

**The Customer Challenge Group -  
Report to Dwr Cymru Welsh Water  
Board Meeting - May 5<sup>th</sup> 2017**

**The Work of the Customer Challenge Group**

The role of the Customer Challenge Group (CCG) is to provide independent advice scrutiny and challenge on the quality of the company's customer involvement and extent to which the results of this engagement are reflected in the company's business planning, decision making and operational performance. The CCG has a formal role in the Price Review process in providing independent assurance to OFWAT on the degree to which the company business plan meets priorities identified through customer engagement. OFWAT also draws on the CCGs more widely for advice on policy issues.

The Dwr Cymru Welsh Water CCG has met on 8 occasions from March 2016 to May 2017. Over this programme of meetings, the CCG has:

- Contributed to the initial shaping of the customer research briefs to be commissioned by the company
- Worked with the commissioned agencies in the design of their respective customer research programmes and commented on the initial research findings
- Reviewed company performance reports and associated assurance of data
- Been consulted on the design of the customer engagement on the Return of Value process
- Participated in a workshop on the Welsh Water 2050 plan

In addition, the CCG has hosted a business breakfast and supported cross sector conference on vulnerable customers. The CCG has been represented at the quarterly CCG Chairs meetings with OFWAT, the Welsh Government's Water Forum and PR19 working group. The Chair has visited key projects eg Rainscape, met with the Minister for Environment and Rural Affairs, spoken at a DWCC Leadership conference and the OFWAT Customer Participation conference. The CCG also draws on the work of DCWW's Independent Environmental Advisory Panel.

It is important that the independent CCG forms part of the governance structure of the company, providing advice and scrutiny to reflect the business imperative of customer led success. A summary of the issues raised at CCG meetings up to March 17 is attached in Annex 1. Nevertheless, the formal role in providing OFWAT with an independent assurance report as part of the PR19 process means that there is a very specific function to be delivered by the CCG over the period to September 2018 and the submission of the draft business plan.

## **OFWAT Guidance for CCGs**

OFWAT have briefed CCG Chairs that they intend to use a range of regulatory tools and incentives to deliver the 4 PR19 themes - customer service, long term resilience, affordable bills and innovation – all of which need to be based on evidence of customer engagement. In addition, OFWAT have emphasised their approach to vulnerability to CCG chairs distinguishing between affordability a for those struggling to pay and vulnerability relating to a lack of access to an inclusive service. A series of vulnerability tests are proposed in respect of use of data to identify customers in situations of vulnerability; how well the company has engaged with other utilities and third party organisations; and effectiveness of targeting and efficiency of measures to address vulnerability.

The contribution that customers had to pay to offset bad debt would be a key area of focus – a point emphasised by Catherine Ross when she attended a DCWW CCG meeting.

Catherine emphasised that the CCG provided important assurance to OFWAT as to how effective the company was in involving and reflecting customer views, stressing that innovation was important, going beyond the formulaic customer research processes. It was important that all sources were used, with the application of judgements against a more nuanced review of evidence. The rebalancing to reduce dependence on formal customer research processes with a stronger involved customer base was seen to be an important direction of travel - “companies need to know as much about its customers as its pipes”.

### **The Current Position**

1. There has been a good process of engagement with the CCG on the early stages of design and delivery of the first phase of customer research. This research should provide the sound evidence drawn from established customer research models. The CCG is planning to undertake an independent analysis of the effectiveness of the commissioned customer research for consideration at the September meeting.
2. The Welsh Water not for profit model provides significant opportunity for continued engagement on customer views on the return of value. The “Have Your Say” exercise undertaken last summer provides a platform for building communities of involved customers as part of an ongoing process that informs and involves, as opposed to a series of customer research exercises.
3. The drawing together of the range of customer data sources and “triangulating” into a baseline report which is due to be considered by the CCG in June is a vital building block.
4. The focus on the Welsh Water 2050 plan at this stage is critical as the PR19 plan should sit within this long term framework. The process of customer engagement in this plan over the summer will be an important element in the consideration of the CCG as to the effectiveness of customer engagement in business planning.
5. The distinctive legislative framework formed by the Wellbeing of Future Generations (WFG) and Environment Acts provide a real opportunity as its sets a very different context from companies operating in England. Public bodies are required to apply sustainable development principles and work to involve citizens in new mechanisms such as Wellbeing Plans and Area Statements, while the new Future Generations Commissioner is an advocate for the needs of future citizens. It is important that the company maximises the opportunity of the new frameworks to develop a distinctive and innovative approach. The company can

provide leadership on this agenda and should be able to report its contribution to the achievement of the national wellbeing goals.

6. The impact of lead in water on the wellbeing of future generations is of particular concern and should act as a focus for engagement of stakeholders and customers in co-designing solutions. The CCG has actively supported and encouraged this work being taken forward through the Water Health Partnership for Wales.
7. The Environment Act sets out requirements for Natural Resource Management, which put an emphasis on the importance of catchment management systems. The CCG has welcomed the company's focus on catchment management in forward plans and would encourage specific approaches to co-design and delivery of catchment management schemes with relevant land managers and stakeholders.
8. The CCG has prioritised consideration of how the company works with customers who find bills difficult to pay and for whom specific circumstances make them vulnerable. The CCG supported a cross sector conference organised through Warm Wales in December and would encourage DCWW to take a lead in facilitating further work with other companies and the third sector and undertaken a place based resilient communities pilot project.
9. Ultimately the key test for the CCG will be the degree to which customer engagement is embedded across the core operations of the business. It will be important for the CCG to consider wider proxy measures such as how empowered are employees; what is the degree to which broader employee community engagement is supported, how is the approach to customers and support for vulnerability embedded in the culture and recognised within HR systems.

## **Conclusion and Next Steps**

There has been effective early engagement of the CCG in the design and review of the first phase of customer research. The company's approach to the customer led success strategy gives a clear direction of travel. The CCG will be looking for evidence to ensure that this process:

- goes beyond superficial consultation to secure direct customer involvement
- is embedded as a business imperative not simply driven by Ofwat requirements for PR19
- demonstrates a capacity to innovate, work with stakeholders on collaborative projects eg catchment management
- connects all the company interactions with customers
- enables community led solutions working with other companies, public and third sector to support vulnerable customers and those who find bills difficult to pay
- maximises the opportunity provided through the Wellbeing of Future Generations (Wales) and Environment (Wales) Acts to involve communities in long term planning.

A forward programme of meetings for the CCG has been set out to align with the PR19 timescales and key business planning milestones, culminating the formal independent CCG report to OFWAT submitted alongside the draft business plan in September 2018. Over this period the CCG itself will need to ensure it connects with wider stakeholder and customer networks, in particular business customers, to contribute to its independent report to OFWAT.

Peter Davies  
Chair DCWW Customer Challenge Group  
April 21<sup>st</sup> 2017

## **Annex - Welsh Water Customer Challenge Group - Summary of Key Responses April 16 – March 17**

The Customer Challenge Group's remit is to provide independent advice scrutiny and challenge on the quality of the company's customer involvement and extent to which the results of this engagement are reflected in the company's business planning, decision making and operational performance. Over the past year the CCG has submitted specific commentaries related to:

1. The operations of the company including the annual performance report
2. The quality of customer research plans in the business planning for PR19

### **Key points raised by CCG in commentary on operational reporting**

- The CCG were delighted with the excellent reach of the "return of value" consultation and in particular the numbers who indicated they would be happy to have further opportunity for engagement. This can provide the building block for ongoing conversations that will reduce the emphasis on expensive bespoke research.
- We were obviously concerned over the increase in complaints although recognise the underlying causes of the new billing system, more rigorous bad debt chasing and the increase use of social media counted as written complaints. However, these increased levels of complaint with associated media coverage can soon undermine the levels of trust that is central to the success of the business model.
- The CCG was keen to understand whether there were hotspots of overlapping issues that would be addressed and in particular the opportunity to engage such communities in the solutions to the issues.
- It was recognised that the level of complaints related to the more rigorous chasing of bad debt was the result of the essential compact with customers who are willing to contribute to those who find difficulty paying bills, as long as those who were able but refused to pay were followed up. We are conscious that the cost of customer bad debt adds significantly to bills so support this more rigorous approach, but the CCG did want to be assured as to the manner of the process, given that it is often difficult to distinguish between those who can pay and those who cannot.
- The CCG vulnerable customers workshop highlighted the value of working across business sectors and building partnerships with the voluntary sector. The contribution of Legal and General was particularly informative with their classification of drivers of vulnerability as:
  - Crisis e.g. Death/Divorce/Redundancy/Major Health Life Conditions
  - Capability e.g. Physical or Mental Health Conditions, Learning and Language
  - Connectivity e.g. Messaging difficulties, Hard to Reach, Digitally ExcludedThe Legal and General example also highlighted the value of working with voluntary and community groups to both provide employees with direct experience of the issues faced by

customers and in connecting with hard to reach groups. The CCG is very keen to continue to build this cross sector collaboration, such as through the Vulnerable Customer conference with other utility companies.

- The workshop also highlighted the importance of drawing data from customer engagement across the business, as the nature of organisations is such that silos operate their own information sets. The Leadership conference set out means by which you are addressing this issue and will contribute to the process of “triangulation” of customer data in the business plan.
- The role of the employees in the field was particularly highlighted given their face to face contact with customers. The importance of the “team charters” was highlighted as a powerful mechanism for ensuring customer focused teams across the business.
- Although the CCG did not consider in detail, members were impressed with the work being developed around catchment management under the Water Source label. It is very important that customers understand the importance of long term investment in catchment management as a means of delivering multiple benefits in respect of water quality, climate change and biodiversity. The importance of catchment management was also highlighted in DWI’s presentation to CCG Chairs. Following the principle of involving customers not just engaging, it will be important to work with farmers and land managers in developing models of providing ecosystem services.
- The CCG stressed the distinctive roles of the Wellbeing of Future Generations and Environment Acts in providing a new legislative framework. The involvement of customers in co creation is at the heart of this legislation which also requires public bodies to plan for the long term. This provides opportunity and responsibility for the company to collaborate in local wellbeing plans to build resilient communities. The CCG hopes the company will report against its contribution to the achievement of the national Wellbeing Goals and associated indicators.
- The CCG recognises the importance of engaging with non-household customers and intends to build on the business breakfast session which contributed to the PR16 review. The CCG also noted the weakness in account manager process highlighted in the first stage consumer research.

The CCG welcomed the very positive annual performance report and the performance data related to customer service and operational performance. The areas of focus for business improvement - interruption to supply, customer acceptability of colour/taste, level of complaints and bad debt – were considered by the CCG with specific points raised in relation to:

- Expectation that there would be a reduction in levels of complaints as the impact of the new billing system is worked through
- Encouragement to maintain and increase opportunities for customer interaction even though this may generate more responses which have to be classified as complaints.
- The need for Ofwat to consider the definition of complaints given the changing nature of customer engagement and approaches taken in other sectors to the issue of complaint performance measurement.
- The CCG would like to see the level of reports escalated to CCWater benchmarked against other water companies
- The nature of the approach to addressing bad debt, welcoming the focus on the importance of reducing bad debt as part of the “customer compact” but also recognising the need to distinguish between “can’t and won’t pay”. The CCG needs to understand whether there are bands of vulnerability in pursuing bad debt – and if the support is appropriate. Highest UK debt levels merit special focus – linking this to the reasons for it and whether the remedies are realistic.
- The importance of ensuring that the feedback from customer dialogue around complaints is fed back into the business improvement and planning process. This is an area where the CCG would like to receive more detail of the root cause analysis process.
- The potential of adopting social accounting processes and models of integrated reporting, which could link to the national indicator framework as set out in the Wellbeing of Future Generations Act.

## **2. Commentary on the Customer Research proposals**

The CCG welcomed the fact that the recommendations from the consultation with the group had informed the research briefs and that the company were committed to signing up to the National Principles of Participation.

The CCG raised specific points in relation to the research proposals presented:

- Willingness to Pay research – a simpler more accessible approach was recognised as being important, building on the feedback from PR14. However, the group also recognised the importance of comparative trend data, so would recommend that an option of a parallel exercise based on the PR14 model is considered, depending on the scale of the additional costs. It was also stressed that this research needed to triangulate with a range of other data

sources from customer contact. The company was encouraged to apply innovative approaches to this issue and not simply to repeat the PR14 process

- The potential of mapping customer debt hotspots to inform social tariff and supportive of the idea of “deep dives in target communities” relating the work of DCWW to the wider wellbeing goals for that community.
- There should be a workshop on the context setting research to engage a wide stakeholder network specifically involving those working with “hard to reach/seldom heard groups”
- The importance of connectivity and consistency across the research briefs eg to ensure application of common definitions from the context research. The interrelationships between research briefs was highlighted as being a critical success factor
- The critical importance of ensuring there is feedback to participants and the opportunity to continue their engagement
- The resilience research should take into account the relationship between the resilience of the infrastructure and the local area – linking to NRW Area Statements and Public Service Board Wellbeing Plans
- Research on performance measures should take into account the company’s contribution to the National Wellbeing Goals and associated indicators
- The importance of the research companies drawing on the expertise and networks of the CCG members in the process, also informing participants of the role of the CCG with links to web site /Chair

#### **Commentary on Progress of Customer Research and initial findings**

- The importance of the context of trends in customer service expectation particularly in respect of responsiveness, proactive engagement, increased use of automated services and opportunity to be in control. The role of transparency in building trust as “corporate cynicism” prevails coupled with a lack of appreciation of value of water, low awareness of special support and little understanding as to how water bills are assessed
- The CCG welcomed the specific research focused on those worse served or at risk customers. The research highlighted high levels of “acceptance and resignation” which may lead to under representation of the actual problems faced by this group of customers.
- The research indicated the high level of appreciation and recognition for the DCWW staff on the ground working to provide solutions for customers and the value of enabling local decision making. Conversely there seemed to be a need for greater visibility from the senior management in engagement with customers suffering repeated problems

- The outreach to vulnerable customers in at risk areas is particularly important, where priority support should be focused on those customers with additional needs. Identifying, communicating and providing specific support services where needed.
  
- The environmental customer research identified an increased consciousness environmental impact compared to the PR14 research. Customers viewed river quality as the main issue for Welsh Water's leadership responsibility, also giving clear support for prioritising renewable energy. There is high awareness of the blue flag system with high association with quality of bathing water & value to tourism industry – although the blue flag status is dependent upon many factors beyond water quality
  
- Understandably there was low awareness around the term “catchment management” but a positive response once explained. It is important that support for land managers in changing behaviour is not positioned as “subsidising industries that cause pollution”
  
- The CCG emphasised the importance of programmes of education to build understanding of value of good water management from land managers to individual customers and the need to triangulate customer research with informed stakeholder views and evidence based on sound science.
  
- The fact that we have a lot of rain in Wales leads to customer perceptions that can impact on their views of investment needed for resilience, so importance of framing in terms of climate change, population growth, and water transfer needs. It was encouraging that the research indicated a greater awareness of these issues than in PR14. It is important that clear links are made to specific areas of focus such as the growth of the City Regions around Cardiff and Swansea Bay in respect of resilience of supply in areas of significant population growth and increased demand from industry.
  
- The perception of a plentiful supply of water in Wales also impacts upon behaviours around water efficiency and demand management. Important that this is addressed through collaboration with resource efficiency initiatives, specifically the link to domestic hot water efficiency
  
- Customers have a high expectation that the company will plan to meet the needs of future generations taking into account these trends and unpredictable nature of impacts of climate change. It will be important to link with the engagement processes focused around long term wellbeing associated with the Wellbeing of Future Generations Act.

