while some service failures are inevitable, the companies that react quickly to minimise customer impact and are proactive in keeping them informed are more likely to have fewer unwanted customer contacts and dissatisfied customers;
- **get things right first time** – in general, the best and cheapest way for a company to deal with any interaction with its customers is to meet those customers' needs at the first contact between them. Where that is not possible, then meeting their need with the fewest contacts after that is the next best option; and
- **resolve complaints first time** – it is not always possible for the companies to get things right first time, so complaints are inevitable. But customers will be less dissatisfied if their complaint is dealt with quickly and effectively. Doing so not only improves a company's reputation with its customers. It also reduces failure demand. This is the extra work or expense that the company incurs when things go wrong that could have been avoided if it had got it right first time.

### 1.3 How does the incentive work?

The SIM is a financial incentive because it affects the prices the companies are allowed to charge (their price limit). We will base price limit adjustments for 2015 onwards on the companies' performance in the three years between 2011-12 and 2013-14.

Companies that perform better for their customers will be rewarded with higher price limits. Conversely, those that perform less well will have a penalty imposed. This is achieved through an adjustment to the price limit for each company after all other financial modelling has taken place. We have set the potential range of adjustments between +0.5% and -1.0%.

The companies like to be highly placed in the 'league table' of SIM performance. Some also use this to incentivise staff internally with individual or team performance awards associated with achieving a given SIM score or SIM rank.

### 1.4 What do the first year's SIM results show?

As we outlined above, we will not use these first test year results when we next consider price limits. Rather, these results are a test of whether the mechanism is functioning as

anticipated. They have also allowed us to check, through the horizontal audit, that the companies' systems are delivering data suitable for making comparisons between them.

On the whole, the SIM does seem to work as an incentive – there is strong evidence that it has led to a change in customer service performance. This is backed up by identifiable changes in the companies' behaviour. For example, in areas such as written complaints where we do have historic data, we can see an indication of improved customer service with fewer written complaints to the companies and fewer complaints escalated to the Consumer Council for Water (CCWater).

The horizontal audit found that there is a good degree of information comparability across the water and sewerage sectors. But we identified some areas for improvement and we are working on these with the companies. These include ways to maximise comparability of data drawn from the different types of systems that the companies use (such as phone systems or the extent of outsourcing). We will also be checking that the customer experience survey remains fit for purpose going forward by removing redundant questions and routing.

## 2. Components of the SIM score

Each year, a score out of 100 (higher is better) is calculated, which is made up of the following two elements.

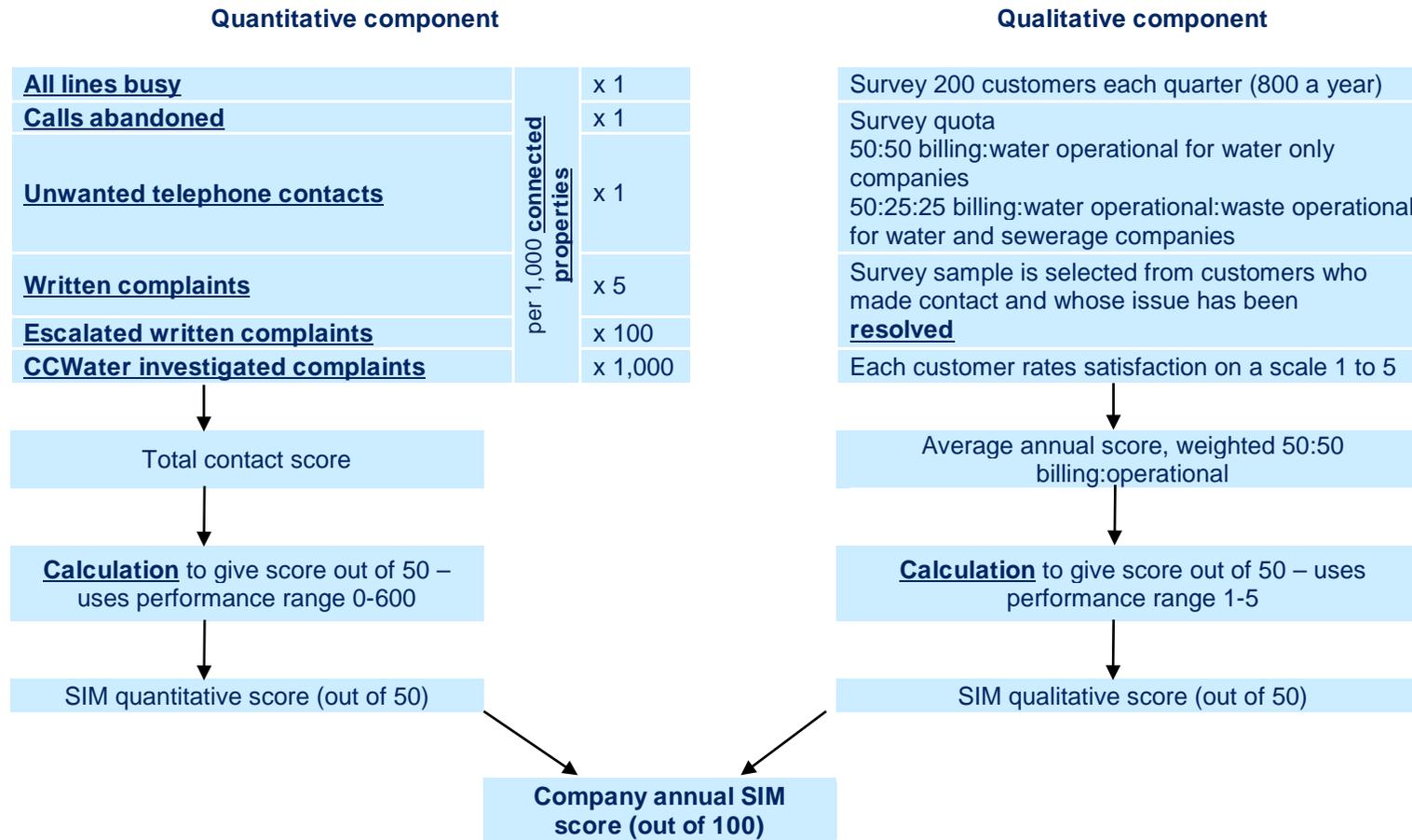
- A **quantitative score** (out of 50), which is based on the number of written complaints and phone contacts a company receives. The companies classify phone contacts as wanted or unwanted depending on the reason for calling. Also, any repeat contacts and calls expressing dissatisfaction are counted as unwanted regardless of the reason for calling. Complaints are weighted according to the stage of the resolution process. A customer's initial phone call to their company has a low weight, while CCWater investigating a complaint carries a heavier weight. This takes account of whether the company resolved the customer's issue at the first contact.
- A **qualitative score** (out of 50), which is derived from the consumer experience survey. This is a survey of consumers who have had direct contact with their company – for example, those who request a service or

make a complaint. The survey asks consumers how satisfied they were with the way the supplier resolved their billing or operational issue. Operational issues include contacts such as a consumer reporting sewer flooding at their property. This measure reflects how satisfied consumers are with the quality of service they receive from their company – both for dealing with complaints and for more routine matters such as making payments or asking for a water meter to be fitted.

The SIM includes both household and non-household customers. It does not capture the views of those consumers who do not contact their supplier. Nor does it include forms of communication such as social networking sites or blogs. But it does include some website contacts – for example, where a customer uses a webform to make a complaint, request a water meter or set up a direct debit.

Figure 1 shows the various components and how they are combined to calculate the SIM score.

Figure 1 Summary of SIM components and outline calculation (underlined text explained in appendix 1)



### **3. Company SIM performance 2010-11**

#### **3.1 Overall performance**

Table 1 and figure 2 below set out the companies' SIM performance during 2010-11. All but one company scored above 50, and in all cases a higher proportion of the score came from the customer experience survey element. This partly reflects the way the two halves of the measure are calculated. It also reflects the fact that the quantitative half counts contacts where something has failed, whereas the survey measures satisfaction with all types of contact handling – not just when something has gone wrong.

Service incentive mechanism (SIM) 2010-11 – company performance

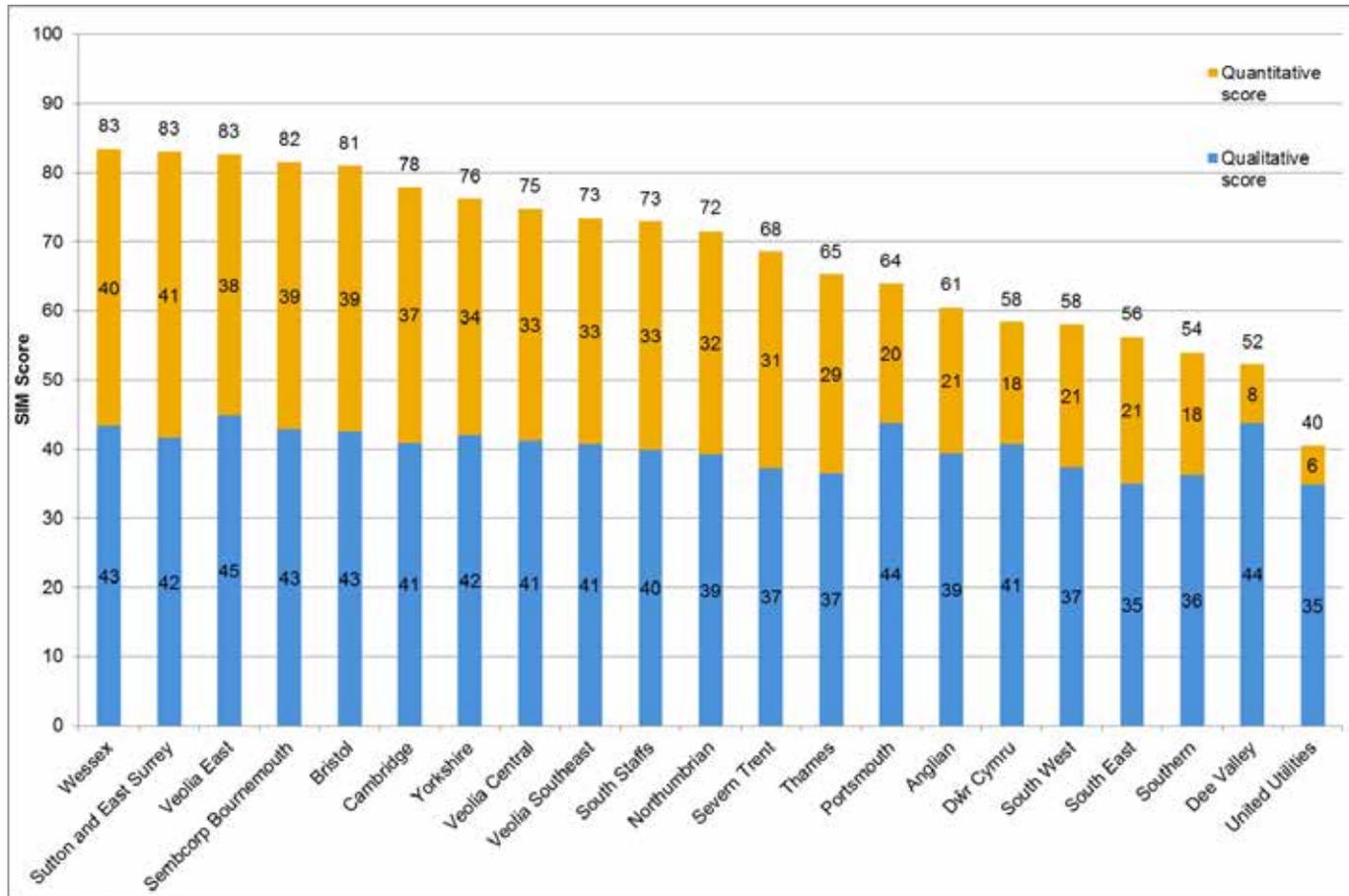
**Table 1 Company SIM performance 2010-11**

Company	Quantitative score		Qualitative score		Total SIM score
	Absolute score	Score out of 50	Absolute score	Score out of 50	Score out of 100 *
Anglian	346	21	4.15	39	61
Dŵr Cymru **	388	18	4.26	41	58
Northumbrian	212	32	4.14	39	72
Severn Trent	225	31	3.98	37	68
South West	351	21	3.99	37	58
Southern	387	18	3.90	36	54
Thames	255	29	3.92	37	65
United Utilities	533	6	3.79	35	40
Wessex	119	40	4.47	43	83
Yorkshire	189	34	4.36	42	76
Bristol	138	39	4.40	43	81
Cambridge	158	37	4.28	41	78
Dee Valley	498	8	4.50	44	52
Portsmouth	358	20	4.50	44	64
Sembcorp Bournemouth	136	39	4.43	43	82
South East	345	21	3.80	35	56
South Staffs	203	33	4.19	40	73
Sutton & East Surrey	103	41	4.33	42	83
Veolia Central	198	33	4.30	41	75
Veolia East	147	38	4.59	45	83
Veolia Southeast	208	33	4.26	41	73

\* **Note:** All scores are calculated from unrounded data. So, the two component scores may not add to the total out of 100 because of rounding.

\*\* Following recent benchmarking of its classification of unwanted contacts, Dŵr Cymru now considers that a SIM score of 71 is more representative of performance.

Figure 2 SIM scores 2010-11



**Note:** Following recent benchmarking of its classification of unwanted contacts, Dŵr Cymru now considers that a SIM score of 71 is more representative of performance.

### 3.2 Quantitative component

Figure 3 shows how each of the contact types contribute to the quantitative SIM score. The higher the quantitative SIM score, the more negative customer contact a company has received. A higher quantitative SIM score will lead to a lower overall score after the calculation in figure 1.

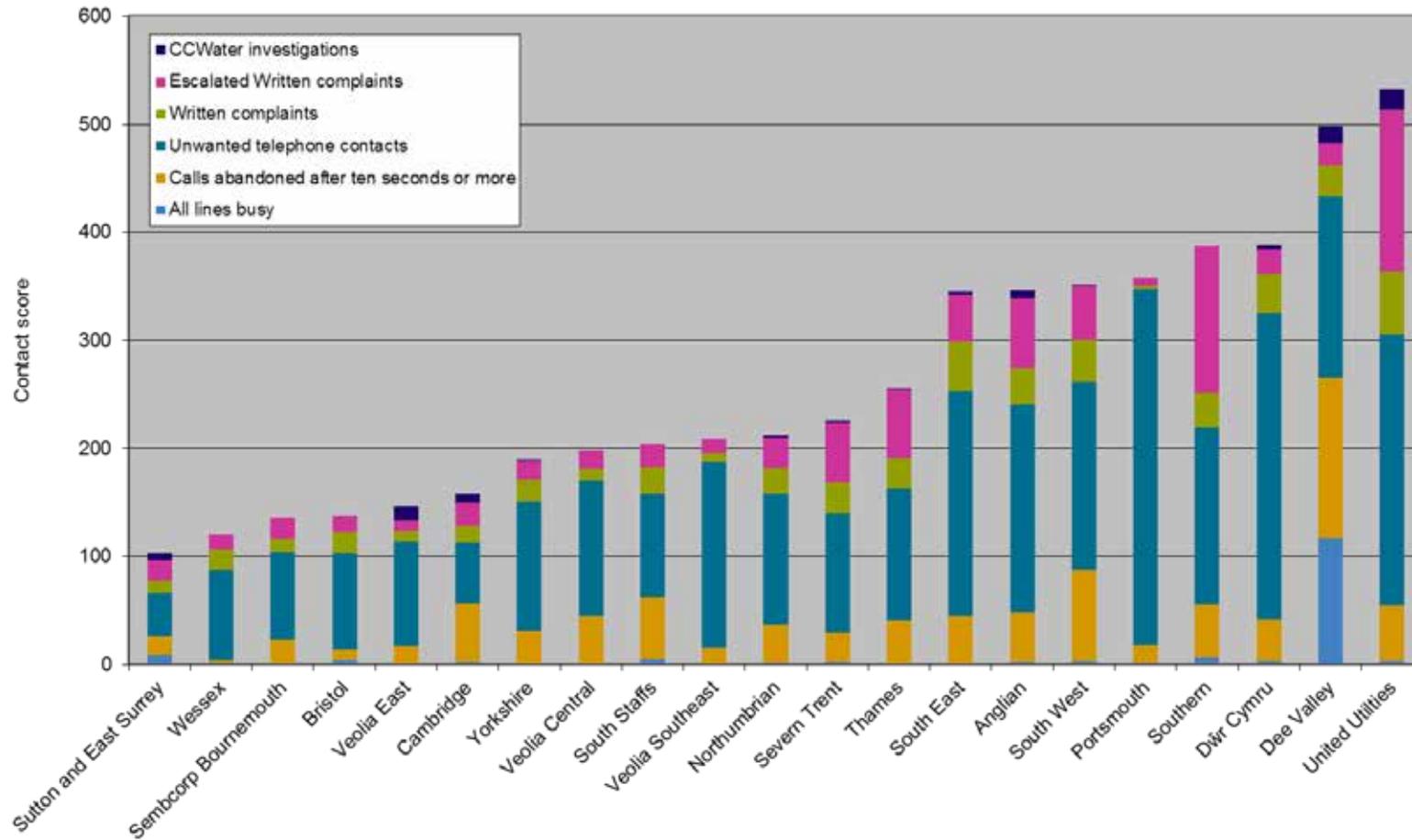
Compared with previous years, there are fewer written complaints and CCWater escalations. The companies tell us that this reflects their efforts to improve customer handling to reduce the risk of customers being sufficiently dissatisfied to put a complaint in writing and when this does occur, handling the complaint better to reduce the risk of CCWater needing to be involved.

You should note that the data we have used here matches that published by CCWater in its recent [complaints report](#). There have been minor changes to some of the companies' escalated complaints data from the information they published in June. These changes have been made to improve the consistency of reporting – for example, by removing double counting.

In the main, the highest element of a company score is derived from the unwanted phone contacts. This is to be expected as the phone is typically a customer's preferred contact route. The challenge to the companies is to minimise the need for customers to make 'unwanted' contacts – for example, by making proactive customer contact when there are operational failures, or by getting billing right first time. Where other elements dominate, such as 'all lines busy and calls abandoned', these are more likely to be system driven. But they may also reflect a significant outage or staffing issue.

It is also important to bear in mind that to be able to separate wanted and unwanted contacts for SIM reporting, the companies needed to make changes to their reporting and staff systems. Contacts are reported as unwanted by default unless reliably logged to pre-set wanted topics. In this first full test year, these changes are still bedding in and we are aware from the horizontal audit (see chapter 4) that in some cases there are more unwanted contacts reported by default than is strictly necessary. We will work with the companies to ensure reporting for 2011-12 is more robust and comparable.

Figure 3 Total contact scores



### 3.3 Qualitative component

The [qualitative survey](#) involves an independent market researcher contacting customers selected at random from samples of ‘resolved contacts’ provided by the companies.

The researchers ask customers a series of questions about the contact required to resolve the matter they contacted their company about. The survey closes with a question that asks, ‘Taking everything into account how satisfied were you with how your contact was handled?’

As figure 4 shows at an industry level, on the whole customers are satisfied or very satisfied with the overall manner in which their contact was handled. The survey responses are converted to a score where ‘5’ is very satisfied and ‘1’ is very dissatisfied. The industry average score is 4.2.

The survey also provides the companies with additional information about customer views, helping to identify what drives satisfaction and dissatisfaction.

For example, drivers of overall satisfaction can be derived by establishing which questions appear to drive overall satisfaction

(that is, where responses to these questions are low, then overall satisfaction is also low).

The two key drivers of satisfaction are:

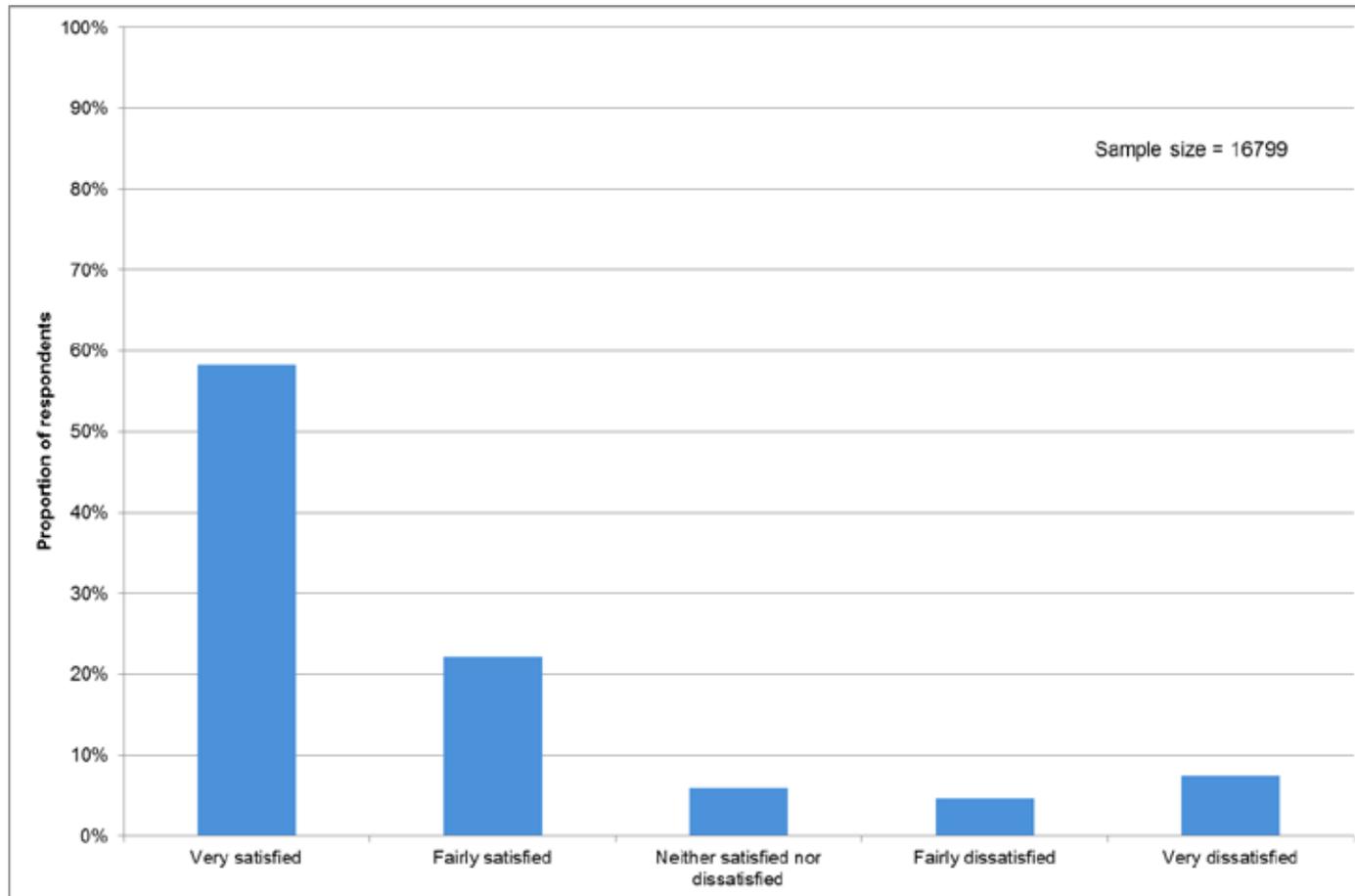
- being kept informed about an issue resolution; and
- time taken for issue to be resolved.

Knowledge, helpfulness and ease of getting through were also key drivers.

From the 2010-11 survey sample, the top 10 reasons for contacting companies are listed below (with the percentage of survey sample in brackets).

- Report a water leak (13%).
- Pay bill (11%).
- Dispute/query bill/high meter bill/reading (11%).
- Blocked sewer/sewer flooding (10%).
- Moving home/change of details (9%).
- Setting up payment arrangement (6%).
- Loss of supply (6%).
- Want a water meter installing (5%).
- Water quality complaint/enquiry (5%).
- Loss of pressure (4%).

**Figure 4 Distribution of survey responses (at industry level) to the question ‘Taking everything into account how satisfied were you with the way your water company handled this contact/enquiry?’**



## 4. Horizontal audit

Until this year, we have collected information on each company's customer service performance in its main annual regulatory submission (the 'June return'). The information has allowed us to make consistent comparisons between the companies and decide on any action we need to take as a result.

As part of our approach to collecting the information, we require the company's appointed independent consultant engineers (the 'company reporter') to examine, test and give their opinion on the information and the processes the companies use to collect it. This provides assurance that the companies are complying with our detailed information requirements.

The aim of this is to give stakeholders confidence that the SIM results are founded on robust and consistent data. In line with our new risk-based approach to securing compliance, which we set out in '[IN 10/01, Regulatory compliance – introducing a risk-based approach](#)' (December 2010), we used a more focused audit of how the companies collect information for the SIM.

Under these new audit arrangements, we appointed a single company (Halcrow Management Sciences) to provide assurance on the SIM measures across all companies. Halcrow's single [report](#) for the whole sector has highlighted areas of risk, inconsistency and best practice. Below is an extract from the report's executive summary.

**“In general, the horizontal review has shown that for the significant and material issues, there is a good degree of information comparability across the industry which should provide assurance that the SIM is producing results which reasonably reflect the customers' perceptions of service performance. It would therefore seem evident that the SIM can provide not only an effective high-level indicator that can be used as a regulatory incentive tool with a broad coverage but also provides information that companies can utilise to identify areas requiring improvement to meet their consumers' expectations (and thereby enhance their SIM position). This is consistent with Ofwat's move towards a lighter touch, risk-based regulatory environment.**

**The SIM may need some further refinement over time, for example where contact volumes are influenced by regional operating circumstances, or reviewing whether the weightings of the components are providing the right balance of incentive for improvement. There may be some more immediate improvements necessary to enhance comparability across the industry, particularly in relation to improving the classification of wanted/unwanted calls.’**

## 5. Conclusions and recommendations

On the whole, the SIM does seem to work as an incentive. There is strong evidence that it has led to a change in customer service performance. This is backed up by identifiable changes in the companies' behaviour. For example, in the areas such as written complaints where we do have historic data, we can see an indication of improved customer service with fewer written complaints to companies and fewer complaints escalated to CCWater.

An article on a recent Utility Week industry roundtable (dated 23 September 2011) reported that **“delegates were unanimous that it [the SIM] was working well, had already been effective that Ofwat should not change an effective scheme.”**

WaterUK, which represents all UK water companies, also referred to the **“strong incentive to resolve complaints effectively and efficiently through the SIM”**, in its published [response to a recent Government consultation on consumer advocacy](#).

The horizontal audit found that there is a good degree of information comparability across the water and sewerage

sectors. But some areas for improvement were identified. We have discussed these at an industry workshop and will continue to work on them with an industry working group.

These include:

- considering how to enable comparative reporting from a multitude of different phone systems;
- considering how to ensure all relevant unwanted contacts are measured, especially where work is outsourced;
- sense checking the data ranges used in the SIM calculation;
- further detailed points on reporting written complaints and unwanted contacts;
- considering where the customer experience survey could be modified to remove redundant questions and improve routing. This mainly applies to customers who had used more than one contact type and will shorten survey in these cases; and
- considering customer experience survey overall to ensure it remains fit for purpose going forward.

We are currently **consulting** on our future approach to regulatory compliance, which includes the introduction of company published performance indicators. (The SIM score is one the proposed indicators.) We are also considering whether the SIM should continue to have both a quantitative and a qualitative component. We will raise this with stakeholders as part of the consultation engagement process.

## 6. Further reading

'Putting water consumers first – the service incentive mechanism', Ofwat, March 2010.

'Putting water consumers first – how can we challenge monopoly companies to improve?', Ofwat March 2010.

Information notice IN 11/01 'Service incentive mechanism – auditing, scoring and levels of service reporting'.

'Regulatory compliance – a proportionate and targeted approach: A consultation', Ofwat, October 2011.

'Report on the horizontal audit of the service incentive mechanism (SIM)', Halcrow Management Sciences Limited, September 2011.

'Ofwat – Consumer Experience Survey: Wave 1-4 results', McCallum Layton, March 2011.

## Appendix 1: Further detail on how to calculate the SIM

### Component explanation for figure 1

**All lines busy:** The number of calls to the main advertised customer phone lines that receive engaged tones, or hear a message that the company is unable to take their call.

**Calls abandoned after ten seconds or more:** The number of phone calls received that were abandoned after lasting for at least ten seconds. This is before a company agent can effectively answer them or, before a recorded message, answering machine, touch-tone phone, automatic transaction or interactive voice response system can be used.

**Unwanted telephone contacts:** The number of phone contacts received from consumers that are unwanted from the consumer's point of view. This includes a contact about an event or action that has caused unnecessary aggravation (however mild) to the consumer. This also includes repeat or chase calls by the consumer to the company. This is determined by the subject matter of the call.

**Written complaints:** The number of first-time written complaints about a service failure by the company.

**Escalated written complaints:** The number of written complaints about a service failure that are escalated to a second-stage review.

**Connected properties:** The total of the number of properties connected for water supply only, sewerage services only, and water supply and sewerage services.

**Resolved contacts:** All those contacts that have been resolved in the specified period. 'Resolved' means that all necessary actions have been completed – for example, when issues/jobs have been completed and removed from work/job systems. For many contacts, such as requesting a leaflet or changing account details, this will be the same as when the final, substantive reply is sent by the company. But this will not be the case for all contacts, such as when investigation or a capital scheme is required.

Full detail of all the above measures can also be found in chapters 4, 5, 5a and 5b of the [June return reporting requirements and definitions manual 2011](#).

**CCWater investigated complaints:** The number of complaints that have been through a company's internal complaints procedure without being resolved, and have then been investigated by CWater. This data is provided by CWater.

### Calculation explanation for figure 1

#### Contact score calculation

$[(\text{all lines busy} \times 1) + (\text{calls abandoned in 10 seconds or more} \times 1) + (\text{unwanted telephone contacts} \times 1) + (\text{written complaints} \times 5) + (\text{escalated written complaints} \times 100) + (\text{CCWater investigated complaints} \times 1,000)] / (\text{connected properties}/1,000)$

#### Quantitative component calculation

$$[1 - [C - CL/CH - CL] ] \times WC$$

C = Total contact score (see above)

CL = Contact score minimum (this is 0 for 2010-11)

CH = Contact score maximum (this is 600 for 2010-11)

WC = Contact score weighting (this is 50 for 2010-11)

#### Qualitative component calculation

$$[(S - LS)/(HS - LS)] \times WS$$

S = Qualitative survey annual average score

LS = Minimum survey score possible (this is 1 for 2010-11)

HS = Maximum survey score possible (this is 5 for 2010-11)

WS = Survey weighting (this is 50 for 2010-11)



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