



Company webinar  
Engaging customers test area

February 2019

Great customer service is one of the themes of PR19 – this starts with companies having an in-depth understanding of customers' preferences and priorities.

Our '**engaging customers test**' assesses the quality of each company's customer engagement approach and the extent to which learning from its customers has influenced each company's business plan and ongoing business operations.

Our PR19 methodology set out expectations that:

- companies must engage with their customers on how they will address affordability, and make sure they have taken account of customers' views in their proposals;
- understanding customers is essential for companies if they are to improve and tailor their customer service in line with their customers' preferences;
- companies must engage with their customers on longer-term issues, including resilience; and
- companies should be much more innovative in their approaches to customer engagement.

**Customer challenge groups** (CCGs) have an important role - through their independent challenge to companies, and provision of assurance to us - about the quality and influence of customer engagement approaches. The CCG assurance reports are an important source of evidence during our assessment of each companies' customer engagement and most other test areas. We thank all members of CCGs, in particular their chairs, for providing the CCG assurance reports.

The PR19 methodology set out one test question covering customer engagement:

**Question 1:** What is the quality of the company's customer engagement and participation, and how well is it incorporated into the company's business plan and ongoing business operations?

We assessed:

Customer engagement	Customer participation	Longer term issues and future customers
Has the company effectively addressed the principles of good customer engagement including, but not limited to, evidence from its CCG?	Has the company taken forward the themes of customer participation including, but not limited to, evidence from its CCG?	Has the company engaged with customers on longer-term issues, such as resilience, and taken into account the needs and requirements of future customers?

Many companies performed well in the ‘engaging customers test’.

Ten companies are assessed as providing a high quality business plan in this test area, with one company (Anglian Water) found to be high quality in all areas of assessment of this test and providing sufficient evidence of ambition and innovation to receive a grade A overall.

All companies provided evidence that they have adopted the principles of customer engagement.

For a business plan to be assessed as high quality, the company’s evidence shows how customers’ preferences and priorities are reflected, for example, in the company’s proposals for performance commitments (PCs) and outcome delivery incentives (ODIs).

For more detail please refer to the [PR19 initial assessment of plans: Overview of company categorisation](#) and [Summary of test area assessment](#) and individual company documents on our [website](#).

In particular, the test area assessment and test question assessment documents for each company provide details of which parts of business plan submissions have been assessed as high quality, ambitious or innovative.

### We found that:

- More companies are using customers views to influence the shape of their business plan, such as PCs/ODIs and investment proposals rather than develop their ongoing operations
- It is the quality of the overall customer engagement approach that matters most, not the number or proportion of customers engaged.
  - We found examples of high quality engagement, but insufficient reflection of customers' views in the submitted business plan; and
  - effective and well-reflected engagement between companies and a relatively small number and proportion of customers.
- Most companies claimed some innovation in their approach to customer engagement, but we found that the majority is in wider use across the water sector.
- Compared with PR14, we saw more diversity in:
  - approaches to establishing customers' willingness to pay for business plan proposals;
  - examples of bringing together robust data from alternative sources;
  - the types and use of customer research and business as usual customer data in other areas of business planning.

### We also found examples of:

- poor research approaches;
- poor use of data from other sources;
- companies failing to reflect customer's views in their business plan proposals;
- the CCG being unable to properly fulfil its role due to the limitations in companies' customer engagement approaches and/or the time companies took to develop their business plan.

# Specific examples of high quality and/or ambitious and innovative approaches

## Research techniques and triangulation

Anglian Water provided convincing evidence to show its effective use of a range of customer engagement techniques (both on bringing together different sources of customer evidence in business planning and segmentation). These include multi-stage 'willingness to pay' research, which is externally assured. There is also a clear line of sight between what its customers said and the proposals in its business plan.

## Two-way dialogue and customer education

Northumbrian Water provided high-quality evidence of several approaches to talking and listening to customers. For example, its mobile engagement vehicle (Flo) visits a range of communities across the company's regions. The company involved customers in designing the overall engagement programme ('Defining the Conversation', 2016) and invited the same customers back in 2018 to take part in research about whether the business plan is acceptable. Customers also joined a senior leadership team conference in 2017 and co-created elements of the PR19 business plan.

## Ongoing engagement with customers

Wessex Water provided evidence of high-quality ongoing customer engagement. For example, it uses feedback data, complaints, social media and other contact data to inform its performance commitments. It also uses a customer opinion tracker survey throughout the year to provide comparable data and short snapshots of customer views at a given time.

## Setting the context

Yorkshire Water use behavioural economics techniques (for example, better context and framing to improve customer understanding) to help customers make more informed choices. This led to higher levels of customer understanding (91% compared to 74% at PR14). Where available, the company used comparative data from other water companies.

## Understanding different customers' needs

United Utilities gave evidence to show how it has done research with the most disengaged customers. It uses the results to develop ways to engage this group on an ongoing basis, and to influence its performance commitments for vulnerable customers and water poverty.

## Themes of customer participation

Wessex Water's approach to adopting the principles of customer participation is high quality, and shows innovation and ambition. For example, its water citizenship project and co-creating the 'Money Back Guarantee' with the Young People's Panel to encourage more people to get water meters.

## Longer-term issues and future customers

Anglian Water provided convincing evidence to show a high-quality, innovative and ambitious approach to engagement with its customers on longer-term issues and its ongoing operations. This included acceptability and valuation research, as well as specific research on resilience and intergenerational fairness.

## **Actions and next steps**

## Actions

The 'engaging customers test' has not, directly, set out any actions for companies as part of our initial assessment of plans. This is because the IAP test assesses what the companies have already done.

The detailed wording of actions in other test areas, such as Affordability and vulnerability, Delivering outcomes for customers and Risk and return enables the company to determine which changes to the business plan involve submission of evidence of customer support (for example, for out-performance payments or bill profiles). Our Final Methodology for PR19 sets out our overall expectations for which areas of the company business plans should include evidence of customer support. The same expectations apply to (parts) of business plans due to be submitted on 1 April.

### **New evidence of customer support**

For some actions, companies may be able to submit existing evidence that was omitted from the 3 September business plan submissions. For other actions, companies may be planning to generate evidence of customer support via new engagement activities.

We recognise that limited time is available to companies ahead of 1 April, so expect that companies will prioritise their engagement activities and generate the highest quality evidence possible in the available timeframe.

## CCG assurance

We expect companies to work constructively, effectively and pragmatically with CCGs as they generate new evidence of customer support.

In some instances, the actions explicitly set out our expectation that the CCG provides assurance of the quality of customer engagement in its second assurance report, which is also due for submission on 1 April.

We have provided a [template action tracker](#) which will be used by companies to indicate where, in their revised business plan, they have provided a response to each specific action. This document could also support discussion between the company and CCG regarding where the CCG should focus its attention.





Company webinar  
Affordability and Vulnerability test area

February 2019

Our 'addressing affordability and vulnerability test' assessed whether bills are affordable and whether companies help customers in need effectively. It also reviewed the company's approaches to supporting customers in situations of vulnerability.

For PR19 we asked companies to create a step change in how they address affordability and vulnerability issues faced by their customers.

We asked companies to submit business plans that considered affordability and value for money for customers in 2020-25 and beyond. We also asked companies to challenge themselves on the number of customers who receive priority services and the quality of those services. We wanted companies to better understand pressures on household finances, and offer appropriate bill support to customers struggling to pay, or at risk of struggling to pay, their bills.

Our PR19 methodology contained three test questions on affordability and one on vulnerability.

**Question 1:** Overall affordability - How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?

**Question 2:** Affordability in the long term – How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?

**Question 3:** Affordability for those struggling, or at risk of struggling, to pay - To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?

**Question 4:** How the company plans to support customers in circumstances which make them vulnerable - To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?

Many companies performed well in the ‘addressing affordability and vulnerability’ test area. Nine companies were high quality and received a grade B, and one company received a grade A for high quality with ambition and innovation. Companies generally performed worse on long-term affordability (question 2) than on overall affordability (question 1) or on vulnerability (question 4). Companies performed well on affordability for customers struggling to pay (question 3).

## Overall affordability

### Customer engagement

- How well is the company engaging with its customers on overall affordability now?

### Customer support

- How well does the company understand what affordability looks like for its customers and how is this reflected in its proposals?
- Are bills and the bill profile acceptable and affordable to customers?

### Effectiveness

- How effectively does the company's business plan improve affordability for all its customers?
- What are the benefits of the company's measures?

### Efficiency

- What difference will the company's proposed measures to address affordability make, compared to the cost of its interventions?
- Will the company's plans help prevent people getting into debt and reduce debt write-offs?

Companies generally provided a good explanation of the potential drivers of affordability concerns, and reasons why bills might become more or less affordable over 2020-25. Most companies proposed cutting bills in real terms, with a sector-wide average reduction by 2025 of 5%. Many put forward metering and water efficiency programmes that link explicitly to improving affordability through reducing water consumption. We also found evidence of some good practice in making payment terms and frequency flexible for all customers. This is a key factor in making sure all customers can afford their bills, so we are looking for companies to do more in this area.

There were inconsistencies in companies' approaches to testing acceptability and affordability, and the presentation of these results. This made it difficult to assess the level of customer support for 2020-25 bills and bill profiles.

Examples of poor practice included companies:

- testing bills that were lower than the bills included in the business plan;
- projecting results of current surveys rather than doing new customer research;
- reporting different results in their data tables to their business plans; and
- not testing customer views on a range of topics (for example whether bills are acceptable before and after inflation).

Companies that showed good practice in this area:

- tested customer views on the bills included in their business plans;
- presented data consistently throughout their submissions; and
- tested customer views on a range of bill profiles and scenarios.

## Affordability in the long term

### Customer engagement and support

- How well is the company engaging with its customers on overall affordability in the long term?
- Are its 2025-30 bill proposals acceptable and affordable to customers?

### Effectiveness

- How effectively does the company's business plan address affordability in 2025-30?
- Has it justified any use of financial levers (decisions about moving bill increases forwards or backwards in time)?

Many companies, even high performers, did not provide consistently convincing evidence about engaging with customers on long-term bills. In particular, very few companies did credible research into 2025-30 bills or bill profiles.

We are particularly concerned that several companies did not submit data on their projected bills for 2025-30. This raises questions about whether they made it clear to their customers what future bills would be. Also, some companies did not properly justify using financial levers.

## Affordability for those struggling, or at risk of struggling, to pay

### Customer engagement

- How well is the company engaging with its customers on assistance for those struggling to pay?

### Customer support

- Do customers support the assistance measures for people who struggle to pay?

### Effectiveness

- How effectively does the company's business plan improve affordability for customers who struggle to pay?

### Accessibility

- What will the company do to ensure that customers who are struggling to pay have easy access to help and support?

In the assessment on affordability for customers struggling to pay, companies showed they are going to:

- better understand which customers need support;
- increase the number of customers who get financial assistance. Nearly all companies proposing to increase financial support for customers struggling to pay; and
- broaden the type of schemes available to address different customer circumstances.

Companies proposed a broad range of approaches to help those struggling to pay their bills with instances of bill support increasing from 0.9 million to 1.5 million between 2020 and 2025. Most companies proposed stretching performance commitments on affordability.

## Plans to support customers in circumstances which make them vulnerable

### Use of good-quality available data

- How well the company uses good-quality, available data to understand its customers and identify people in circumstances that make them vulnerable?

### Engaging with other utilities and third parties

- How well the company engages with other utilities and third parties to identify vulnerability and support people in circumstances that make them vulnerable?

### Targeted, effective and accessible approaches

- How targeted, effective and accessible the company's approach is to addressing vulnerability?

### Consultation

- The extent to which the company consults customers and stakeholders, including the CCG, on its plans for vulnerability and they show support for the plans

We found some evidence of a step change in companies' ambitions to tackle vulnerability. In particular, most companies are proposing to significantly increase the number of households on their priority services registers. The overall number on registers will increase from 400,000 to 2.3 million households by the end of 2025.

However, ambition in this area is not uniformly high across the sector. This is why we are proposing a new common performance commitment in this area.

Many companies provided evidence of high-quality partnerships with third parties, like local authorities, energy companies and charities. The work of these partnerships includes identifying vulnerable customers and reaching out to them with practical help. However, we are concerned that not all companies demonstrate a robust approach to keeping their priority services registers up to date. In light of this concern, we are including data checking in the common performance commitment.

# Actions

## Performance commitment-related actions

Further justification required for use of outperformance payments associated with AV PCs

Further justification required for discontinuing PCs

Inclusion of a reputational performance commitment on achieving BSI accreditation for companies that have said they will achieve the standard

Challenges to performance commitment targets where these are not considered stretching

Splitting performance commitments that combine financial and non-financial vulnerability

Clarification of performance commitment survey methodologies

## Other actions

Further evidence of engagement and support on AMP7 and/or AMP8 bills and bill profiles

Provision of a long-term bill profile for the 2025-30 period

Further evidence of customer support for proposed social tariff cross-subsidies

Confirmation that company is adhering to social research best practice

## **Common performance commitment on vulnerability**

Companies' business plans included a range of measures and, in some cases, Performance Commitments (PCs) addressing the range of offerings, coverage and quality of service for customers in vulnerable situations.

All companies proposed to increase the number of customers on their PSR. However, we identified some specific issues:

1. There is a **wide difference in the proposed reach** of PSRs. For example, proposals for 2024-25 range from registering 15% of customers to 0.2%.
2. We are not confident that **every company** will deliver its proposed growth for its priority services register. For example, only seven companies proposed a PC to increase registered customers.
3. We are not confident companies currently have, or will maintain, **up-to-date data on their PSR membership**. For example, 12 companies have checked less than 20% of data over the last two years. On the other hand, the best companies are planning to check data for all eligible customers on their PSRs.

We are pleased that the majority of companies proposed PCs to improve the quality of service for customers in vulnerable situations. However, the issues above create a significant geographical disparity in the service these customers can expect, and in many cases will get, from their water or wastewater company.

## Common performance commitment on vulnerability

1. Companies should **register a minimum of 7% of households to their PSR by 2024-25**. Companies may choose to set a level that is higher than this minimum level. When setting the new target, companies should consider the needs of customers in vulnerable circumstances in their region by consulting available data and engaging with relevant third parties.
2. Companies should **contact a minimum of 90% of registered customers every two years** to make sure they are still getting the right support.
3. The performance commitment should be **reputational only**. If a company has already proposed a financial performance commitment, the under- and/or outperformance payments should be removed.

If a company has already proposed a PC to increase the coverage of its PSR, it must adapt its commitment to meet the specifications above. All companies must adopt this PC before the start of the 2020 to 2025 period.

As set out in our Final Methodology, we still believe a single PC cannot reflect company performance in supporting vulnerable customers, and we recognise that improving services for vulnerable customers cannot be reflected by numbers of customers on PSRs alone. However, the inconsistency in the industry in terms of numbers of customers registered cannot be justified, particularly at the lower end.

Improving the coverage of PSRs, and making sure customer data is high quality and up to date, are important foundations for improvement of services. They also complement companies' proposals for measuring and improving customer satisfaction with priority services.

All actions in the Affordability and Vulnerability Test Area are categorised as **required** and should be completed by 1 April (for Slow Track and Significant Scrutiny companies). We have provided a [template action tracker](#) which will be used by companies to indicate where, in their revised business plan, they have provided a response to each specific action.

Should you have any questions related to your company in particular, please direct them to your Engagement Manager or Lead, copying our inquiries email address - [pr19engagement@ofwat.gsi.gov.uk](mailto:pr19engagement@ofwat.gsi.gov.uk).

We will meet with companies individually on an as-needs basis should they wish to discuss their actions in detail.

We will notify companies of any further engagement around affordability and vulnerability issues.

