

Reflecting Customer Preferences in Future Price Reviews: A Response from the Yorkshire Forum for Water Customers

1. Introduction

The Yorkshire Forum for Water Customers is an independent group of customer and stakeholder representatives brought together under its Independent Chair, Andrea Cook OBE, to: work with Yorkshire Water to develop their business plans for Price Reviews, consistent with Ofwat's methodology; and provide ongoing challenge on all aspects of the company's business and contact business and domestic customers. In particular the Forum challenges Yorkshire Water to make sure their business plans accurately reflect their customers' views (gained from high-quality research with customers), the company provide good-quality services which reflect customer priorities, and meet their performance commitments (PCs).

Forum members come from Citizens Advice, the Consumer Council for Water, the Environment Agency, the National Farmers Union, Natural England, Pennine Prospects and The Rivers Trust. They also include independent experts on the environment, local government, and affordability and vulnerability.

In commenting on the Price Review of water and sewerage bills for 2020 to 2025, the Forum was satisfied that Yorkshire Water had provided high-quality and innovative customer research to support their business plan. Surveys were extensive, thorough and properly audited, and comprehensively reflected the opinions of their customers. The research and engagement also showed that customers have a high level of trust in Yorkshire Water.

The Forum's responses to Ofwat's Draft and Final Determinations and to the Competition and Markets Authority's (CMA's) Provisional Findings are well documented and are not repeated here, other than to acknowledge the Forum's view of the need for balance between efficient costs and risk. Only a small number of companies tested how affordable their plans were with customers in their initial Price Review submissions, and the Forum considered this to be one of the many strengths of Yorkshire Water's approach to involving and listening to customers.

2. Questions posed by Ofwat

The Forum has been invited to comment on Ofwat's discussion paper "**PR24 and beyond: Reflecting customer preferences in future reviews**" and believes that it is well placed to do so. The Forum supports customers being at the heart of Ofwat's strategy and welcomes some of the initial ideas which have been scoped out for the PR24 Price Review.

However, the Forum would wish to see more active engagement with CCGs between now and when Ofwat intends to publish its guidance in May 2021, particularly since the discussion paper was developed without liaison and engagement with them.

The responses to the questions posed by Ofwat are informed by the lessons learned by the Forum through several price reviews and through its overall engagement with Yorkshire Water. Several members are, or have been, involved with other CCGs and equivalent structures with other regulators (for example Ofgem's R110-challenge groups). There has also been dialogue between the CCGs, as well as participation in conference calls with Ofwat.

Ofwat's approach to customer engagement at PR14 was underpinned by two key ideas: firstly, that companies with an in-depth understanding of their customers' specific needs would be much better positioned to deliver high quality services meeting those needs; and secondly, that companies should 'own' their engagement with their customers, which in turn would help to ensure their day-to-day decision-making remained oriented towards customers' needs. To achieve this, Ofwat asked companies to directly engage with their customers, and required that they set up independent CCGs to scrutinise this engagement and how results were reflected in their plans.

At PR19 Ofwat adopted a similar approach, once again relying on companies engaging with their customers and requiring the use of CCGs to scrutinise their work. However, they also made some changes in light of experiences during PR14. Ofwat outlined their expectations for companies in a **PR19 customer engagement policy statement**. This included additional principles of good engagement, building on those issued at PR14. It also included further guidance on expectations regarding CCG governance and transparency arrangements, making clear that Ofwat would take more assurance from CCG reports where groups could demonstrate that they operated independently from their respective companies. The Yorkshire Forum's report was written by a former Head of Social Policy at Ofwat (also previously Director of Ofcom's Communications Panel and Senior Policy Officer at the National Consumer Council) who was satisfied that the Yorkshire Forum had operated fully independently and provided appropriate scrutiny and challenge.

We invite your views on the following questions:

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

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

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?

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?

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?

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

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 alternatives?

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?

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?

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

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?

Where responses from the Forum relate to specific questions or sections of the discussion paper, these are cross-referenced. There are, however, there are some questions where the Forum has not yet formed a clear view or which warrant more discussion. The Yorkshire Forum generally agrees with the goals Ofwat has proposed for customer engagement at future price reviews, including proportionality, so that the focus is on 'producing high quality engagement instead of lots of it' (Q1). Companies and CCGs would benefit from more feedback from Ofwat on the quality of their engagement and research, however this should look at the totality of this and not simply what is undertaken specific to a price review. Other goals might be a clearer distinction between the expectations of different categories of customers (Q2).

The Forum supports collaborative national research, provided this is additional to local insight and does not replace it. It acknowledges that collaborative research would support comparability of results and benchmarking and could promote good practice. However, national research is not an appropriate substitute for the richness of local engagement and knowledge which produces better targeted outcomes based on local heritage and the specific needs of local communities. The local voice should be at the heart of engagement and research and support company business plans, rather than be replaced by a 'one size fits all' methodology if it is to have credibility. Additionally, companies are 'maturing' in their ability to view issues through a 'customer lens' and should be encouraged to do so (Q4). The Forum supports 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. However regional differences and characteristics can be highly significant and customer detriment may be such that there would be a major impact on willingness to pay and investment priorities. To illustrate, issues of population growth, poverty, drought and flooding will vary from region to region (Q3).

Guidance from Ofwat on customer engagement, assurance and other issues would be helpful for CCGs, companies and other stakeholders, but this should guide rather than prescribe and not prevent innovation. Comparative research could also be helpful, but it is important that this does not restrict local engagement or limit ambition. There is a danger of research being reduced to 'the lowest common denominator', particularly if there is too much emphasis on national research and reducing costs. The Forum found the extent and reach of Yorkshire Water's research programme to be commendable and this has meant that the company has an enhanced level of understanding about shaping its services around customer preferences. The Forum would not wish this to be compromised. There must also be realistic expectations about the environmental obligations which are unique to each company and the impact on customer bills – for example programmes such as WINEP – and Yorkshire Water's research provided valuable intelligence to identify the 'big goals' for the future. Customer opinion is critical to setting bespoke performance commitments to ensure they are appropriately targeted and sufficiently stretching (Q5).

Yorkshire Water has sought to be innovative on issues related to river restoration, water recycling, sustainable demand management-led solutions, flood risk reduction and bio-resources. The company have moved away from 'infrequent' research to deliver their business plans, to ongoing engagement which tests themes, issues and priorities, reflecting diverse customer needs and lifestyle choices and multiple perspectives. Therefore, whilst Yorkshire Water had specific and dedicated research projects linked to the Price Review, it also maximised the outputs and knowledge from its

ongoing research to cut across multiple projects, using segmentation modeling. The Forum believes that the research techniques which have previously been used in the water sector are suitable to underpin companies' business plans and reflect customer views because of the 'richness' of this work. The Forum's input was directed at ensuring that: the sample framework was representative of all customer types; the methods used allowed for total inclusion of the customer base; the research materials were accessible and easy to understand; the stimuli – including questionnaires and topic guides – were appealing and interesting; and prevented potential research bias from better informed customers. Overall Yorkshire Water has worked hard to drive out technical language from its publications and research materials and explain complex issues simply and has gained the Plain English Campaign's Crystal Mark for clarity for a number of publications. The Forum therefore accepts that there may be areas where the scope to solicit informed opinions from customers is more limited, however this does not mean that companies should not make their best efforts to engage or where the industry should not share good practice (Q10).

The Forum notes the suggestion of 'open meetings' and supports increased engagement with customers and greater transparency. Some open meetings took place in the Northern region in the PR14 Price Review in areas where there was considerable customer detriment, for example with flooding. It should be noted, however, that open meetings or meetings in public do require an experienced facilitator and considerable support. Ofwat has also referred to citizens in the broader sense, rather than customers, to extend the value of goals for customer engagement. The Independent Chair of the Yorkshire Forum and the NFU representative are both members of the Ilkley Citizens Jury Advisory Panel for the River Wharfe, together with the Head of Customer Insight at Yorkshire Water and a number of representatives from the Environment Agency. The objectives of the project are to:

- Help understand the different ways in which people value water;
- Enable influencers to understand the shape of local climate action, by providing insight into what people want in rural, urban and at national scales; and,
- Provide a mandate to make change happen by developing principles and recommendations for local environmental action within the context of climate resilience.

Since the Environment Agency (EA) is currently exploring how all stakeholders can work together to provide clean and plentiful water in a rapidly changing climate with a growing population by working with local communities, it would seem contrary to superimpose a national template for a Price Review. The EA is undertaking this work to better understand the benefits and limitations of a Citizen Jury as a deliberative process to support existing engagement and participatory planning. The Yorkshire

Forum believes it would be useful to have information from 'Lessons Learned' from such work, even though this model has previously been used to discuss and make recommendation to local authorities concerning the climate emergency, before it is used to drive forward a Price Review. There also needs to be very specific, and somewhat narrow questions – in this case 'How do you connect with water in your local environment, and what needs to be changed in the future to benefit people and wildlife?' – because of the complexity of engagement. Given the breadth and depth of Yorkshire Water's customer engagement and research and the richness of representation from Forum members, it is not clear what additional benefits would be gained since juries are usually relatively small in size and it is sometimes difficult to make them appropriately representative (Q9).

The discussion paper has a section on 'Issues with the CCGs' which is somewhat negative in tone. In particular, the Forum does not accept Ofwat's statements (page 24) questioning the independence of the CCG's. This appears to stem from challenge of Ofwat rather than the allegation that some groups commented on issues which lay outside their remits. For example, the Yorkshire Forum stated that Ofwat should avoid driving service standards beyond what customers wanted and placing companies at financial risk as a result. It felt able to make such statements if they were backed up by evidence and saw them consistent with being the customers' representative.

The Forum is very clear that CCGs should be at the heart of future Price Reviews and that this is about the principle of customer engagement being embedded in local communities and listening to the customer voice and is not simply a justification for the existence of CCGs. The Yorkshire Forum for Water Customers guards its independence from the company – and from regulators – very carefully. Ofwat notes numerous examples of positive challenges but overall it is not sufficiently positive about the achievements of the CCGs. For example, Ofwat suggests that some CCGs went outside the scope of the limits of the Price Review. The Forum does not share this view, it is what is important to customers that matters. To illustrate, it is suggested that Ofwat did not want CCGs to comment on financial issues and corporate/financial structures, despite customers in the Yorkshire region having expressed concern about the use of off-shore investment funds in PR14. The Forum considered this to be relevant to a wider debate about trust and confidence in the water industry, how it was structured and financed and the balance between shareholder and customer interests.

The Forum was encouraged by the actions and behaviour of the Board of Yorkshire Water in PR19. Forum members met with Yorkshire Water's Company Secretary and Group Treasurer to discuss the structure and financing of the company. They challenged Yorkshire Water to simplify their

finance structure as one mechanism to increase transparency around financial issues and welcomed the company's decision to subsequently remove three subsidiary companies incorporated in the Cayman Islands, originally formed to raise debt and not to avoid paying tax and replace them with one company registered for tax purposes in the UK. The balance between shareholder and customer interests and a sharing mechanism will be discussed with the Forum going forward and the Forum will continue to monitor Board leadership to achieve a company-wide culture that puts customers at the heart of the business. The Forum was also particularly challenging around cost adjustment claims, with the company removing those the Forum did not support.

The Yorkshire Forum has a clearly defined role going forward – engagement with customer research more generally, contributing to the Annual Performance Review (APR), monitoring the achievement or otherwise of performance commitments, for example commenting on the Working With Others commitment and the distribution of out-performance, monitoring and commenting on the company's sector leading work on the Six Capitals (Financial capital, Manufacturing capital, Natural capital, Human capital, Intellectual capital and Social capital) and work on addressing affordability and vulnerability. The use of partnerships, together with the work of the Forum, should enable Yorkshire Water to meet the specific needs of the communities it serves in the most effective and efficient way, for example to promote the Priority Services Register and its innovative Safeguarding work. The Forum will continue to provide robust challenge to Yorkshire Water on its Vulnerability Strategy under the leadership of the member who has oversight for this work within CCW, the Chair of the Forum and a member from Citizens' Advice. Vulnerability includes physical mobility issues, mental health, age, medical conditions, financial vulnerability and communication needs. An Annual Review by the Forum and leading local and regional charities will identify practices to assist customers from falling into debt. Such work will illustrate how Yorkshire Water will address the outcome of the PR19 Price Review and ensure that the questions Ofwat asks are meaningful for water customers.