

Providing independent challenge, scrutiny and advice

Darparu craffu, herio a chyngor annibynnol

MINUTES OF CUSTOMER CHALLENGE GROUP

Meeting held on Thursday 16th November at 10:30

Usk Room, Linea

Attendees: Mari Arthur (Cynnal Cymru, Warm Wales); Daniel Davies (Welsh Water); Mike Davis (Welsh Water); Peter Davies (Chairman); Nigel Draper (Valleys to Coast Housing); Lee Gonzales (Consumer Council for Water) Duncan McCombie (McCombie & Daughters Ltd); Lia Moutselou (Consumer Council for Water); Steve Ormerod (Cardiff University & Chairman of IEAP); Anna Riddick (Welsh Water); Andrew Sherlock (Welsh Government); Russell Todd (WCVA); Geraint Weber (Natural Resources Wales); Dimitrios Xenias (Cardiff University). Jo Kenrick from Glas Cymru Board

Secretariat: Megan David (Cynnal Cymru)

Apologies: Jean Francois Dulong (Welsh Local Government Association); Delyth Jewell (Citizens Advice); Rachel Lewis-Davies (NFU), Alun Shurmer (Welsh Water); Richard Williams (WEL representative).

1. Welcome from Peter Davies

Welcome Megan David from Cynnal Cymru as the new independent secretariat for the Customer Challenge Group.

2. Summary of Challenge Framework and Future Planning (Peter Davies)

- CCG has a role beyond PR19 – but at this point in the PR19 process it is important that the CCG focuses on its key role in providing challenge to the business plan and meeting the requirements set out in the Ofwat ‘aide memoire’ for CCGs.
- In this respect the CCG Chair has:
 - Submitted 2 papers to the Glas Cymru Board in May and September, the first summarising the challenge points raised by the CCG over the period May 2016 to May 2017 with an update paper presented to the September Board outlining the key strategic challenges for the business plan. The company will be providing a response to the CCG on both of these Board papers
 - Commissioned Dimitrios to undertake a review of the customer evidence base that will be used in preparing the business plan
 - Prepared a draft challenge framework which sets out clearly expectations of the CCG in advance of the business plan.
- The future meetings of the CCG to September 2018 will focus on the PR19 challenge process with more time for discussion than in previous meetings, including time for private (CCG only) discussions. It is also intended to establish specific focus sessions between scheduled CCG meetings to involve wider expertise on key issues highlighted by customers. The aim will be to set up these sessions in February, March, April 2018.

- It will be important to ensure that the views from non-domestic customers are included so very pleased that Matthew Williams from the Federation of Small Businesses has joined the group.
- The IEAP through representation of Steve Ormerod (IEAP Chair) will also provide the challenge from the environmental sector to supplement the role of WEL which is represented on the CCG by Richard Williams. Lia Moutselou asked how the National Environment Programme will influence Welsh Water's investment proposals. This is being discussed through the IEAP and will report back to the CCG.
- Nigel Draper mentioned that the discussion and challenges will be dependent upon the strong relationship with Welsh Water. A lot of documentation is prepared for these meetings which requires a lot of time to read and can be quite overwhelming, so it will be important to provide summaries with questions for the CCG as in the papers for this meeting. There is usually a high quality of debate in these meetings but at times difficult to monitor the influence of the CCG particularly as we have been working over the last year to inform the process. It will be important to document the challenge issues, and how the company have been responded.
CCG Action – for Strategic Challenge framework to be developed into model for recording.
- Mike Davis noted that many of the CCG papers are those which have also been submitted to the Board. These aim to show the issues, the question/challenge and how Welsh Water have responded to those.
- Lee Gonzalez suggests that perhaps there could be subgroups to look at the specific issues that the CCG identifies.
CCG Action – sub groups to be established by CCG from February to April.
- Peter Davies stated that it is important that the work of the IEAP as well as other expertise is brought in to the CCG. Important to bring in issues that have arisen from the Rhondda Fach project and Nigel Draper's concerns on vulnerable customers.
- Duncan understands that the business plan is only part of a long term process. Important this business plan doesn't try and prioritise everything and needs to relate clearly to the achievement of the strategic responses in the 2050 plan.
- Duncan also raised the important issue of the cost of capital. However, the CCG is not able to influence this. Mike Davies mentioned that Ofwat is due to publish an indicative cost of capital on 13 December which Welsh Water will work with for the time being.
- Peter emphasised that OFWAT place real significance on the role of the CCGs. The level of significance being influenced by their independence from the company (hence the importance of the new independent secretariat), and the ability to document and audit CCG processes and the evidence of the company's response.
- Peter welcomed Glas Cymru Board member Jo Kenrick to the meeting at this point.

3. **Welsh Water 2050 (Daniel Davies, Mike Davis)**

- Dan presented the DCWW2050 summary paper which draws on the different customer consultation exercises including the 20,000 response to the "Have your say" survey in the summer alongside the qualitative research and stakeholder workshops. PWC have compiled all of the data gathered and generated a prioritised list of strategic responses. The CCG is asked to comment on the summary document
- Lia raised the process of the triangulation and the weighting given to the self-selecting Have your Say sample. She also raised the CC Water report on triangulation and would like to have a response from the company as to how this was applied (*Action – DCWW to provide a response after all the triangulation exercises are complete*).

- There was a discussion on the nature of the weightings and the question of how do you weight the different areas of informed and uninformed responses? The consultation takes this on board and use the triangulation method to give different weighting to different types of responses. A weighting of 3 has been given to the 20,000 responses from uninformed customer as they were the majority of responses, and a weighting of 3 has also been given to the responses from informed customers as there were far fewer of these but they had much more time to consider the information presented to them. *The rationale of this weighting was not clear and the company was asked to provide further detail*
- Lee Gonzalez questioned how reliable the results produced from the triangulation process would actually be if the weightings used by the triangulation methodology were selected by an individual or group, because ultimately the data can be manipulated by changing weightings.
- Lia Moutselou specifically asked the company to respond to the following:
 - Explain how the self selecting sample for Welsh Water 2050 was demographically representative.
 - How the company has taken on board CCWater's recommendations on triangulation (respond to report)
 - How the company has taken on board CCWater's recommendation on WTP (respond to report)

(Action – DCWW to provide a response to queries on triangulation and weightings).

- In further discussion on the triangulation process CCW continued to ask that the triangulation process :
 - Present us with the questions it seeks to answer through the triangulation process so as to avoid the risk of an analysis which might confirm a specific finding over another.
 - Identify tensions between findings and data explaining how the company is seeking to reconcile these in its interpretation and decisions. Understanding how the company looking to respond to minority concerns, e.g. those people who are not happy to see their bills increase could reassure the CCG that it is taking mitigation seriously.
- Lia Moutselou committed to feeding CCWater's view into the research review based on the response the company sent to CCWater's September WTP research queries.
- Jo was interested in the CCG view on the issue of the difference in value of the informed and the uninformed customer and CCG's response to this. Informing customers of the organisation and work bring undertaken can change individual responses. Dimitrios highlighted this in respect to the Willingness to Pay approach as to do the research properly, there is a need for informed customers, but usually this is not possible. However, generally, the responses of the uninformed customers also need to be given importance as they a more significant proportion of the customer base.
- Nigel highlighted the importance of understanding the way data has been gathered, the use of case studies of informed and uninformed customers and finding a way to understand customers. It was critically important to find a way to hear the voice of those difficult to reach and important for the CCG to be assured that the data incorporated these voices. Data and numbers can sometimes make it difficult to get an understanding of customers' situations and their experiences. While the company have done a good job in gathering different views from various sources it is important to keep challenging this as the engagement process is fundamental and needs to be embedded within the day to day operations of the company.

(Action- further details of the design and application of the triangulation weightings to be provided to the CCG along with assurance related to the hard to reach voices)

- Nigel highlighted the absence of affordability and vulnerable customers from the strategic responses as previously raised by the CCG. It would be important to set out how Welsh Water plan to work in the area of resilient communities to include reducing household debt.
- The focus on “good citizenship” was also again reinforced as an important omission as essential to underpinning trust with the customers, covering issues such as procurement, employment terms, etc . Matt highlighted that maintaining a good reputation with small businesses with things such as ensuring all invoices are paid within 30 days will help improve Welsh Water’s reputation in the community.
- The importance of water efficiency was also noted as needing to be strengthened in the final document
- NRW had submitted a detailed response to the 2050 plan setting out areas for greater focus.
Action – CCG would expect these omissions to be addressed in the revised Welsh Water 2050 document.

4. Measures of Success (Daniel Davies)

- The paper proposes a draft suite of Measures of Success for PR19 based on customer priorities as revealed through the Phase 1 triangulation work, Ofwat requirements and other business needs
- The CCG was asked to comment on whether the customer priorities have been captured and whether this is the right number of Measures of Success
- Duncan questioned whether Welsh Water currently have all the data to robustly show progress against these measures. Duncan also questioned why the legal requirement of health and safety is listed when there are many other legal requirements which could be listed there but will be covered by the law anyway, therefore are they redundant here? It was also very important to have clarity as to how the PR19 measures related to the achievement of Goals in the strategic priority areas for 2050. The CCG had very much welcomed the long terms approach of the 2050 plan so it was vital that the PR 19 measures and targets related to the progress to the achievement of the long term goals.
- Mike indicated that not all the data is currently available but this will be addressed once all the priorities are confirmed. Also health and safety is very important to the company and therefore central to the business plan. Welsh Water will also be proposing specific targets as to our intention to make progress towards achieving the Welsh Water 2050 objectives.
- The importance of incorporating and reflecting company values in these measures was raised as there should be measures which underpin the company’s commitment to “earn the trust of customers every day”. In this respect it is important that the measures of success reflect those issues that are important to customers but also their effective communication.
- Lia stressed the need for there to be a measure specifically looking at non-household customers in light of changes to the retail market in England. Matthew agreed but states that most small businesses use water the same as domestic customers so the measure could be the same but a separate target to measure for non-households.
Action – DCWW review measures as applied to the non-domestic experience.
- Nigel highlighted the need for a greater focus on affordability given the context in Wales and the importance of community partnerships. These were the 2 areas of customer priorities excluded from the measures that give the CCG most concern. The CCG will be setting up a focus group to look at these issues as part of the business plan challenge. It will be important to consider how we can track

progress on affordability for example appropriate level of social tariff support, the degree of default on the social tariff, the effectiveness of the social tariff, the role of metering in reducing customer costs, and associated schemes in reducing levels of bad debt. There may be scope for including such sub measures as key reporting priorities for the CCG.

Action – DCWW review measures of success in relation to affordability, vulnerability and community partnerships.

- Responding to the challenge of climate change must be reflected strongly in the measures. The CCG questioned suitability of measures suggested - Rainscape as adaptation measure and percentage of energy saved through energy efficiency for mitigation. It will be important for the company to have a basket of measures that can highlight the overall response to both adaptation and mitigation, including enabling customer behaviour change to reduce energy use (eg hot water). Overall emission reduction measures will be important as a high level measure.

Action – DCWW review measures related to climate change.

- The CCG continues to highlight the importance of linking the measures of success to their contribution to the achievement of the Well-being Goals under the WFG Act.

Action – DCWW to review the alignment of measures as contributions to national indicators of progress.

5. Targets for Measures of Success (Daniel Davies)

- The paper sets out the process by which the company is developing its targets based on the Ofwat guidance on setting performance levels, particularly the cost – benefit analysis, which is heavily influenced by customer views on Willingness to Pay.
- The CCG is asked whether the company approach to setting targets is reasonable and likely to meet customer preferences and expectations. The February CCG meeting will need to consider whether the performance targets are aligned with the results of the customer engagement and triangulation process.
- The company is in the process of analysing the Willingness to Pay research along with other valuation information to take customer views into account in determining targets.
- In addition there will be rewards and penalties (Outcome Delivery Incentives- ODIs) applied to the common measures of success set by Ofwat. Ofwat require these to have customer support and the company is currently undertaking a limited programme of customer engagement on ODIs with customers.

Action – DCWW to keep the CCG updated on progress on this research and to provide a final report in February.

- CCWater asked whether separate ODI research which will inform the range of rewards with penalties. The company confirm it would undertake separate research and that WTP will not be used to define this
- The CCG has previously expressed concern over the Willingness to Pay methodology and the application of ODIs in the PR14 process. It is important to acknowledge changes to the WTP process introduced by the company in PR19 and also the importance of drawing on a broader evidence base. Dimitrios' report will focus on the phase 1 research and triangulation process. This will be on the February agenda but may also require a focus group session.

Action – CCG Action to review customer engagement on WTP and ODIs.

6. Bills and Affordability Research (Daniel Davies)

- The Bills and Affordability Research summary was presented and a detailed slide pack on the full research provided.
- Nigel stressed that the research shows that a large amount of households are finding life tough at the moment – so puts an emphasis on what can Welsh Water do to help that – particularly in the light that Welsh Water bills are higher than the average. It will be important for the company to continue to communicate the reason for the difference in bill levels. Duncan highlighted how Wales has the lowest median household income in the UK. It is good Welsh Water is now talking about household poverty in the round as opposed to just water poverty. The importance of cross sector working supported by the CCG over the last year is critical.
- Peter has planned sessions with Citizens Advice representatives looking at their experience of clients. Joseph Rowntree Foundation, the Bevan Foundation and the Carnegie Trust are key agencies to engage work in partnership on the work on affordability.

Action – PD to brief on the CAB engagement and also contact Bevan/JRF and Rowntree to engage with the CCG.

- Peter raised the issue of an integrated approach to resource efficiency as being central to tackling poverty. The coordination of this cross sector work by Welsh Government was very important building on their Resource Efficient Wales programme.
CCG /DCWW Action – follow up with Welsh Government on current status on resource efficiency and tackling poverty work.
- There needs to be a partnership approach to delivering outcomes for struggling households. Nigel stated the importance of Welsh Water showing leadership as well as responding to customers. Important for Welsh Water to define what sort of company it wants to be and work towards that ambition to tackle issues. Mari spoke about the DCWW Rhondda Fach action research project which focusses on an area of huge deprivation but where take up of social tariffs are very low. These customers are not picking up on messages from utility companies and therefore there is a need to look at new ways of communicating to these vulnerable customers by working with trusted organisations. Russell encouraged engaging with credit unions as these trusted intermediaries are key to getting message through to vulnerable customers. Duncan stressed the need to encourage prevention methods working through trusted organisations in the community.
PD to circulate rationale and update on the Rhondda Fach project & CCG to engage in the development.

7. Private discussion (Welsh Water representatives absent)

- This was the first CCG private session which will form a standard element of future meetings in the lead up to PR19.
- There was concern that the CCG has been swamped with the detail of the customer research in previous meetings with insufficient capacity for real challenge to the process. The CCG had been engaged early in the process and informed the commissioning of the research firms. However, the timeframes meant that there was little chance for detailed input into the framing of the research questions – a point stressed by NRW at the time. At the same time, it was also felt that there was a

degree of trust that needed to be applied to the expertise and ethics of the professional research companies, given the limited capacity of the CCG.

- It has also been difficult for the CCG to keep the big picture in mind as the different pieces of research were presented back. It will be important to draw out the lessons from this process for the CCG's work going forward.
- Partly to address these issues, the CCG has commissioned Dimitrios to undertake assurance of this research work on its behalf. Dimitrios presented initial thoughts from his review and indicated that there was further work to be undertaken to ensure accuracy of the assurance. He was intending to bring the final report for consideration by the CCG in February.

Action – PD to arrange progress meeting with Dimitrios.

8. Feedback and forward and AOB

- Actions
PD to write to Dan with key points from the discussion on items he led
Megan will prepare and circulate draft minutes – **attached with response**
- PD to write to thank to Jo Kendrick as DCWW Board member for joining the CCG and ask for any feedback

Additional CCG members questions

- LM continued to ask that the NEP is formally asked on the CCG agenda to allow the company to discuss its response to the reviewed legislative drivers, and the CCG to understand the approach taken in defining its proposals. The Chair responded that the NEP will be discussed at IEAP and Prof. Steve Ormerod will report to the CCG.
- LM asked for a reviewed timeline of DCWW PR19 research to be presented to the CCG with an indication of progress and what has been shared with members for comment and info (including results).

Date of Future Meetings

Wednesday 7th February 2018

Thursday 22nd March 2018

Wednesday 16th May 2018

Monday 9th July 2018

Follow up letter from CCG Chair

Dear Dan

Very many thanks for leading us through the agenda items at the CCG meeting. I attach the draft minute of the meeting which goes into more detail and includes action points summarised below:

1. Welsh Water 2050 – the CCG accepted that the triangulation process provides a broad sense of the customer priorities drawn from the different data sources. We expressed some concern over the weighting given to the large scale, but top level Have Your Say programme and asked for more explanation as to the allocation to top weighting to this source. We would also like the company to identify the ways in which you have taken note of the CCW recommendations on triangulation.

We would reinforce our earlier comments to ensure that the omissions listed are addressed in the revised Welsh Water plan. It was also stressed that the “citizen” element is expanded to clarify how the company will meet customer expectations of its role as a corporate citizen in areas such as procurement and employment practices, as well as how it intends to work with citizens to address key issues such as demand management.

We recognise that there is a balance to be achieved in respect of the uninformed and informed voices, but that the company should focus on increasing the “proliferation” of sources of customer voice and on the continued process of building a more informed customer base. All company decisions should be able to be communicated effectively and understood by the uninformed customer

Once again to emphasise the CCG welcomes the long term vision contained within Welsh 2050 and the importance of the PR 19 business plan demonstrating its contribution to the achievement of the long term vision

2. Measures of Success

The CCG was generally content with the proposed 36 Measures of Success, dependent on the capacity of each measure to be underpinned by consistent and valid data. We would expect to review the data underpinning these measures going forward.

There was felt to be a need to draw out a customer experience metric for non domestic customers.

The nature of the measures for responding to climate change was questioned as was the importance of measures related to affordability and vulnerability. The CCG would also encourage the company to identify ways in which these top line measures of success can be underpinned by indicators that reflect value driven outcomes

The CCG would encourage the company to look at aligning the measures of success with their contribution to the achievement of the WFG Act national wellbeing goals and indicators.

3. Targets

The CCG welcomed the briefing on the process for target setting, noting that not all the targets will be associated with the investment strategy in the business plan. However the CCG did raise continued concerns over the role of Willingness to Pay research and highlighted this as an area for further focus by the CCG along with the research work being undertaken setting the ODIs in the business plan

4. Bill research

The Bill research highlighted again the high level of financial vulnerability within the customer base in Wales, which needs to be fully recognised within the business plan. The CCG stressed the need for the company to consider household poverty as opposed to the narrow water poverty focus, recognising the company has a leadership role to play in developing cross sector solutions. The CCG recognises the limits to the company role but would encourage partnership approaches in liaison with Welsh Government and other trusted intermediaries in tackling resource efficiency and reducing household expenditure eg in areas such as the costs of heating water.

5. Points Arising from Private Session

In summary the key issue for the CCG is the need to be clear about the big picture process of how all the research fits together, the means by which we capture the key messages from the evidence base and contributes to forming the evidence base for the business plan. Dimitrios is to follow up with Alun in respect to checking the detail of the research process to date and will produce a report for the CCG for the February meeting.

I would be grateful if you could check the attached draft minutes before we circulate to the CCG and also provide a response to the key points in advance of the next meeting

With best wishes

Peter