

**PR24 AND BEYOND: REFLECTING CUSTOMER PREFERENCES IN FUTURE PRICE
REVIEWS – A DISCUSSION PAPER**

***RESPONSE BY YOURVOICE CUSTOMER CHALLENGE GROUP (CCG) FOR THE
NORTH WEST OF ENGLAND***

Introduction

The *YourVoice* panel was established in 2015 to provide independent assurance and challenge on the customer engagement and research activities of United Utilities (UU), and their impact on the development and delivery of the company's business plans in the North West of England.

YourVoice operates at arms length from the company, with an independent chair and secretary, and seeks to focus on customer engagement and hold the company to account through forward planning, agreeing meeting agenda, preparing minutes and ensuring follow-up action. The CCG acts as a 'critical friend to UU on the development, delivery and review of its research programme. Through its main panel and sub-groups, *YourVoice* is engaged in: the critical review of planned research; reviewing research materials for surveys/workshops; attending and providing feedback on customer events; participating in research debriefings; and reviewing research results. This comprehensive approach enables us to ensure a 'golden thread' from customer research inception to emerging business plan proposals, and shaped our '*Rising to the Challenge*' report to Ofwat on UU's PR19 business plan.

Following the completion of our PR19 report, *YourVoice* undertook a 'lessons learned' review to look at what worked well, what worked less well and what changes are needed to build on our PR19 experience and improve future performance. The key themes and recommendations emerging from this review are summarised in the attached Annex. Of particular relevance is the recommendation – accepted by UU and already implemented – to appoint an independent secretary to reinforce the CCG's independence and control of its agenda and ongoing activities.

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

We agree that customer engagement must continue to be at the heart of price reviews and consider it important that we build on experience gained in PR14/19 to go even further – for example, by recognising customer interests as extending beyond paying bills to cover 'public value' issues such as environmental improvement and addressing social inequalities.

We can support the proposed framework of six goals to guide customer engagement in future piece reviews. In particular, we consider it important that:

- Water companies should continue to be ultimately responsible for managing their relationship with customers, and must be encouraged to continue to deepen this relationship across the broad range of their activities, so that customers feel that their voice is valued, listened to and influences decision-making.
- Regional and local variation in customer preferences must be recognised and placed at the heart of the system, acknowledging the fact that not all water companies are the same, nor the people they serve or the places they live.

- More collaboration on customer engagement between water companies and across the sector should be encouraged where this adds value; in particular we would like to see an even greater role for co-creation and co-delivery between water companies and customers.
- There must be full transparency about the way in which customer research evidence is used to inform both the development of water company business plans and the determinations made by Ofwat.
- Proportionality should be used to ensure that customer engagement is focused on the areas where it is most meaningful, focusing on the issues most important to customers.
- Future customer engagement should cover 'public value' issues alongside more conventional areas such as bill impacts, and we would welcome further clarification from Ofwat about taking forward public value in the water sector.

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

Consideration might be given to recognising that the value and benefits of strong customer engagement extend beyond the specific needs of the price review process. This makes it important to ensure that customers are not constrained and are able to identify and communicate on all areas of interest to them, particularly on the emerging public value agenda.

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?

YourVoice constantly challenged UU throughout the PR19 process to ensure that business plan proposals properly reflected what customer research was telling us. This extended to us requesting the company to commission an external assessment (undertaken by ICF) to look at the triangulation of proposals to ensure that they were proportionate and supported by a clear 'golden thread' from research evidence. We also regularly questioned UU about how its existing AMP performance and emerging PR19 proposals compared with other water companies. However, the limited availability of comparative information across the water sector, coupled with differences in definitions and measurement methods, restricted our capacity to follow this through and use as independent validation.

Ofwat's development of a set of common performance indicators is therefore a welcome step forward, and presents an opportunity to build a meaningful system for comparing performance in key areas across the water sector. It also recognises that some areas have strong national policy, legal or scientific drivers, for example reducing leakage. It is, in our view a logical next step to look at ways to ensure that evidence of customer preferences in relation to these common performance areas is generated in a consistent manner with comparable results.

At the same time, as stated in response to Q1, regional and local variation in customer preferences must be recognised and placed at the heart of the system. There also needs to be maximum transparency in agreeing the methodology for national research and full and open dissemination of results to water companies and CCGs.

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?**

Common performance commitments and ODIs should be covered. However, national research should not extend to acceptability testing of bill impacts of the full PR 'package', as it is essential that this reflects geographical, socio-economic and other differences, which water companies are best placed to ensure.

It is also important to recognise that there are significant differences between local areas and communities in the NW, as well as between this region and other parts of the UK, on key issues such as water resource availability and consumption, flooding etc. An appropriate balance therefore needs to be found between national, regional and local research, without making the system too complex.

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

Ofwat, CCW and water companies must be involved. A strong argument can also be made for CCG involvement to ensure that local customer knowledge and issues are taken into consideration in developing and analysing the research. Having said this, we recognise that a balance will need to be struck, as giving each CCG a seat will be too unwieldy. Ofwat might therefore consider an overall CCG representative, supported by a sub-group of all CCGs.

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

It might be useful to consider a national research project early on in the PR24 process to establish overall customer priorities for the water sector and help guide further research. This could then be supplemented by more detailed shared research at national/regional level to focus on common performance indicators. Water companies and CCGs must be given adequate time and opportunity to evaluate the results of such research as part of their overall consideration of emerging business plans.

There may also be value in carrying out collaborative research at national level, involving academic and wider stakeholders, looking at longer term issues for the water sector extending beyond single price review periods.

- **How should this research account for differences between England and Wales?**

We have no views on this issue.

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 consider that the Ofwat discussion paper focuses too heavily on certain issues and challenges encountered in using CCGs to provide independent challenge and quality assurance of water company business plans, and does not do justice to their added value and impact or highlight the many examples of good practice generated by CCGs. Nor does it recognise that CCGs are also independent of Ofwat – so, in some circumstances it may not be unreasonable for a CCG to judge

that the interests of the customers it represents are best served by what the company rather than Ofwat proposes. It is also not unreasonable for CCGs to provide feedback to Ofwat about the PR process and report deadlines (as is recognised in the Ofwat consultation paper).

It would have been helpful if Ofwat had commissioned an independent evaluation of the role and impact of CCGs during PR19 to highlight areas of best practice and identify where CCGs add most value. This could have been shared with CCGs and used to develop guidance for PR24.

We do not believe that the use of collaborative national research negates the need for local CCGs. Conversely, it actually reinforces the need to have independent, company-specific and locally-focused customer-based groups to look at the ways in which national research results are considered alongside locally-specific research carried out by water companies to support the development of their wider business plan proposals (including bespoke performance commitments, which are a valuable means of delivering local customer priorities and cannot be managed nationally).

Establishing national or regional CCGs would lose the local knowledge, understanding and networks that locally-based, company-specific CCGs are able to provide. We recognise that some form of regional coordination may be useful in looking at performance benchmarks and sharing of good practice, but this would be less effective without ongoing local CCG involvement.

We wish to see Ofwat building on the considerable progress and achievements of CCGs over the last two price reviews by maintaining their role in PR24, and by providing guidance addressing the concerns and issues relating to the performance of some CCGs identified during PR19. It is important that we 'do not throw baby out with the bathwater' and allow specific and rectifiable concerns about aspects of CCG performance during PR19 to lead to the loss of an improving model that has clearly added value and supported Ofwat's priorities over the last two price reviews.

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

We believe that the PR19 guidance from Ofwat struck an appropriate balance between providing advice and direction to CCGs while avoiding over-prescription, and gave CCGs sufficient freedom and flexibility to ensure that we operated in ways that reflect our local areas, circumstances and interests. We would like to see a similar approach to future guidance, while perhaps extending the 'aide memoire' to include key issues such as triangulation and proportionality, recording challenges and the use of systems thinking and other innovative approaches.

We would welcome further guidance aimed at reinforcing the independence of CCGs, such as providing Ofwat with assurance about the transparency and fairness of the process for selecting chairs, requiring transparent remuneration arrangements, ensuring training of CCG members and requiring independent secretaries.

We do not see CCGs as having the expertise or remit to cover detailed finance matters such as cost-efficiency, nor would we see it as part of our role to challenge the government policy framework within which we operate. We would therefore welcome explicit direction from Ofwat on such 'no go' areas for CCGs in future.

Ofwat might consider developing a benchmarking model to guide CCGs on how best to organise themselves to ensure independence, 'fitness for purpose' and maximum impact (which could be supplemented by a 'rolling review' of CCGs carried out on Ofwat's behalf). The concept of 'arms

length bodies is well established across many sectors, so there should be plenty of good practice on which to draw in developing a benchmarking model.

As will be clear from our earlier responses, we strongly support a continuing and evolving role for CCGs, backed by revised guidance from Ofwat, rather than the alternative option put forward by Ofwat of stepping back and allowing water companies more responsibility to design and implement their customer engagement programmes. However, if the latter option were to be pursued, guidance will be needed on the role of any CCGs retained by water companies, including how their views will be taken into consideration by water companies during the PR24 process and the weight that Ofwat will attach to CCG views on submitted business plans.

CCGs can also provide a useful mechanism for water companies in taking forward the 'public value' agenda, particularly in developing an understanding of customers' views on what the wider public purpose of water companies should cover. An extended role will require CCG membership to be reviewed and broadened to ensure that community and social interests are adequately represented. We have already recognised this in the North West by expanding the remit of *YourVoice's* environmental sub-group to become an Environmental and Social Capital Group, and by adding new members to the main *YourVoice* panel.

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?

We have no views on this issue.

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?

We welcomed the increased analysis of customer insight data and adoption of behavioural insight techniques by UU in its customer research programme to support PR19. We would support developing ways of disseminating the experience and benefits of utilising more innovative research approaches, and sharing good practice, between water companies.

We agree that it can be more difficult to obtain customer views and gauge preferences for some types of issues (for example, long term planning and future scenarios, particularly in relation to low probability/high impact events). However, we have seen the development of novel approaches such as 'experiential workshops' that have provided useful insights on customer views and preferences on more complex issues such as climate change and water catchment planning. Similarly, we have seen advances in engaging customers on the development of performance commitments and ODIs (although we recognise the difficulties involved in securing a representative spread of customers to explore more complex subjects).

We would particularly welcome a stronger focus on developing more effective ways of engaging under-represented and 'harder to reach' customers. It also remains important to ensure that inter-generational aspects are addressed, and that the voices of children and young people (as future water customers) are considered, particularly on longer term issues.

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?

It is essential that the water sector continues to learn from innovative approaches to customer engagement in other sectors (as we saw with the introduction of customer data analysis and behavioural insight techniques during PR19). We should also be ready to explore the value, feasibility and efficacy of using alternative techniques for engaging customers and obtaining their views, including use of data generated by social media and piloting the use of citizen's assemblies to look at key national issues affecting the sector.

We would support more use of operational experiments and trials, as well as looking at the deployment of emerging innovative techniques such as virtual and augmented reality. Better use might also be made of art, design and visual materials to engage customers more effectively, to establish genuine co-creation opportunities and demonstrate to customers how their views and experience are valued and used to shape decision-making.

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

We need to recognise the limitations in engaging customers with 'willingness to pay' research, and would support Ofwat's proposals to examine whether ODIs might be based on customers' broad preferences rather than willingness to pay. It would also be useful to investigate whether novel and innovative approaches developed in other sectors can be applied in this area.

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 welcome attention being given to ensuring that research results are disseminated effectively – this applies to both national research led by Ofwat and research commissioned by individual water companies. Requiring dissemination plans for each piece of research might be useful. Similarly, establishing a central portal where all research could be accessed could not only assist with dissemination but could help generate savings in research expenditure by avoiding duplication and encouraging innovation.

ANNEX

PR19 PERFORMANCE AND LESSONS LEARNED REVIEW BY YOURVOICE CCG – SUMMARY OF KEY POINTS

In 2019, *YourVoice* carried out a self-assessment review of performance during the PR19 process to identify key leaning points and consider any changes needed in the CCGs' future role and activities.

The key themes identified were:

- The relationship between the company and CCG had matured into a professional, open and constructively challenging one, with *YourVoice* given early and full opportunities to comment on all relevant aspects of UU's emerging business plan, coupled with the provision of clear evidence that the company was taking account of the CCG's views and challenges in developing its PR19 proposals.
- The refreshed *YourVoice* panel contained a mix of individuals providing an excellent blend of expertise, skills and experience, covering a good cross-section of customer and stakeholder interests, who had worked together very effectively throughout the PR19 process.
- *YourVoice's* role and impact was reinforced by active senior-level engagement by UU officers and Board members, with four Executive Directors attending all CCG meetings, and regular attendance by the CEO and individual Board members during the later stage of the PR19 process.
- Good use was made of the three sub-groups to enable more detailed scrutiny of key aspects of the company's work in developing PR19 proposals: for example, in providing rigorous examination of individual customer research projects and enabling 'deep dives' into key issues such as leakage – although it was felt that arrangements for the sub-groups reporting back to the main panel might be improved.
- The willingness to seek support where necessary from external experts to supplement *YourVoice* members' knowledge and expertise had paid dividends: for example, engaging specialist support from independent experts at Sheffield Hallam University on the customer research undertaken to support the Manchester and Pennine Resilience proposals, and in commissioning ICF consultants to provide independent assurance of the way in which UU was triangulating its customer research results to support emerging PR19 proposals.
- The workload on *YourVoice* (and its sub-groups in particular) during 2018 had been very demanding, with some very challenging deadlines, leading to sometimes over-ambitious meeting agenda and too much paperwork.

Recommendations and next steps were:

- To explore opportunities to reinforce the independence of the CCG and control of its work, including by appointing an Independent Secretary responsible for establishing a forward work programme, agreeing meeting agenda and preparing minutes and other papers. This action was completed in 2019 with the appointment of Neil Cumberlidge as *YourVoice* Secretary.
- To examine the scope for increased delegation of decision-making to sub-groups in future price reviews, and to adapt the role of the Customer Engagement Sub-Group to include oversight of the continuing work of the independent Affordability and Vulnerability Panel.
- To explore with Ofwat and other CCGs the scope for adjusting the PR24 deadline for submitting CCG reports to ensure that final versions of water company business plans are considered.
- To ensure that the CCG has early, regular and detailed oversight of the company's customer engagement and research strategy and programme to be developed for PR24.
- To consider with the company ways to improve support and incentives for members to attend CCG meetings.