
south east water

A discussion paper on public value in the water sector

South East Water response

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Pure know_how

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2. Public value in the water sector

2.1 Reflection on the Ofwat discussion paper

In November 2020 we welcomed the opportunity to meet with Ofwat and discuss the approach South East Water is taking to ensure public value is central to our business and how we serve our customers and communities. This discussion paper response provides some of our thinking on this area and an update on our progress in building our responsible business including activities complete since the Purpose Union review in June 2020.

We would agree with Ofwat's recognition that the industry is proud of our public service role, this is what motivates our colleagues at all levels of the organisation. It is also a key focus and commitment for our investors too. As long-term investors, in South East Water, their focus is ensuring that we have clear, transparent and robust governance, we deliver a high quality service to our customers and we make a positive impact for society and the environment.

This commitment was strengthened in 2020 with our new purpose embedded into our Articles of Association:

“To provide today’s public water service and create tomorrow’s water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive.”

The environment and social impact of our work has been growing and was reflected in the ambitions we put into our business plan. This included developing a wide range of bespoke commitments and stretching targets covering:

- Satisfaction of household customers who are experiencing payment difficulties
- Satisfaction of household customers who are receiving non-financial support
- Satisfaction of household customers on our vulnerability schemes during a supply interruption
- Satisfaction of stakeholders in relation to assistance offered by South East Water
- Satisfaction with value for money
- Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration
- Protecting wildlife and increasing biodiversity
- Engaging and working with abstractors to improve catchment resilience to low flows
- Greenhouse gas emissions

We also published our dedicated responsible business strategy as part of our 2020-25 business plan. Following wide consultation during our business plan preparations we recognised that there were other areas of focus that our customers and stakeholders wanted to see us make a positive impact this led to an additional 10 responsible business commitments:

- Play an active role regionally in relation to the impact of housing growth on water
- Develop a future generation schools programme on water
- Ensure fair pay, reward and recognition for all our employees
- Create more partnership community projects on water use and vulnerability
- Support the tap water refill campaign to reduce plastic bottled water
- Natural capital accounting
- Renewable energy measures
- Transparency of reporting
- Improving health, safety and wellbeing of our people and communities
- Trusted corporate governance

We agree with Ofwat that authenticity is important and that the term “public value” is unlikely to resonate with customers, our community or our employees. Being a “responsible business” is the language we use as it was how our customers have described public value to us.

As our strategy has evolved we have put in place a number of governance structures to support our ongoing improvement and to ensure our responsible business strategy remains agile to a fast changing world – while not losing sight of what is key for our purpose.

A responsible business Board committee governs the programme of work supported by a steering group which is made up of colleagues from across the organisation to ensure it is an approach embedded into the organisation rather than one department’s responsibility. We seek external input using a specialist responsible business expert to help critique our overall strategy and provide regular updates to our Customer Challenge Group (CCG) where they challenge us to ensure we are delivering on our targets and listening to our customers and stakeholders.

This year our work has been about cementing the governance and approach as year one of our five year activities. We have:

- embedded our purpose into our articles of association
- achieved sector leader status in GRESB (ESG global benchmarking)
- continued to engage with stakeholders including customer research around responsible business and our purpose
- introduced a new ESG lens to our risk register
- maintained our BSI18477 for inclusive service provision
- started preparations to complete Investors in People award (we currently hold silver award)
- signed up to the Social Mobility Pledge and developed our People Plan with a diversity and inclusion programme of work
- been supporting all the WaterUK Public Interest Commitments

- Developing a multi-capitals route map to further embed these aspects into our business and investment decision making

We keep our responsible business strategy under review to ensure it reflects the expectations of our customers and society in general. This has included creating decision making tools to help us assess the importance of our commitments and any new areas we see emerging through our ongoing horizon scanning.

We agree with enabling stakeholders to understand and scrutinise public value activity is important. There may be ways that the evolving approach to Customer Challenge Groups (CCG) for PR24 could encompass this. As highlighted above, at South East Water, the CCG has played an important role in providing independent challenge as we have developed our strategy and delivery plans.

We appreciate Ofwat consulting early on their thinking and to develop an appropriate approach for the industry. There are challenges – clearly as Ofwat and the Purpose Union’s research outlines companies are doing a lot themselves to embed a culture of public value, there is a risk that the regulator mandating this may devalue the ownership and importance of local influences that are appropriate for each company. We believe the focus for Ofwat could be to encourage the sharing of best practice in this area and to consider how aspects of public value could be better included in the regulatory framework – we comment on this further in response to the specific questions (see Section 3).

3. Questions

3.1 Scope and ambition

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

It is important that companies adapt to the changing expectations of customers, society and the environment. Consideration needs to be given to how the regulatory framework can be agile to do the same. With price review periods, totex and outcomes being set on a five yearly basis there can be difficulties in reflecting these changing priorities unless appropriate regulatory mechanisms are put in place. Current examples such as the pandemic, net zero ambition, and improving chalk streams were not included in the regulatory settlements for 2020 to 2025.

At the heart of delivering greater public value is ensuring the fundamental service provision is high quality and resilient. Potential conflicts of investment priorities between these core objectives and wider public value outcomes needs careful assessment to ensure the industry and regulatory settlements deliver what customers and society expect.

To achieve greater public value we believe that companies should focus on both culture and a targeted approach. We have experienced this first hand with how we implemented a range of innovative customer satisfaction measures at PR14, which we further developed into attitudinal segment satisfaction at PR19, alongside a revised customer and employee focussed vision and values to drive a culture change in our business. We have built on the success of this through the implementation of our responsible business strategy, by embedding our purpose at the heart of our company culture and in our Articles of Association, and developing 10 new responsible business commitments and a wide range of bespoke ODIs that are focused on public value elements.

3.2 Incentives and barriers

d) How does the regulatory framework contribute to, or limit, companies' ability to deliver better public value outcomes? e) What role, if any, should the price review play in encouraging or incentivising companies' delivery of public value?

The regulatory framework should ensure there are ODIs that have outcomes based on customers, the environment and society. The difficulty though is recognising that for many of these geographical factors, both human and physical, mean companies have different challenges. Simple league tables as comparison and requiring upper quartile to receive incentives are unlikely to achieve the long-term outcomes that we all want to see.

We have recently highlighted in David Hinton's interview in The Water Report (January 2021 edition – Getting down to responsible business) that there does need to be an appropriate mix of outcome and output measures. As well as investing in the future we have an important role as custodians of the work that came before us. Maintaining the existing assets should be as much a priority as developing new innovations where it is appropriate this could be more beneficial for society in the longer term.

We worked closely with our Customer Challenge Group to develop our 10 responsible business commitments and its ongoing strategy. As Ofwat considers the future of CCG and engagement for PR24 approach and whether a more consistent process is required to customer research, we would suggest consideration could be given to the CCG developing to be an empowered forum to work in collaboration with companies to create their own responsible business commitments and strategy. This would enable the region independence that is important for fostering a truly enabling culture and a strategy that fits with the needs and context of the region rather than one size fits all.

Further consideration should be given by Ofwat into rationalising the number of ODIs to ensure an appropriate mix of outcome and output measures covering both the fundamental service provision to customers and wider public value aspects – this could be established via research and engagement and built into cost allowances and the ODI framework.

3.3 Understanding impact and other items

f) What are the markers of progress on public value, both in the context of enabling culture and outcomes? g) 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? Other h) Is there anything else Ofwat should be considering in order to meet our objectives on public value?

We believe there should be some caution in Ofwat's role in monitoring progress and appreciate the early dialogue with the industry on this topic. There is a lot of creativity and innovation in this area across the industry already. Our CCG has warned that mandating activities risk it becoming a tick box exercise.

Ofwat could have a role in encouraging stakeholder engagement in this area and also sharing best practice and opportunities for industry innovations to be trialled. As highlighted above we believe there could be potential that the CCG model could be developed to focus on this rather than engagement scrutiny for PR24 if that moves to a more national approach. Our CCG has said that our approach taken over the last few years, using the CCG to provide independent challenge is a more constructive approach given that purpose is about culture change.

Regarding the markers of progress on public value in the context of enabling cultures and outcomes, we believe a mix of different measures are necessary, some ideas to explore further would include:

- Individual company measures
- Water sector measures/commitments – e.g. PICs
- UK data such as ONS on personal wellbeing, happiness and life satisfaction

- Looking at models such as regenerative approach to economics
- Performance measures against specific ODIs/commitments
- LSE's Prof. Dr Tom Reader has been doing work on [unobtrusive indicators of culture](#) often in the airline industry – there could be interesting piece of work to consider how to measure if an enabling culture exists through some of these methods
- Benchmarking through third parties (that also compare outside the water industry) such as GRESB, B-Corp, Investors in People, Business in the Community etc

Ofwat could consider how the regulatory framework and reporting can complement this (e.g. make better use of ODIs as mentioned above). There could be potential to work with companies/WaterUK to develop a public value scorecard on key measures and share best practice.

An important point highlighted by our CCG is that the inclusion of trend data is important to be able to assess progress over time. This may mean consider introducing some measures at PR24 that are new and therefore have shadow reporting until comfortable they are measuring and encouraging the right things.

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