

## **P24 and beyond – Reflecting Customer Preferences in Future Price Reviews**

### **A Response from Dwr Cymru Welsh Water Customer Challenge Group**

This paper provides a response from the CCG for Dwr Cymru Welsh Water the Ofwat Discussion paper on *“Reflecting Customer Preferences in Future Price Reviews”*.

The CCG welcomes this opportunity to engage, share learning and contribute to Ofwat’s aim of having customers at the heart of its strategy. We would, however, want to make two points in respect of the process:

- (1) The group would wish to support the points made by CCG Chairs in respect to disappointment that this discussion paper was issued without any previous lessons learnt exercise with CCGs. The paper makes criticisms of the operations of the CCG without there being any serious process of engagement or assessment by Ofwat. The paper does recognise the lack of capacity in Ofwat to engage with 17 different CCG groups and thereby to fully understand the independence, depth and scale of work that was undertaken by the CCG over a 3-year period. It is therefore disappointing that the report can be seen to undervalue the work of groups which were established as an innovation in regulation by Ofwat, rather than taking opportunity to focus on engaging with CCGs lessons learnt to develop a model, which has now been copied in other sectors.
- (2) Ofwat needs to ensure that the consultation process itself is inclusive and representative of best practice. There is a concern that the consultation is not an iterative process but that submissions at the end of January lead to a final position statement over 3 months later in early May without further engagement with a range of stakeholders.

The CCG has undertaken its own lessons learnt exercise and adopted actions to improve its work to *ensure that current and future customers are at the heart of the way Dwr Cymru Welsh Water operates*. This response to the consultation draws on the lessons learnt exercise and aims to provide answers to the specific questions set out in the paper, but the Group would wish to make some general points in introduction:

- Our response to the consultation questions indicates that there needs to be greater clarity in Ofwat expectations on *“reflecting customer preferences”*. There was some disappointment that the document does not take customer engagement forward but too often confuses it with identifying customer preferences through market research. Ofwat set an innovative agenda for putting customers at the centre and we should use this process to build on the lessons and set new standards of practice.
- The DCWW Board have indicated that they would intend to continue the role of CCG but the CCG feels it important that Ofwat set out a requirement for companies to have

independent stakeholder groups with a remit to improve customer/citizen involvement and holding the company to account in meeting needs of current and future customer/citizens, including wider public value. This would recognise the principle that customer involvement is not a process simply geared to the price review.

- Ofwat would then need to consider the use of the independent groups in providing relevant assurance for the regulatory process in the price review. This should be subject to specific guidance. The CCG can then make appropriate decisions to ensure it had capacity to undertake such assurance.
- It is important that we address the fact that the process currently results in a big surge of customer research at price reviews. This needs to shift to more continuous engagement to build-up a better picture of customer priorities, along with better use of community level engagement around specific projects. We would highlight examples of work by Dwr Cymru in Rhondda Fach, Rhyl and Rhymney/Bargoed
- The focus on meaningful engagement is welcome as is the need for honesty in what can be influenced, while recognising the danger of closing down engagement that can limit customer voice.
- The CCG welcomes the wider context of citizen engagement beyond the transactional relationship with customers and the focus on public purpose. The revised remit of the CCG as agreed with the DCWW Board incorporates how the company can deliver more for customers through greater public value for current and future citizens through its Wellbeing Commitments.
- There are areas where there is a role for national research with potential for common elements covering England and Wales. There is scope for this to be undertaken on a collaborative basis involving the key agencies, using the Welsh Government PR Forum. This does not replace the need for company-based engagement, customer research and challenge, so potential cost savings should not be overestimated. We would though expect a shift from spend on “one off” customer research to deeper engagement working with local and communities and catchments, along with a greater focus on longitudinal research processes.
- We would not support replacing the company focus with a national CCG but the respective CCG’s in Wales can combine to play a role in the national Price Review Forum, where nationwide collaborative research can be agreed and reviewed.
- Ofwat need to clearly communicate what is meant by ‘national’. The CCG believes it is important to recognise that the process involves two nations with appropriate distinctions, specifically Wellbeing of Future Generations and Environment legislation, but also shared opportunities. It is also important to recognise the emotions and associations of citizens with water in Wales (e.g. Cofiwch Dryweryn) .

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

The goals in principle work and seem fair, but Ofwat need to be clear on what 'engagement' means for them as there is inconsistent application of this throughout the paper, notably the problematic use of the term "customer engagement" interchangeably with "customer research" or "market research".

While market research is relevant for some dimensions, it should not be confused with engagement which is participative. Participation is defined in Ofwat's Customer Participation Report in terms that indicate an understanding of what we refer to in Wales as co-production: a participative process of co-creating and co-delivering outcomes (doing with) as per the ways of working set out in the Wellbeing of Future Generations Act

Both research and engagement/participation have a place, relevance and purpose in understanding customers' needs and expectations, but the approaches are significantly different and deserve to be used appropriately to yield the best insights.

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

There is a sense from the document that Ofwat wants to see quantitative market research, and less so participatory approaches and co-production that truly put the customer at the heart of the water companies' practice. However, there is reference to the "Tapped In" report, which is explicit about recommending "participation" (and which describes the approach we refer to as co-production and involvement in Wales), and to the Aide Memoire to CCGs which contains references to co-create and co-deliver. It is important that the principles reflect the journey of customer involvement set out in the "Tapped In" report.

Research and participation each have a place and a purpose and need to be done in relevant, meaningful ways. The distinction should be made between the two as they are not useful for the same things. We would suggest it would be helpful to map out:

- where customer / market research is more appropriate (large scale quantitative data), and can cover aspects that cannot be co-produced, keeping in mind that 'big data' can only answer relevant to "what" customers are doing, but not "why". The latter is best answered via observation and qualitative research.
- where organisational expertise and specialist knowledge are key (to translate what the public say they need; the organisations have a key role to figure out the 'how' in areas where it is highly technical)
- where to use meaningful engagement and participation (what we refer to as co-production or involvement in Wales) to build ongoing relationships and grow people's trust and understanding.

The process needs to fully recognise the need to engage beyond the customer framing and be explicit in respect to the citizen perspective. Water companies are required to undertake environmental works that are of benefit to and directly impact those with whom they have no transactional relationship (including future customers) and this needs to be reflected in the total cost of service.

Transparency is also needed to explain and share the demographic breakdown of customer opinion that supports assertions made by the company to ensure that they are not marginalising seldom heard voices.

Listening to customers does not necessarily mean acting on the data or involving them in achieving outcomes, and from a participation view point it is possible to be customer centric and tokenistic at the same time.

It is important that there is a clear feedback loop and a two-way process that informs customers/citizens how their views have been taken into account and is part of a continued process as opposed to an “extractive exercise”. Much of the PR process for identifying customer preferences could be described as “extractive”.

**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?**

The proposal for nationwide collaborative research at scale makes sense for some indicators but shouldn’t replace or negate the usefulness of involvement and co-design especially for marginalised and under-represented communities - *“Designing for the edges and margins benefits the greater number” Co-production Network for Wales*. The document infers an attitudinal preference for large scale quantitative data, which is considered robust and meaningful to the exclusion of qualitative; this is harmful in that it restricts the range of problem-solving options and approaches.

The paper expresses concern about problematic “differences in findings” between national and local work - but they are not carried out for the same purpose. It is important that we do not focus on trying to achieve one size fits all solutions which strive for control and uniformity. This is counterproductive and wasteful in time and resources given the complex socio, economic and environmental reality.

It is important is that guidance sets out principles of engagement such as ongoing, meaningful, collaborative, inclusive, innovation etc rather than a standard prescription. It is imperative that the guidance stresses the importance of the golden thread as to how the evidence is used to inform decisions.

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The importance of quality longitudinal research is particularly important in identifying trends and monitoring changing perspectives. This point is expanded in answers to Qs 9 and 10.

The risk of central engagement is loss of innovation and end up reliance on a limited group of agency providers who then hold both the customer/citizen relationship and the associated knowledge.

**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?**
- **Which organisations do you think should be involved in steering this research?**
- **When should this research be undertaken?**
- **How should this research account for differences between England and Wales?**

It is important to stress that nationwide research refers to distinct approaches in Wales and England. There may be scope for combining elements of the research across the two nations but they should be designed, managed, and assessed on a national basis.

The Welsh Government Price Review Forum provides a vehicle for collaboration in such national research involving the key agencies and stakeholder representation, which can establish benchmarks of national priorities and expectations. This research should be undertaken at an early stage in the Price Review cycle to influence and provide evidence to underpin the strategic guidance from Welsh Government and inform company engagement plans.

The Forum can also ensure that the process is built around a collaborative model that follows the principles of the Wellbeing of Future Generations (Wales) Act. This needs to be central to the process requiring companies to demonstrate their contribution to our wellbeing goals and applying the ways of working. For example, the research focus as set out in the discussion paper “connect, understand and respond” reflects a doing to/for approach which does not take into account the involvement principle in the Act.

**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?**

Any national level research findings will provide important context and can inform the expectations of Welsh Government and Ofwat e.g., in defining performance commitments. However, this does not in any way replace the process of appropriate customer involvement in the development of the business plan and as partners in business innovation.

There is a need for Ofwat to encourage and enable best practice in customer involvement, building on the “Tapped In” report, but avoiding prescriptive top-down guidance that

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encourages a one size fits all approach and distracts from local innovation, appropriate for local contexts.

It will be important to clarify the scope and limitations of the CCG's role as defined by Ofwat in the PR process. The scope and limitations of the CCG's role as defined by Ofwat is confused by conflating customer engagement and customer research, resulting in mixed messages. On the one hand "we asked companies to engage directly with their customers (while outlining principles of good customer engagement to help guide their work) and required that they use independent CCGs to give us assurance of this engagement" (p33.) This points towards the participative approaches in the guideline documents, but at the same time this discussion paper reinforces a strong gearing towards market research and "assurance of this engagement" comes to mean research accountability (p12).

There would be need for clarity on what Ofwat requires in respect of independent assurance. The CCG should have a key role such as through commissioning independent research assurance for the customer research element reporting to the CCG.

There may be need for a unified approach to quality assurance, although there is also scope for innovation in quality assurance.

We would not support a detailed centralised requirement for research and engagement, as this is likely to be bureaucratic and inflexible, miss out a lot of the detail.

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

See above

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

The PR19 report by A fallen commissioned by Welsh Government sets out potential distinctive models and the potential for a negotiated settlement model, drawing on the lessons from Scotland. These include more collaboration from all key stakeholders from the outset. For example, a Research Coordination Group, the overall Ethical Business Regulation approach, National Engagement Programme and net zero targets. It is important that this thinking is taken forward.

Wales is well placed to trial innovations in the regulatory model and this should be a stated objective for the next price review period.

**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 CCG has consistently highlighted concerns over Willingness to Pay where there are very few suppliers who undertake the process for water companies. *“The Research Assurance report references the continued concerns over the nature of Willingness to Pay (WtP) methodology despite the changes from the PR14 process. It was felt important that the Company drew on the wide range of evidence gathered and not depend on this one metric for key decisions in the business plan” CCG PR19 report*

We have also expressed concern that there needed to be a rebalancing way from expensive market research exercises so would be concerned to reduce scale and costs of externally contracted research agencies.

*“The CCG sees a greater balancing of the formal customer research processes with the evidence from a stronger involved customer base as an important direction of travel” CCG PR 19 Report*

### **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?**

There are clear benefits of making links across the Utility sector and beyond. The CCG has previously involved companies from outside the sector e.g. in considering customers in vulnerable circumstances and has chaired a joint session with the energy sector. However, there are dangers in assuming that approaches can be transferred across sectors, particularly where there is no customer choice of supplier. It is also important to recognise the key strategic long-term role of the water sector.

Nevertheless, it is important that there is emphasis in adopting innovative and leading-edge practice from outside of the sector, drawing lessons from across private, public, and voluntary sectors, while avoiding the temptation to adopt the latest trend.

The reference to Citizens Assemblies in Idea 3 highlights the danger of looking to the latest “go to” trend, to stand in for a whole range of participatory approaches. Citizen Assemblies are costly to run well, do not offer a one size fits all solution so should be used judiciously where relevant and appropriate to provide value. Although they can offer a complementary approach to market research, they are not the only option, and there is a whole range of participatory approaches ranging in cost and purpose/outcomes.

The description of Citizen Assembly (p38) misses the point which makes them a highly effective approach in the right context and fails to mention that in a “proper” Citizen Assemblies the organisation(s) commit to action the citizens’ recommendations. Otherwise, it is just another *“extractive, tokenistic talking shop, no more than a very expensive and in-depth consultation whose results can be ignored without consequence.” Co-Production Network for Wales*

Moreover, we have also highlighted previously the need for longitudinal research, spanning more than one Price Review. This is the only way to truly track key indicators across a range of measures and depth of time. One way of achieving this would be through representative panels across the country, which would be tracked over time, on topics that are important to Ofwat, the company and the customers. Panels can be run online at a minimal cost and maintenance and become part of the company's core business.

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

Customers have given a clear response to this issue in research undertaken by CCW. Experience suggests that as a rule of thumb, *"if you're not sure whether to involve people, they will tell you if they don't think their views are relevant"* (Co-production Network for Wales). On such occasions, customers are happy to 'trust the experts' as CCW's ["Engaging water customers for better consumer and business outcomes"](#) demonstrated.

It is particularly important to consider (p13) "engage effectively (...) and deliver what customers want" as there is a difference between what customers want, what they need now and the needs of the future. The organisation has a responsibility to future proof services with a detailed scientific understanding of the wider context and long-term thinking as per the Wellbeing of Future Generations Act. This can be out of scope of citizens' decision making, and we need to be clear where customer research provides the answers, and where there are limits to this expertise.

However, it is important to recognise that key issues are not closed off from customers and citizens, but that there is trust and honesty in the relationship. It is undermining to ask questions on issues where the decision is already a done deal based on all relevant technical and scientific evidence.

**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?**

It is important that Ofwat decouple elements of customer engagement from the Price Review process, so they can be part of a wider agenda of engaging with customers and citizens. These processes can contribute to the evidence base for the business plan but are seen to be part of how the company conducts its business. The focus on "identifying customer preferences as part of the price review process" sets the wrong context, presenting it as a mechanism to be assured to deliver an outcome for set piece exercise. This leads to an inevitable tendency to game the system to achieve a desired outcome.

As outlined in (9) above, the use of longitudinal research would plug an important existing gap in customer research, and would benefit consumers, companies, and the regulator.



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Longitudinal understanding of important issues will remove confusions caused by topical issues, transient problems etc, and understand any long-standing issues or improvement of attitudes in a consistent way. This in turn serves most of the goals proposed in this paper:

- preferences will emerge over time if they are important; transient issues will fade with time
- collaboration will flourish over an established and reliable customer panel(s)
- transparency will be promoted by giving panels a prominent role in the consultation process
- such approach is higher quality engagement rather than lots of it
- value is broadened too as the companies take the time to understand people's views as customers and citizens
- the combination of the above will enable companies to take responsibility of their relationships with their companies, as they will establish a long-term relationship customer, understand and serve them better, and even pre-empt problems before they develop.