



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to Ofwat's discussion paper on public value in the water sector

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1. Introduction

- 1.1 The Consumer Council for Water (CCW) is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators.
- 1.2 We welcome the opportunity to provide input to Ofwat's consideration of public value in the water sector.
- 1.3 Monopoly companies that provide an essential service to consumers should, more than most businesses, pay attention to gaining and sustaining acceptance of the impact of their business on the economy, the environment, communities and society generally. The consequences of doing all this well will be legitimacy, consent, and trust.
- 1.4 In the England and Wales water sector, Bristol Water was the first company to launch a social contract while Water UK has announced a public interest commitment. We have also seen evidence of companies embracing diversity and outreach through jobs programmes¹. There has been an increased focus within the industry in relation to social value. This thinking falls under several banners: social contract, public interest commitments, and social responsibility.
- 1.5 We support the sector's thinking in terms of social value as this builds upon many of the policies and principles that CCW has adopted over many years and that customers want to see. However, we want to see this resulting in positive outcomes for customers and drive a real change so there is more the sector can do to both identify what is public value, and demonstrate progress on how it is achieving it
- 1.6 In our response to the discussion paper's questions, we suggest two key actions water companies should do in order to better understand what the public values and then act upon it:
 - Companies need to succeed in finding out what customers want and what issues about the services are of concern to them. This should be about understanding what society (current and future citizens) will want to see happening in the water sector.

¹ For example, Thames apprenticeship programme: see [here](#)

- Companies should create better relationships with customers so as to bring the voice of the customer to bear on how issues of mutual concern and benefit are addressed

- 1.7 It is important that companies also deliver their ‘core’ services to consumers to a high standard in order to meet public expectations. This should be seen as the fundamental public value the water companies provide, before considering what additional activities or services companies could introduce to increase public value. Doing this well will also build trust with customers which in turn will build a company’s licence to operate in broader public interest arenas.
- 1.8 CCW conducted research² with our Water Voice panel on water companies’ social purpose. This revealed that most customers do want to see this, and they want companies to be held to account if they do not deliver. Most of the customers taking part in the Water Voice panel thought that additional actions to increase public value should be funded by companies rather than customers.
- 1.9 We agree with Ofwat’s statement in the consultation paper that public value can play a role in water markets such as the markets for developer services and business retail. This is especially important in the non-household retail market where evidence from customer complaints shows that many customers of a small number of retailers are receiving a poor experience, especially in terms of billing accuracy and meter readings. In our responses to the questions below, when we refer to ‘companies’ this also applies to the retailers operating in the English non-household retail market.

1 Responses to consultation questions

Scope and Ambition

**What factors – outside regulation – impact on water companies’ ability to deliver ‘optimal’ public value outcomes when delivering their core services?
What are the constraints to meeting ambitions in this area?**

The Ofwat discussion paper highlights how companies’ strategic plans and Board governance often focuses on delivering public value. These high-level aims should influence the ‘culture’ of the company in terms of how it serves its customers, protects the environment, and plans ahead in order to anticipate and adapt to future challenges, and in doing so remain resilient. Many companies appear to have

² Water Voice Window report: Water companies and their social purpose [here](#)

improved Board level governance in recent years³ and Ofwat's paper demonstrates how public value is now intrinsic in some companies' governance policies.

There are some potential issues that could constrain such ambition, which regulators and the companies' other stakeholders should challenge if necessary:

- The priorities and expectations of company shareholders could potentially conflict with a company's public value ethos. For example, shareholders' dividends or ambition to increase the company's Regulated Asset Base could lead to company decisions that erode public trust.
- Rather than seeking to understand what the public actually values, a company could make assumptions or misinterpret what is meant by public value if the company is not adequately engaging with the communities it serves on a continual basis. This is particularly important for understanding the needs, expectations and risks for consumers that are more vulnerable (or if needs change quickly as we have seen in the Covid pandemic).
- A failure to consider intergenerational fairness, in that companies should consider what is valued by both current and future consumers.
- The timescales over which investment returns are expected may work against the long term focus needed on public interest issues
- Companies tend to operate with their region in mind when many public interest matters require a regional or even national perspective.
- Ineffective representation of these issues at Board level. Is this matter something each company has a Board lead on?

In some cases, many customers are currently receiving a poor service from companies that are failing to deliver their core services adequately. This is seen in evidence from some customer complaints and some company performance data, in both the household and non-household sectors. Addressing these failures needs to be the priority before companies look at how they can add further public value. These companies (including retailers in the non-household market) have reputational issues to overcome before they can build public trust.

³ See Ofwat's report on 'Board leadership, transparency and governance - report on how companies are meeting the principles' (February 2021) [here](#)

What are the risks in the pursuit of greater public value; and what could companies, and/or Ofwat, do to mitigate these risks?

We see a number of risks in the pursuit of public value:

- As highlighted in our response to the above question, there is a risk that companies may focus more on delivering the social purpose side of things rather than doing their day job to a high standard.
- Companies may be complacent and regard their current activities as ‘public value’ rather than actually changing what they are doing for the better. This is a particular risk for a company if their service delivery is shown to be of lower quality compared to others. A public value ethos should also recognise that public expectations might change over time, so this should include a strategy to continually improve to meet or exceed public expectations.
- In pursuing a public value ethos, companies could introduce initiatives that lead to water customers paying for things that they should not be paying for.
- A lack of accountability could mean that, unless Ofwat and/ or others measure progress with companies’ activities, how will the public know that companies are rising to the challenge? This is one of the points that customers made in our Water Voice research.

Ofwat’s regulation of the sector has an important role to play. CCW has supported Ofwat’s work in setting improved benchmarks for Board level governance, and the ‘outcomes’ based approach to setting price controls with a greater influence of customer engagement. However, this is an ongoing process with scope for more improvements⁴.

Companies and Ofwat could strengthen the focus on achieving public value further by:

- A periodic assessment of companies’ Board governance and long-term strategic plans to highlight and share good practice. This is because one risk is complacency, so that demonstrating public value becomes a ‘tick box’ exercise. Regular reviews of companies’ governance can identify good practice and challenges less public value focussed companies to improve.

⁴ CCW’s report on ‘lessons learned from PR19’ [here](#) highlights areas where we think Ofwat’s approach to price setting could improve to strengthen the customer influence on company and regulator decisions.

- Setting a regulatory framework that clearly shows how evidence of consumers' views and expectations will inform decision-making. There is a risk of companies not understanding what the public value and thereby failing to make plans that deliver the outcomes consumers wish to see. We want companies to continually improve their customer, stakeholder and community engagement and the regulatory framework can help encourage this engagement. Companies should demonstrate that they track public value and understand how different groups of consumers may have different views and expectations.
- As there is a risk that shareholders' priorities may eclipse public/consumer priorities, regulated businesses should be ring-fenced from the wider ownership structure. We supported Ofwat's recent licence changes to reinforce this and would welcome a periodic assessment of how well these protections are helping to keep companies focussed on public value. We recognise that some companies have or are considering incorporating public value in their Articles of Association. Ofwat should look at how water company licence conditions could be improved to strengthen companies' focus on public value.

In pursuit of better public value outcomes, to what extent should companies focus on an enabling culture that drives public value holistically; versus a more discrete, targeted approach?

Companies should follow both approaches.

Company Boards should be ensuring the company's culture supports and delivers its public value ethos. That should permeate throughout the business from the Boardroom to their people on the front line.

Companies are now working more regularly with other bodies in partnership-based approaches to delivering improvements⁵. This collaborative work means companies will need to look holistically at how their contribution is giving public value in combination with the work of others in the partnership.

At the same time, companies can also use a more targeted approach to ensure that activities that they are solely responsible for are delivering public value. For example, how they engage with customers in the development of schemes to deliver improvements to the environment, or how they deliver services in ways that meet the needs of more vulnerable consumers.

⁵ For example, the regional water resource groups, or partnerships with local authorities and other landowners at the local level to tackle the risk of surface water flooding.

Incentives and barriers

How does the regulatory framework contribute to, or limit, companies' ability to deliver better public value outcomes?

The regulatory framework does contribute to public value as it has become more focused on delivering outcomes that are informed by evidence of what consumers want and expect, in the short and longer term. This has meant that other regulatory 'tools' such as Performance Commitments and incentives should be built around customer/public priorities, therefore helping companies focus on delivering public value.

As mentioned above, Ofwat's ring fencing of the regulated business and benchmarking of Board governance has also contributed to a focus on public value.

However, our 'lessons learned' review of PR19 has identified where this could be improved further by embedding evidence of customers' views in regulatory decisions and setting a framework that encourages customer engagement to evolve further by sharing good practice.

Ofwat and company stakeholders should be wary that companies do not just deliver any regulatory requirements for customer engagement as a 'tick box' exercise. Companies should challenge themselves to continually improve both the quality of their customer engagement and how evidence from it is used effectively in planning and service delivery.

The regulation of the non-household retail market needs to look at how retailers and wholesalers can be made to resolve current issues with inaccurate customer data, wholesaler-retailer interactions and other issues that are currently leading to a poor experience for many customers (as shown in the volume of customer complaints in the market). Only once these problems are addressed can the market be considered to be moving toward a greater focus on public value.

What role, if any, should the price review play in encouraging or incentivising companies' delivery of public value?

If companies really do have public value enshrined in their Board governance, strategic aims and day-to-day working culture, it could be argued that the price review would not need to incentivise companies to do this, as customers should be expecting this from the companies that serve them.

The price review does provide an opportunity to further embed companies' focus on delivering public value. Companies' ongoing customer engagement should provide

evidence of consumers' expectations that should inform the outcomes, Performance Commitments, and delivery of investment schemes. This should include ways to address the needs and risks to more vulnerable consumers, including those who may struggle with affordability.

A framework for price setting that encourages greater collaboration with partners in developing initiatives such as catchment management solutions to reduce pollution can contribute to a more holistic approach to public value. 'Co-creation' based customer engagement can enable companies to involve communities more closely in the design and delivery of schemes. All of these activities are considered in the price review and can contribute to achieving public value.

Understanding impact

What are the markers of progress on public value, both in the context of enabling culture and outcomes?

We think that public value needs to be embedded within the organisation, not just at Board level, with companies demonstrating how and to what extent they are meeting this commitment. We are aware that some companies are already doing this⁶, though the sector as a whole should update this when needed if evidence shows public expectations are changing over time.

If there is strong evidence that the outcomes companies commit to achieving reflect credible evidence of public needs and expectations, measuring progress towards reaching these outcomes also acts as a marker for how well companies are providing public value.

The industry's reputation can also be measured by people wanting to join the sector and it being considered a sector to be benchmarked against.

Additionally, evidence of how and to what extent people value water can act as a measure of public value. This may show how public opinion and sense of value changes as the functions of water companies are better understood.

Consumer research by companies and other bodies such as CCW can act as a measure of the extent to which consumers value the service provided by water companies.

⁶ For example, United Utilities' Corporate Responsibility dashboard [here](#) and Water UK's Public Interest Commitment [here](#)

CCW's 'Water Matters' tracking research⁷ acts as a long term measure of how well companies are serving their customers, and can help track public value over time. The level of customer satisfaction with value for money and fairness are lower than we would like them to be, so companies should be striving to improve against these measures. While there are many issues that can drive customers' perceptions of fairness and value for money, there is a link here with public value.

What role, if any, should Ofwat have in monitoring progress? How else can we, customers and other stakeholders be assured that genuine and meaningful progress continues to be made?

Companies should be held to account if they are not delivering – and Ofwat needs to be able to monitor progress to do this. This could take the form of an additional feature in companies' Annual Performance Reports (APRs) where companies provide evidence of what they have done, similar to Ofwat's work in measuring the extent to which companies adhere to Ofwat's Board Leadership principles.

The APRs, coupled with CCW's 'Water Mark' measures, track progress with the delivery of companies' commitments. This can also act as a barometer of progress in delivering aspects of public value if there is confidence that the outcomes and Performance Commitments being measured reflect evidence of what consumers expect and value.

As well as this, customers and stakeholders could be assured by consumer research that tracks the extent to which customers are aware of and value water companies' services and the public value they deliver. Research can also reveal how evidence of what consumers' value can change over time.

Other

Is there anything else Ofwat should be considering in order to meet our objectives on public value?

The public's perception of value and what they expect from water companies can change over time. In this context, companies need to consider current public expectations but also look beyond today's bill payers towards citizens and wider beneficiaries of what the water sector delivers - at a societal level, from an economic perspective and in relation to our environmental legacy.

Meeting public expectations also involves identifying and delivering what is right for people now and in the future – so meeting the needs of future customers is embedded in companies' plans and strategies.

⁷ For example, CCW's 'Water Matters' and 'Testing the Waters' tracking research

Enquiries

Enquiries about this consultation should be addressed to:

Name: Steve Hobbs

Job Title: CCW Senior Policy Manager (Regulation)

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[REDACTED]