

PR24

As the independent Customer Challenge Group (CCG), known as the Water Forum, for both Essex and Suffolk Water (ESW) and Northumbrian Water (NW), we are pleased to have the opportunity to offer comment and reflections on Ofwat's proposals for PR24.

We note that there is much work still to be done on the detail of the proposals, and trust that our contributions here, and in the future, will help shape the final arrangements.

Overview

Looking at the broad thrust of the proposals, we make several observations about areas that are related to the remit of the CCGs:

- A focus on the environment, climate change, social value, and long-term thinking is welcome and very positive. We challenged Northumbrian Water Ltd (NWL) to develop a long-term strategy at the beginning of PR19 and will be discussing with the Company whether this needs refreshing.
- It will be important for companies to reflect the work needed around customer behaviour, for example in tackling climate change, and we are interested to know how Ofwat will deal with this.
- Working with other regulatory and statutory bodies: a joined-up approach will deliver more. There is no one silver bullet to tackling long term issues such as climate change and more, richer and deeper inter and intra sector partnerships will be key. We therefore welcome the direction of travel Ofwat has set out.

We have reviewed with interest the customer engagement and research elements of proposals for PR24:

- We are pleased that there is no diminution in the importance of reflecting customers' views.
- It is not yet clear how customer engagement will work as a whole. We note that some discrete areas could benefit from a national approach but there will be local variation and uniqueness of geographies, socio-economic issues, specific local projects (targeting increased resilience) and so on that cannot effectively be derived from a national picture and therefore need to be factored into the requirements – and assurance methods agreed. This is very important on an ongoing basis and not just for the preparation of the business plan.

- There will be number of inherent contradictions or tensions that need ironing out eg: climate change/affordability; service levels/affordability; research standardisation/innovative research practice.
- Robust triangulation will be a critical tool and we have offered to assist in development, operation and scrutiny of this important activity.
- On national research, we would like to understand what checks and balances will be put in place to prevent undermining of trust that companies are building with their customers (noting that in PR19 we observed how innovative engagement and research builds trust).
- There is a need to be sure that the in-house innovative research that PR19 delivered doesn't get quashed – the Value for Money tool that NWL used in PR19, for example.
- One of the biggest challenges a nationwide research approach will face is reaching those who are not traditionally engaged in participation – sometimes described as 'hard to reach'. This is an issue to which we as a CCG will be returning.
- How will the whole deliver more and better for customers? The customer voice needs to be heard throughout PR24 and reflected in the research, the price determination and the ongoing delivery. We would want to be confident that the new arrangements would deliver this central tenet.

Other overarching observations

- Value goes beyond just financial – but how will this be assessed?
- Each company will have local resilience or enhancement projects and will undertake customer research about them – Ofwat needs to be clear about what it is looking for (financial, resilience, environmental net gain, and so on) to enable approvals/assessment of the business case – and this clarity provided well before business plan deadlines.
- Ofwat will need to create systems which enable it to monitor and understand how local/regional frameworks can be translated in a bigger picture without undermining local or multi-party ambitions.
- **Climate change and the impact on human health and the water cycle be it episodic rainfall, flooding, heat, drought, brings huge social impact as well as environmental impact, and we would welcome seeing OFWAT's high level strategy as to what it expects from water industry plans, how that fits with UK strategic planning and how this will be transposed into water company guidance for more than just a 5-year period from 2024. The UK has carbon and climate change targets for 2030 as do most water companies. This is just one water planning cycle away. To achieve the ambitious target of Net Zero means each person in the UK who has at present 10 tonnes of 'carbon lifestyle' needs to reduce that to 2 tonnes of carbon by 2030. This will require huge behavioural change and it would be good to see OFWAT giving guidance as to what it expects water companies to deliver through its customers in the form of education, personal impact and personal contribution to help deliver climate change adaptation - challenging not only because of the variety of words used to speak of adaptation, but because 'adaptation' language is often not used in OFWAT documents.**

Local challenge and scrutiny

Mindful of the need for learning lessons and for continuous improvement, we commissioned an independent review of our CCG at the end of PR19, managed by the Nominations Committee and its independent Chair, and as a result have refined and strengthened our

operating model for the Water Forum. Below we share a summary of how we work – in terms of our structure, resources and remit.

Structure

We take a partnership approach – the Water Forum gives a ‘one stop shop’ for the statutory and bodies involved in the industry, including Natural England, the Environment Agency, local CCWater representation, based on our local geographies to come together with us. This is helpful in fulfilling our customer challenge and scrutiny role and also enables good and efficient engagement, understanding and collaboration. We believe this can help with some of the challenges for PR24 that we outlined above. Northumbrian Water was the first Company to take this approach with its CCG and it is now a mature working arrangement which has brought dividends.

To address possible (perceived or real) CCG ‘capture’ we:

- Have an independently appointed Chair and two Vice Chairs (one for each operating area)
- Deliver strong performance management for the Forum including annual reviews by our peers of the Chair and Vice Chairs, anonymous surveys after each meeting, and a regular overview survey managed by the independent Nominations Committee
- Have raised the bar on Water Forum input and activity – so that all members are involved in at least one sub-group as well as the full Forum and each sub-group can bring in additional independent expertise to assist
- Have absolutely clear terms of reference which include issues such as conflict of interest, resignation, quorum and so on.

Resources

To ensure that our work is appropriately resourced, we:

- Have an ongoing review of Forum membership.
- Are working to ensure that the Forum addresses diversity and inclusion in its own membership.
- Created ‘Associate Member’ status as a way of enabling the Forum to access a wide range of input and expertise without creating an unwieldy sized group.
- Mindful of the substantial time commitment required of members, we have agreed to move to online working as the ‘norm’, enabling not only excellent engagement but the engagement of others. It saves time, travel and expense, and removes many barriers to expanding engagement, expertise and resources where required.
- Reviewed sub-group activity and confirming for the time being, the following sub-groups to provide focused challenge and expertise to the Company. These will be regularly reviewed:
 - Environment;
 - Inclusivity and Affordability;
 - Customer Engagement (to scrutinise engagement practices in particular – but all Forum members engage in observing and scrutinising customer engagement input and activities, outputs and outcomes, and observe such activities as often as possible)
 - Drinking Water Quality (an area of current poor performance); and
 - Performance and Delivery (involving an independent chair and the leads from the other sub-groups and the chair of the Water Forum).
- To reflect these changes we have reviewed the challenge log system to ensure it works in the context of sub-group activity.

Remit

We are clear about our scope and what we are **not** covering. We have refined our terms of reference, agreeing terms of reference for each sub-group; and already have many examples of how our new way of working is paying dividends:

- Strong input and challenge. For example, the DWI is engaging with our Drinking Water Quality Sub-Group and has welcomed the work of the Group on the processes, engagement and focus being given to this area of current poor performance.
- Monitoring the 'business as usual' and other customer engagement work of the company, and to observe as many of these activities as possible. We have noted for example that whilst NWL has done much to encourage customers to contact them and the satisfaction data shows that when they do, the Company handles their queries well, complaints data reveals that customers are having to wait too long for their calls to be answered which would, we have said, indicate the need for a review.
- Inclusivity and affordability have had additional focus given the impact of coronavirus on society and the economy. While the Company is doing well on all measures in this area, and particularly the levels of awareness about support available and the customer satisfaction achieved by those who receive such support, with ongoing uncertainty we will stay close to this issue in the year ahead.
- Scrutinising and reporting on Company annual performance, to understand (and challenge where necessary) how NWL is delivering its Performance Commitments for customers.
- Engaging in WRMPs, WINEP and other critical environmental issues.

We have a plan of action and are intending to develop this into a broad programme to cover key points in the industry timetable as well as Northumbrian Water's proposed activities and actions and the development of the PR24 process and plans.

Conclusions

We would very much welcome being a component of the Company's suite of assurance activity in future. Some outstanding issues include:

- How local challenge and assurance feeds into the regulatory process as a whole, on an ongoing basis.
- How our work could benefit from the outputs of a centrally/nationally led activity.
- Any further adjustments that may be required to our working arrangements.

We would be happy to share the detail of our structure, operating model and other information. We would very much welcome continued engagement on the development of Ofwat's proposals for PR24 to ensure that they deliver the best possible outcome for customers and stakeholders.