

Affinity CCG Response to Ofwat's Consultation Paper: 'PR24 and beyond: Reflecting customer preferences in future price reviews'.

This response has been written by Caroline Warner, Chair for Affinity Water Limited CCG. The views expressed reflect discussions with and input from all Affinity CCG members.

In summary, we welcome the proposals from Ofwat as well as the opportunity to respond to them. This consultation paper, which headlines the determination to put customers at the centre of regulatory strategy, indicates a commitment to developing a significantly more sophisticated approach to customer engagement than in previous price reviews.

The Affinity CCG has sought to transform its role since PR19. In addition to challenging ongoing performance and evaluating the quality of customer engagement plans, the group seeks to play a part in shaping the future. We do this by challenging the company to develop the deepest possible understanding of customer preferences and needs and allowing these to guide business planning. We then expect the company to develop first-class programmes of work that seek to transform approaches to all matters that are important to customers. These matters include environmental protection & innovation strategies, demand & water resource management and all aspects of inclusive services. The CCG members are highly ambitious for customers and set the bar high for the company in respect of creating meaningful public value.

We believe that our objectives align well with the 3 strategic goals stated in the Ofwat paper to:

- Transform companies' performance
- Meet the long-term challenges ahead
- Deliver more for customers through greater public value

The professional expertise of Affinity CCG members span: market research, customer engagement, customer segmentation, financial, social and other vulnerability, social housing, river catchment management (particularly Chalk Streams), policy making, brand development, partnerships development, communications, local and national environmentalism, health, local & national government, public value development, innovation and business. Our membership of 12 individuals has been refreshed since PR19 and includes a new Chair (since April 2020) along with a further 4 new members who bring specialised professional expertise to the group.

The Affinity CCG has a regular rhythm of meetings that ensure members maintain close contact with the company and have the opportunity to challenge and input often. As a full group we meet quarterly for formal meetings and for seminar sessions. Each of our 3 subgroups (Environment & Innovation, Inclusive Services, Customer Strategy & Behaviour) also meets quarterly. Additionally, members offer their relevant professional expertise individually to support and energise specific projects. The Chair represents members on WRSE group and other national and regional collaborations. The Chair also attends and participates in Affinity Board Meetings for all customer related items and has regular updates with both CEO and Chair of the Board.

## Affinity CCG Responses to Questions from Ofwat

### **Q1: Do you agree with the goals we have proposed for customer engagement at future price reviews. If not, why not?**

We agree with the proposed goals. These goals are clear and motivating. We are encouraged to see Ofwat indicate that high expectations for both quality of customer evidence and for outcomes could be coupled with freedoms for companies to design, create and innovate the best possible engagement and communication programmes.

#### Thoughts relating to Ofwat's 6 Goals

1. Enable companies to take responsibility for their relationships with their customers
  - We agree that companies should be encouraged to design customer programmes using local insight and expertise.
2. Recognise preferences so that price controls are tailored to the specific needs of customers and communities
  - We agree and suggest that it will be helpful to differentiate between national preferences that will require standardised assessments vs local preferences that may require more bespoke assessments. For example, in Affinity's catchment area it may be that the restoration of Chalk Streams is a core customer preference and assessing this adequately will require a tailored approach.
3. Foster collaboration so we learn from each other when working to understand what matters to customers
  - We support this goal. To an extent this occurs already through the work of WRSE and other groups in the South East.
  - We advocate particularly for a shared understanding of what matters to customers when it comes to potential behaviour adaptations and subsequent demand management strategies that may have national and regional, as well as local, applications (see later note on national research).
4. Promote transparency so it is clear to all parties how customer evidence is being used in decision making.
  - We support gold standards of quality for customer evidence alongside the freedom to use innovative methods.
  - PR24 evaluations should have zero tolerance for leading questions or any questions that citizens could not reasonably be expected to comment upon.
  - We expect to see Affinity working smartly to identify meaningful customer insights from the outset and using these to develop research and engagement plans that result in good quality evidence that in turn drives business planning.
  - Ofwat notes that techniques for capturing customer views are constantly evolving. We are encouraged to see this observation and hope the regulator will welcome a range of research techniques in order to embrace new innovations in this field as well as established methods. We suggest that it will be vital to give companies the freedom to brief a variety of research companies beyond the old favourites. We will expect to see strong briefs

from the company that will seek to effect high quality research that uses the most appropriate techniques in order to achieve meaningful and impartial insights.

5. Increase proportionality so that the focus is on producing high quality engagement instead of lots of it.
  - We agree and suggest that Ofwat could consider how to make the regulatory burden appropriately lighter in order to enable companies to focus on meaningful high-quality engagement rather than greater quantity.
  - Affinity CCG members expect the company to use ongoing operational data to generate good insight additionally. We hope that Ofwat will also encourage companies to articulate learnings from continuous data and to detail how these are leading to improvements. This should be evident from day-to-day business during the 2020-25 period. We expect to see Affinity using such insight comprehensively leading into PR24 planning.
  - Members also suggest that the value of qualitative research is acknowledged. Good insight is often delivered via qualitative methods.
6. Broaden value so that companies understand people's views as citizens as well as their views as customers.
  - We agree with the observation that water is not consumed in a silo. Especially, as the industry continues to seek to develop better levers for behaviour adaptation, companies need to understand how water fits into citizens' lives.
  - In the water industry, companies have typically asked citizens to come into their world for research and asked them questions from this perspective also. Affinity CCG expects the company to alter their view from through a 'water lens' to through the 'citizen lens' over the coming period.
  - It may be of note that other public service sectors are moving in the direction of understanding the whole citizen (rather than only in the siloed role of patient, resident, student etc) and making policy accordingly. For example, health care systems and local authorities are increasingly joining up services in order to plan for population health goals that especially seek to address inequalities. Water is adjacent to this endeavour given that access to good quality water supply is one of the fundamental determinants of population health. This may be of interest to consider when it comes to the development of some new ways to engage. For example, could Citizens' Assemblies or similar be broader than water encompassing other sectors?

**Q2: Are there any other goals which you think we should have for customer engagements at future price reviews?**

Expectations regarding the extent to which water companies should demonstrate public value creation, technical invention, citizen engagement innovation and other such forward-thinking programmes of work are yet to be defined for future price reviews. None will be more important than the **water companies' individual and collective obligations to climate change agendas**. We would support very ambitious goals for meaningful customer engagement in this regard.

- It is noted in the executive summary that ‘Customers increasingly expect companies to create public value’. The Affinity CCG members agree that creating meaningful public value must be a core goal for the company and we are determined to support the ongoing development of highly ambitious programmes of work in this respect. For Affinity, these programmes are likely to focus on local environmental imperatives around Chalk Stream restoration.
- We would encourage Ofwat to be clear in their definition of public value and how they will assess each company’s performance in this regard.
- Additionally, we recognise that this challenge is huge for a company whose core competencies have not traditionally included marketing expertise to identify insights, articulate strategies and enact value adding programmes.
- Such skill sets have not been traditionally within the expertise of regulators either. It would be useful to understand if Ofwat believe that they now have the competencies to evaluate excellence in respect of insight development and public value programming.

**Q3: Do you agree with the principle that in areas that are of common concern to all customers within a nation, evidence of customers’ preferences should be generated in a consistent manner such that results are comparable? If so, why? If not, why not?**

We agree that some common research nationally could be very useful. This could empower Ofwat to compare preferences across companies pulling out both similarities and differences across geographies. This could also have the benefit of re-focusing companies on developing first-class customer insight locally.

- It will be key to define precisely those areas appropriate for any national research and to clarify the boundaries of remit for national vs local in order that:
  - Ofwat and other regulators can be assured that they have a thorough understanding of customer preferences on key areas of common concern and that where genuine differences of view occur regionally or locally that these can be acknowledged.
  - Companies remain incentivised to think creatively and innovatively about their business plans. This requires a fair degree of autonomy and perhaps some reassurance that centralised and standardised work will not inhibit excellence locally.
- It will also be necessary to ensure that there are statistically significant sample sizes across company geographies for any national quantitative work.

**Q4: If we make use of collaborative nationwide research in future price reviews:**

- **Which aspects of business plans do you think should fall within the scope of this research?**

Research at a national level should be considered only where it will be truly useful for the regulator to have impartial, consistent and comparable data. Ofwat must be confident that the long-standing geographical, historical, socio-economic, attitudinal and cultural differences between the different regions can be taken account of adequately.

- National research could include willingness to pay studies. This could be a way for Ofwat to be assured that research findings have not been biased by the profit imperatives of companies when it comes to future bill proposals.
- We would suggest that this research could be designed to include a comprehensive understanding of citizens' views on trade-offs that take full account of the extent to which customers are willing to pay more for investment in future resilience/demand management initiatives vs citizens' preparedness to lower their personal water usage in order to prioritise lower bills.
- Willingness to pay and willingness to adapt behaviours are also both good candidates for ongoing trend analysis development as well as consumer future trend forecasting of likely attitudes and values and how these may map onto preferences and behaviours. This work could lead to a better understanding of the levers for behaviour change.
- We agree that any national programme must be prepared to observe adequately any regional differences arising from socio-economic, cultural, geographical, attitudinal or historical variations. It seems obvious then that statistically significant sample sizes should be used for each company's geography for any quantitative work.
- Longer term, we wonder if national research could provide an impartial opportunity to develop to consider alternative tariff structures and other questions that are appropriately viewed outside of the companies' and their shareholders' remits.

- **Which organisations do you think should be involved in steering this research?**

CCW are well placed to lead any national research and we understand that Ofwat have recently established insight capability within their team. We note that CCW have a competent strategy and research team and have developed a robust understanding of the strengths and weaknesses of the price review system from a customer perspective.

- An alternative to a standardised national research programme may be to allow companies to run research directly BUT formalise a process whereby CCGs work with CCW, or another regulatory partner, to sign off briefs and methodologies for specific pieces of work in order to assure both adequate and impartial evidence. This way of working would offer assurance but would be less clear for comparability purposes.
- We note that that one of the members of the Affinity CCG is a CCW senior policy manager. Additionally, we enjoy a well-established and good relationship between our group and the wider team at the consumer watchdog.

- We note that Ofwat have recently enhanced insight competencies within their team. Between Ofwat, CCW and CCG members the necessary expertise should be available. The Affinity Chair and other members with relevant professional expertise will support any national effort where useful.

- **When should this research be undertaken?**

The schedule of work should be published during 2021 as national and local research timings will require thoughtful sequencing.

- Insights that emerge from national research may provide foundations for local research to build upon.
- Thoughtful timing will mean that there is less likelihood of duplication as well as a better chance of deeper insight work at local level.

**Q5: To what extent do you think it would be necessary for us to provide guidance on customer engagement, assurance and other issues at future price reviews if we made – or did not make – use of collaborative nationwide engagement?**

We recommend that Ofwat focuses upon providing guidance on expectations for gold standard plans rather than prescriptions for how to achieve such.

- CCW have already provided an excellent and comprehensive report reviewing customer engagement programmes for PR19. We expect Affinity to take full account of learnings and recommendations within this. Where Ofwat wish to offer additional guidance, it will be helpful to build upon what has already been learnt.
- We are encouraged to see Ofwat and CCW working more closely together than previously and support this direction.

**Questions arising from Q5 in respect of CCGs**

Below we have laid out our thoughts on the potential future role for CCGs responding to questions from Ofwat. We remain open-minded in every respect and hope to be of service to the regulator, formally and, or, informally, as we continue to be highly ambitious for Affinity customers.

**Should CCGs have a formal assurance role in PR24?**

Members can see both opportunities and risks to retaining a formal assurance role for CCGs in the regulatory framework. On balance, we favour retaining an assurance role but would like to see that amended considerably vs PR19.

- Opportunities:
  - Retaining a formal assurance role for CCGs underlines the sincerity of Ofwat's commitment to citizen engagement as articulated through their 3 strategic goals.

- This also mitigates for changes of leadership within the company.
- We believe that it is both possible and desirable for Affinity CCG to provide a role that encompasses both a) assurance for the quality of customer engagement with b) further purpose to drive ambitious tailored goals that will benefit citizens and the environment.
- A more concise formal assurance remit could allow more space for members to focus on encouraging greater creative and innovative thinking intended to drive improved customer solutions locally.
- Certainly, this way of working would be less standardised across the industry. Therefore, this opportunity might be best understood if recognised as complementary to any standardised national and/or regional research programmes. Perhaps even, the formal role of CCGs could be weighted towards assuring customer engagement regarding bespoke PCs rather than those in common.
- This way of working could result in more meaningful information for Ofwat as the CCG reports to the regulator would focus on intelligence that Ofwat could not easily gather otherwise.
- Additionally, in our view, the full value of the Affinity CCG will be best realised by continuing with close working links with the company's Board in order that we can input into decision making processes.
- Risks and Mitigations:
  - The skill mix of members must be adequate to the task. We plan to conduct a skills audit once we have agreed ToR for the CCG in advance of PR24. This audit would take account of any requirements from Ofwat.
  - Time commitment of members must be assessed vs requirements once it is known how Ofwat have decided they wish to use CCGs. This could mean that Affinity needs to secure greater time commitments and that remuneration levels for members requires new consideration. In PR19, most members were volunteers and had very limited time available. The risk then is that the bulk of the workload falls to the Chair which could mean that the views of one individual inevitably drive any CCG reporting.
  - The scope of the task must be reasonable. We recommend that Ofwat consider the nature of the assurance that CCGs can be expected to offer given their focus on single companies. We recommend that this should focus on areas where assurance is less likely to be easily solidly evidenced by standardised national research.

The Board of Affinity Ltd have committed to maintaining a CCG throughout PR24 in order to help ensure that customers are located at the centre of business planning. This is underlined by the CCG Chair joining all Board meetings for items that relate to customers. Therefore, CCG views are heard clearly by the decision takers at Affinity.

#### Should CCGs be National, Regional or Local?

- Local – It is unlikely that there is a good substitute for local CCGs. Our group understands the specifics of all company customer programmes and is able to scrutinise, challenge and support insightfully and regularly. We also understand

the opportunities to develop strategies to address environmental imperatives in Affinity's unique geography. For example (there are many more):

- We expect the focus of public value creation for Affinity to be on the restoration of the Chalk Streams. This is a challenge that is entirely specific to the Affinity geography and could not be overseen adequately by any current national group.
- Members with expertise for inclusive services have been working with executives to secure ever more tailored programmes of support for vulnerable customers. This would include, for example, a project to support residents of social housing in Watford that was co-designed with a CCG member.
- Regional – CCG Chairs are already involved regionally where there are good water resource management groups. This works quite well in the South East.
  - We agree there could be enhanced roles for regional groups operating in areas with similar challenges. This could include some shared programmes of work, for example, in demand management.
  - There may also be a role for regional groups when it comes to assessing the question of how water fits into the lives of citizens in conjunction with other relevant public service sectors.
- National – Any national CCG is likely to overlap with the work of CCW. We recommend considering how existing frameworks can be used nationally to greater advantage.
  - Affinity CCG are keen to continue to build a closer working relationship with CCW. Pooling CCG professional expertise and local insight with CCW specific expertise in water and their national oversight should be more powerful for PR24.
  - CCW could be the arbiter of any national benchmarking between companies in respect of citizen engagement. CCGs can help provide insight but cannot be expected reasonably to benchmark.
  - As for regional groups, there may be a role for a national group to work with adjacent public service sectors on assessing citizens' values, priorities and willingness to adapt. Water is not consumed in a silo just as climate change strategies are likely to be best designed if joined up.

### How can CCGs demonstrate independence?

We acknowledge that Ofwat are concerned that CCGs could not always demonstrate adequate independence during PR19 due to the inevitable reliance on data mediated by the company. This is a good challenge. Affinity CCG have determined to consider how to ensure and demonstrate independence and plan to write an 'independence and transparency strategy'.

Affinity CCG currently considering committing (nothing yet agreed) to the following strategies:

#### Open Meetings

Open invitations to CCG meetings to regulatory partners.



- We have 2 regular members of our group from CCW and from EA.
- Consider extending regular invitations to executives at CCW and EA (and other relevant national organisations). NB Emma Clancy, CCW CEO, attended the Affinity CCG Meeting in Dec 2020.
- Consider extending invitations to Executives from Ofwat.
- Consider continuing to extend invitations to Affinity Board Members. NB we have had regular attendance by the Chair of the Board during 2020 and 2 of the independent non-executive Directors have also joined a meeting during that time.
- Consider establishing a practice of reading out an independence and transparency statement at the beginning of every meeting.

#### Meeting in public

- At least once a year we could hold our meeting in public and could invite questions from citizens as part of this.

#### Open Information

##### Meeting notes

- All minutes and meeting notes for the full group and subgroups can be published in the CCG section of the Affinity website. Particular attention could be paid to noting questions and challenges posed by members.

##### Communications

- Twice a year the company publishes a newsletter 'The Loop'. Previously, content was designed to inform CCG members of company activities. In future, we suggest that the content could focus on projects and programmes of work that the CCG influences positively on behalf of customers. This publication can be made available to stakeholders.

##### Data

- We plan to reflect on how to take firm assurance from data that has been provided by solely by the company.

#### **Q6: To the extent that you consider further guidance is necessary, what areas should this cover?**

It will be helpful if Ofwat can identify clearly and concisely 1) The objectives you wish CCGs to meet 2) The outputs that you will require from CCGs. Then we would appreciate the freedom to design ways to deliver these.

- Additionally, we support the idea of the Future Ideas Lab and will consider how Affinity CCG can contribute to this and other national initiatives.

#### **Q7: Are there other models which you think we should consider for providing assurance at future price reviews? Is so, what are the benefits of these alternative approaches?**

We are not recommending any other models but can point to a number of useful approaches that we did not see enough of during PR19.

Members amongst us who are specialists in citizen insight will be looking to the company for the following:

- What are the company's schemes for harnessing operational customer qualitative and quantitative data ongoing?
- How do they plan to boil all this data down to core insights and to keep track of them ongoing?
- How does the company plan to use such these insights to develop strategies and drive action plans?
- How does the company plan to use improvement methodologies?
- Are there plans to harness learnings from 'in the moment' engagements? IE those opportunities to engage arising from bursts, customer side leakage, home efficiency checks, metering installations, contacts from day-to-day queries, complaints etc
- How will the company use the opportunity presented by these 'in the moment' engagements to develop relationships with citizens?
- How is the company playing their part in improving the lives of citizens locally?
  - Improving natural landscapes?
  - 3<sup>rd</sup> party collaborations with local groups?
  - What are they doing as an employer to improve lives?

**Q8: To what extent do you think that the research techniques which have previously been used in the water sector are suitable to enable companies' business plans and our final determinations to reflect customer views? Do you think any particular approaches should be revisited?**

The Affinity CCG will recommend that the company revisits the programme afresh. Starting with a clear perspective will allow the company to see the customer engagement programme through a citizen's lens rather than through the lens of the water company. We will also encourage the company to consider writing entirely refreshed briefs for research agencies that will in turn stimulate new thinking from new and existing agencies. Additionally, we will encourage the company to avoid allowing plans to be driven by Ofwat's criteria but rather to seek to fulfil Ofwat's criteria as a result of an excellent programme of work.

- It may be worth re-iterating that the CCG's experience of Affinity's planning for PR19 was that the approach was weak and often biased. Ultimately this led to an initial rating of 'significant scrutiny' from the regulator. The CCG notes that failure began with the entirely inadequate insight mining of continuous operational data and any relevant gap analysis. Without this foundation, the company floundered from the start. Preferred metrics were established and then researched to evidence them. Research briefs were confused and piecemeal with inexperienced executives often designing research questions that were inevitably leading. Triangulation was haphazard. It was very difficult for the company to recover from this unpromising start, especially as work had not begun early enough.
- All this has been fed into PR19 reports and subsequent reviews through the various mechanisms. To avoid repeating such fundamental errors the company must ensure

that executives with appropriate skills are appointed. CCG Chairs and members must also be adequately skilled professionally.

- For Affinity, the CCG are confident that, under Pauline Walsh's leadership with a new suite of executive directors, the company has an excellent chance of conducting a much-improved programme of citizen engagement for PR24.

**Q9: Do you think that there are alternative approaches that we might usefully adopt in water, including those used in other sectors and potentially outside the area of economic regulation? If so, which techniques and why? If not, why not?**

We understand that Ofwat were 'disappointed with the extent of innovation in companies' approaches'. The regulator will help avert this for PR24 by encouraging companies to innovate and by altering the focus from width of evidence in favour of depth.

- We recommend that it is acknowledged that water companies should not be expected to be experts in designing research approaches. Research design is a specialist skill. Rather water companies must have a sophisticated approach to insight. Understanding the key issues facing citizens will allow companies to frame appropriately the questions that need answering when writing strategy and research briefs. Specialist market research companies can then propose the best possible approaches.
- Affinity CCG member expertise comes largely from outside of regulation and includes FMCG and Luxury brand business leadership. For brand-led companies, these businesses depend entirely on a) understanding customer preferences deeply and b) projecting and shaping customer preferences into the future. Water companies could learn from these sorts of businesses in both regards. Coupling excellent continuous insight development with future trends analysis will be useful for a company serious about innovation and behaviour change. Indeed, this may be useful at a regional and national level as the industry becomes more sophisticated in this regard.

**Q10: Are there any areas of the price review where the scope to solicit informed opinions from customers is intrinsically limited?**

There are two aspects to which we wish to draw attention: 1) Research that might be considered incomplete in scope 2) Research topics where it might be unreasonable to expect citizens to offer meaningful commentary.

Research that might be considered incomplete in scope:

- Willingness to pay has been intrinsically limited by conducting this without the context of willingness to trade off lower or higher bills with greater or fewer behaviour adaptations.
- There could be some consideration of how willingness to pay and willingness to adapt behaviours intersect.

Research topics where it might be unreasonable to expect citizens to offer meaningful commentary.

- Water research is naturally constrained by the limited interest or lack of bandwidth for many of most citizens to delve into the detail of business plans. Understanding this constraint should be a key component of any research brief.
- Similarly, research for water is limited by most citizens' baseline understanding of the technical elements of business plans or ability reasonably to evaluate between plans.
- We wonder if previous ways of assessing acceptability are adequate in any case. Typically, companies have asked citizens to compare 2 or more plans where each contains multiple metrics. Overall preferences by plan rather than metric could be misleading for each core metric.
- We note that Ofwat suggests that customers in some instances 'would rather have 'experts' consulted on their behalf'. It seems to us an excellent idea to consult experts about some issues in addition to engaging customers directly. This may well add precision insight to the process.
- We also recommend that we acknowledge the role of core observers of behaviour. For the purposes of exemplification, let's call them 'the bartenders'. By way of example, all drinks companies speak to bartenders (in addition to customers) when they want to understand customer preferences and behaviours as these people have a specific observational role in the industry. Who are 'the bartenders' in water (call centre staff, engineers attending homes for CSL or home efficiency checks, water meter installers etc but also others – partners locally who work with in the community?) and what can they tell us?

**Q11: Do you think there are other ideas we should be considering for shaping customer engagement at future price reviews? If so, how would these ideas help deliver on the goals proposed in this paper?**

We would support Ofwat to enable as much bold, creative and innovative thinking as possible. Incentivise new ideas for the industry and let the companies prove their worth.