



# Shared Vision for the Water Sector

## July 2019

### Overview

We fully support Ofwat's work to develop a shared vision for the water sector and welcome the opportunity to contribute to this. We recognise the sector is under intense public scrutiny and faces a number of shared challenges. The emerging aspirations in the discussion document provide a great framework for a new ambitious vision. This can help drive the long-term improvements customers and stakeholders expect.

We are two years into our ambitious transformation programme. We recognise that historic performance issues mean we need to work hard to rebuild the trust and confidence of our customers and wider communities, alongside rising to the future challenges of climate change and population growth.

Our vision for the future is helping to drive rapid change within the company which will enable us to deliver our Business Plan for 2020-25 and create a resilient future for customers in the South East. A shared vision for the sector which reflects the true value of water and the range of wider societal benefits companies provide will help put customers, communities and the environment at the heart of future decision making.

### **Based on the draft in our discussion document, what do you think should be included in a shared vision for the sector? What are the collective aspirations it needs to achieve?**

The emerging aspirations in Ofwat's discussion document provide a great framework. We have a number of suggestions for further collective aspirations, plus some examples of how we are already making progress towards these.

### Excellence

- Succeed together - work collaboratively with customers, water companies, stakeholders and other companies/sectors to achieve a resilient water future.
  - Through our industry-leading demand-reduction initiative, Target 100, we will support and incentivise our customers to reduce their personal average daily use to 120 litres by 2025 and 100 litres by 2040.
- Compare our performance with the best in class in other sectors - here and overseas – in additional to water industry league tables
  - Our [Water Futures in the South East report](#) supported our long-term planning by exploring challenges and opportunities locally, regionally, nationally and globally.
- Provide responsive intuitive customer service which meets customer expectations
  - In two years our customer service transformation has delivered sustained improvements in customer satisfaction performance ranking and written complaints which reduced by 40%. We recognise there are still big improvements to be made, but this is a significant step forward.
- Support those who are most vulnerable in our communities



- We exceeded our target to provide tailored financial support to those in genuine hardship (2018/19).
- We have an industry leading 2020-25 performance commitment on sustainability of payment arrangements

## Stewardship

- Put customers, communities and the environment at the heart of our plans for the future
  - Over 1 million people helped in the creation of our 2020-25 business plan
- Play our part in ensuring we leave the environment in a better state than we found it – help customers understand the role of the sector in delivering environmental outcomes
  - Bathing water quality in our region has improved significantly in 2018, with the number of ‘excellent’ bathing waters in our region increasing by nine to 62 in total (2017: 53) with none ‘poor’.
  - Our award winning FOG and unflushables programme has used a range of eye-catching and innovative tools to drive engagement and behaviour change
  - We’ll be delivering one of our largest ever environmental improvement programmes in 2020-25 with 537km river improved, 236 new/tightened wastewater permits, 7 bathing waters improved, 57 bathing waters maintained at excellent, and 1459 hectares SSSIs restored or improved
  - We plan to invest £49 million in catchment management between 2020 and 2025 – a significant increase compared to previous years.

## Value

- Broaden collective thinking on customers to include consumers and citizens. Work together to provide added value for society and develop meaningful measures to check progress
  - We’re developing a social contract with our customers and stakeholders to complement the industry’s [Public Interest Commitments](#)
  - We’re also developing natural capital accounts so that changes over time as a result of our investments can be monitored, evaluated and reported.
- Demonstrate responsible business practices and good corporate citizenship to rebuild public trust in the sector.
  - We have improved our business systems and processes, including corporate governance, underpinned by values-based ethical business practices to ensure the mistakes of the past are not repeated.
- Take advantage of new technology and innovative approaches to transform how the sector operates and deliver greater benefits for customers and wider society
  - Our new innovation lab, Bluewave combines lean start-up and design-thinking approaches and to provide a valuable problem-solving resource for Southern Water

## **Should water companies be encouraged or incentivised to consider wider public value in what they do? What does this phrase mean to you, and should Ofwat take a role in making that change happen?**

Yes, the regulatory model should help companies deliver what customers, consumers and stakeholders want and expect - both now and in the future.

For Southern Water, public value is an expression - and a quantification - of how our sector delivers benefits for society which go beyond meeting immediate customer needs through service delivery. This could encompass a wide range of activities from the provision of environmental



goods, to supporting regional employment and training, and working with the most vulnerable in our society. For example we're already:

- Leading collaborative action to deliver ambitious water efficiency savings through our Target 100 initiative.
- Delivering improvements to the environment through our collaborative Catchment First programme and Bathing Water Enhancement programme.
- A driving force in the Greater Brighton Economic Board which aims to secure a growing, modern economy that is international, creative, connected, talented and resilient.
- Partnering with charities, community groups and others to ensure we provide support to customers when they need it most.

The water sector as a whole has strengthened its commitment to work in the public interest and we're fully committed to the ambitious pledges set out by Water UK in April. We believe a clear understanding of the value of water will encourage more sustainable behaviours and help preserve the most precious resource in the world.

Wider public value needs to be clearly based on customers' expectations for what the sector should deliver and how it should behave. Ofwat has an important role in helping understand and define these expectations at national level and working with the sector to develop consistent measures. Where there is clear customer support for delivering this wider public value, it should be reflected in the outcomes we deliver and, if appropriate, in customer bills. We'd welcome a joint approach, involving regulators, government and companies, to define a consistent sector-wide approach to measuring and tracking progress in delivering public value.

**Do you think long term aspirations and targets will be effective in driving the sector forwards? What should they cover and how should they work in practice?**

Yes, it's vital that the sector looks long term and bridges short term issues with longer term thinking - ensuring resilience for the future. We believe water industry aspirations and targets should be clearly linked to national policy and legislative drivers on climate change, the environment (e.g. 25 Year Environment Plan) and wider social issues.

Customers and stakeholders should also play a key role in shaping and helping to deliver (where appropriate) long-term targets. For example, our strategic partnerships with the region's Wildlife Trusts, Rivers Trusts and National Parks will support the delivery of shared long-term outcomes for residents, communities and the environment.

Ofwat's challenge to the sector to reduce leakage by 15% by 2025 has been an effective driver of real ambition in this area. This should not be a one-off. For key metrics where customers want most to see improvements Ofwat should set a long-term aspiration, accompanied by rolling 10-year targets, to ensure investment is optimised. This will help drive innovation and focus in key areas of activity.

Aligning long-term targets and investment cycles with other sectors and organisations could help public and private sector investment go further, e.g. River Basin Management Plans, Local Plans, Flood Risk Management investment, new funding for farming. Better coordination of funding within

catchments could provide efficiency gains of around 8%<sup>1</sup>. These efficiency gains could help companies and public bodies deliver more for less.

**Do you think we're focusing on the right areas in which to drive transformational change, as we've set out on pages 26-29? E.g. innovation, the natural environment, customer relationships**

Yes

Innovation

Collaboration within future research areas is critical to achieving shared understanding and greater value. A centre of excellence could drive coordination and ways of working. This could be pushed by Ofwat but driven and facilitated through an existing collaboration body (UK Water Partnerships/ UKWIR). We also support the development of a national innovation fund – with clear obligations to share best practice and expertise across the sector. Having identified areas of best practice, Ofwat should challenge companies to adopt these approaches.

As well as ring-fencing funding, ring-fencing outcomes which companies are proposing to deliver through innovative methods is important, allowing for failure of initiatives without the risk of regulatory delivery penalties. Without this ring-fencing, and with more powerful delivery incentives, companies will continue to be risk-averse in meeting key outcomes.

Setting long-term aspirations supported by 10-year rolling targets will help focus investment in innovation in the areas that matter most to customers. Improved data sharing across the industry is also critical step to securing digital innovation from outside the water sector. Value to the water sector will be higher if there is a combined approach and mechanism.

The natural environment

Our customers and stakeholders have been very clear that they want us to deliver improvements to the environment. It's important to give proper consideration to this as part of the price control process.

As well as encouraging innovation, developing 10-year rolling targets will support long-term approaches to environmental improvements rather than short-term fixes. Water industry aspirations and targets should be clearly linked to national policy and legislative drivers on climate change, the environment (e.g. 25 Year Environment Plan) and wider social issues.

A common approach for accounting for natural capital values in decision making (e.g. common metrics, methodologies) could also provide a greater sector voice, shared narrative and more opportunities for collaboration. We also feel there could be opportunities to review and address

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<sup>1</sup> Catchment's if you can – making the most of England's annual catchment spending, Indepen report for Southern Water, South West Water and Wessex Water

tensions in regulatory regimes or develop new ways of working with water companies and other regulators/sectors, e.g. sequencing of plans, WINEP requirements, design of new Environmental Land Management scheme and public/private finance.

### Customer relationships

We've developed a wealth of knowledge through our PR19 engagement and greater use of insight is part of our transformation journey. By combining data sources we have a much better understanding of our customers' needs and are able to make insight-led decisions which provide greater benefit for customers.

Better information about how we spend customers' money will also help improve transparency

- 60% of our customers are sure about how their money is spent (56% in 2018)

Our broader vision is for insight-led decision making to transform our customer participation.

- See [Annex A](#) for our participation principles.

We're also playing an active role in multi-sector approaches to supporting customers in vulnerable circumstances. Ofwat could play a key role in helping to ensure consistent approaches across different sectors.

### Insight and reporting

We agree with Ofwat's focus – although would like to ensure that the definition of 'data' is broad and encompasses the integration of all insight sources. In the past insight has focused on traditional large volume surveys, which whilst they still have a key role, more focus should come from agile and informed qualitative sources. Insight does come from traditional research (e.g. surveys) as well as performance data (referenced in the Ofwat strategy) – but importantly insight data can also come from a much broader range of sources, which needs to be integrated to provide a holistic understanding of our customer and stakeholder needs:

- **Direct Engagement** – both quantitative and qualitative research
- **Data Analytics** – performance and behavioural data
- **Experience** – feedback through interactions and engagement
- **External** – external reports, trends and publications
- **Expertise** – leadership, events, committees, observations and challenge panels

Cross-industry insights could be a fantastic way to meet customer needs and reflect their overwhelming, messy reality. We would be able to combine efforts to effectively target specific attitudes and motivations.

### **How do you think we could evolve our approach to price controls, building on the conversation on page 36?**

We strongly welcome the suggestion of Ofwat carrying out its own customer engagement to support the development of a framework of national targets and aspirations for the sector. While there are regional differences in outlook, these are often overstated and we believe customers are likely to coalesce around a core set of targets. These can then be supplemented by local engagement on region-specific issues.

Ofwat has already taken this approach to some degree at PR19. In future we believe it needs to be supported by nationally-led customer research to define the key areas for common targets, accompanied by long term aspirations and 10-year rolling targets in these areas. A move to 10-



year rolling business plans would help strengthen longer-term focus and better optimise investment, removing some of the distortions created by a relatively short regulatory cycle, as well as providing greater certainty to the supply chain.

To support the price review process and enhance comparative competition in delivery Ofwat should publish and publicise more regulatory 'league tables', including annual efficiency assessments. This will act as a more powerful incentive to genuine service delivery improvements.

We believe this approach is preferable to a five-year 'beauty parade' focused on whether companies have produced a compelling business plan. Given the challenges in objectively assessing the 'best' business plans we would not support an enhancement of the business plan classification process.

We feel it also critical to give proper consideration to customer and stakeholder views – driving down customer bills is rightly part of the regulatory assessment, but Ofwat should also ensure customers' and stakeholders' wider expectations are met.

## **Annex A: Our Participation Principles:**

Our 12 Principles are designed around our values as a business – to succeed together, to always be improving and to do the right thing:

### **Succeeding together**

1. **Shared planning** – working internally to time our engagement activities together
2. **Collaboration** – with our customers, stakeholders, employees, other water providers
3. **Two way dialogue** – ensuring we engage in a way to allow for open discussion
4. **Partnering** – working much closer with our partners to bring in their expertise

### **Always improving**

5. **Innovate our approaches** – innovating and testing new ways to engage
6. **Iteration by design** – ensuring we have steps within our engagement to learn as we go
7. **Open to challenge** – actively seeking expertise and recommendations to help us improve
8. **Comparative learning** – looking inside and outside the industry and best practice

### **Doing the right thing**

9. **Integration** – using the different insight sources together from across our engagement
10. **One voice** – triangulating the sources together to have a clear view of customer feedback
11. **Participation first** – starting with the customer and how they can play an active role
12. **Segmentation evolution** – understanding individual needs and tailoring our engagement