

FROM CUSTOMER ASSURANCE TO CITIZEN CHALLENGE



CCGs have survived the withdrawal of a regulatory mandate and morphed into Independent Challenge Groups for PR24. Caroline Warner is chairing the group that aims to arm them to do the best job possible.

The groups mandated by Ofwat to challenge water companies on customers' behalf, as companies have business planned for the last two price reviews, have had a bumpy ride. The optimism that accompanied the creation of the new model of Customer Challenge Groups (CCGs) ahead of PR14 was dampened somewhat by the difficulty of the process, though it was widely agreed these CCGs made a positive contribution to the outcome of the review. Hence they were preserved with some adjustments for business planning ahead of PR19.

But things had soured sufficiently by the time Ofwat gave early sight of its intentions for PR24 for the CCG mandate to be re-

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moved. It was not at all certain that the groups would continue in any form.

However, as we anticipate the final PR24 methodology from Ofwat later this month, it is clear that the challenge groups have survived, resurfacing in a refreshed form. Every water company has voluntarily retained a group; many are still designing the detail of their PR24 arrangements so the extent of variation is yet to be fully revealed. One trend to be expected, though, is a broadening of the groups' remit: without the PR19 regulatory prescription for 'assurance', the panels might be expected to focus increasingly on the wider issues of 'challenge'.

And work is now underway to strengthen their arms on that, through robust group-to-group collaboration. Under the auspices of CCW, a Challenge Coordination Group (COG) has been set up to bring together all of the challenge group chairs and arm them with information beyond what their companies might be expected to provide.

The COG is chaired by Caroline Warner, who also chairs Affinity Water's company challenge group. She spent her executive background in senior director positions in the luxury goods sec-

tor, notably within the drinks industry, including at Moët & Chandon, Dom Perignon and Drambuie. But she now holds a portfolio of board roles in public service sectors including the NHS and utilities, offering a specialist understanding of consumer advocacy, citizen insight, strategy and transformation planning.

Warner explains of the COG: "The primary objective is to use CCW's central intelligence to enhance independent challenge at company level. Secondary objectives that members hope will become more useful in time include: learning from one another and seeking out best practice; as well as finding opportunities to collaborate where these might benefit citizens across company borders."

Citizen challenge

This comment throws light on another key change for PR24: while there will be variation group to group, there is a general movement towards challenging on behalf of a wider set of stakeholders than purely bill-paying customers. This is reflected in the rebranding of the panels for PR24, from Customer Challenge Groups to Independent Challenge Groups (ICGs).

Asked who exactly the new ICGs are challenging on behalf of, Warner replies: "Interesting question, and one that relates to the blurred language of 'citizens', 'customers', 'consumers', 'water users', 'households', 'bill-payers' and so on... I expect you would get several different answers from ICG chairs. I see the primary job as challenging on behalf of all citizens. The needs of households, bill-payers and businesses cascade from this but we must always keep in mind that the health and wellbeing of every single one of us is fundamentally dependent on a clean and reliable supply of water.

"Increasingly, it is also clear that most citizens expect water companies to protect their water environments. The responsibility to maintain clean, healthy rivers, oceans and other waterways is going to continue to be seen as a core priority for water companies. Our job is to put these challenges to the companies and I expect that debates around environmental improvements are going to be high on the agenda for the foreseeable future."

Affinity's ICG

Warner's position on this is evident in her recent (September) refresh of members on Affinity's ICG, to better reflect the citizen focus. She shares: "We had some really excellent people on our CCG previously but I would say mostly they were local stakeholders... specialists with a deep understanding of their area but who were not always engaged in every part of the work programme."

"And actually of course these people were volunteers. If we're asking people to do a fully comprehensive, citizen consumer advocacy role, that is not a volunteer job – particularly if you're doing that with a company that makes a profit. So I was then looking for people who were experts in areas of consumer advocacy, citizen insight and research as well as environmental public interest matters. We have a much smaller group now but it is populated by experts who are not necessarily local stakeholders but can represent all citizens across a full programme of challenge and enquiry."

She adds that local stakeholders remain vitally important, and she is in the process of working out how best they can feed in to the ICG, potentially through a sub group.

Under Warner's stewardship, Affinity's ICG has identified eight 'key lines of enquiry' that it intends to follow in all its challenges for the PR24 business plan and for all ongoing operations

and strategies (see box). She explains: "Following our key lines of enquiry, we will identify all the challenges that we believe customers may wish us to ask of their water company. The company will then be responsible for demonstrating how they are answering these in their PR24 business plan and ongoing."

"We also have a challenge role in encouraging the company to design a programme of excellent research and engagement for PR24 plans that will deliver meaningful understandings of the views of all cohorts of all water users."

Mandate removal

Exactly what role the ICGs will play in feeding into decision-making processes at PR24, though, is an open question. In the absence of a regulatory mandate, they do not have a clear-cut part to play in the process, unlike at PR14 or PR19. Warner says: "While ICGs themselves are not mandated, Ofwat has been clear that they expect to see companies invite and then respond to high quality, independent challenge. In my view, it is right that the nature of independent challenge is not designed by the regulator who is responsible for assessing the quality of business plans."

That said, she accepts that the withdrawal of the mandate, while offering the opportunity of greater flexibility, potentially lessens the authority of the groups, both with their host companies and in the price review process.

She reflects on the back story: "It was clear that Ofwat didn't think the CCGs worked very well [at PR19]," she says, putting forward two reasons. Firstly, that not all of the groups were constituted with the right expertise to judge whether the quality of customer engagement was high. "I think that requirement demanded specific expertise and many of these groups were made up of volunteer local stakeholders. There was always then the potential for a significant disconnect between the way there were actually staffed and the responsibility that was asked of them."

Secondly, because companies mediated the customer data provided to CCGs, Ofwat might have been concerned that their independence could be compromised. She wraps up: "In the end, there was quite a lot of concern about the quality of engagement and research all round in PR19 that was shared by Ofwat, by CCW and by many in CCGs also. Therefore, my understanding is that it was felt that CCGs in their previous incarnation weren't the answer to making improvements."

But Warner relates that those involved with the new ICGs have decided to make the most of the situation, reframing their role to focus on 'challenge' perhaps now more than 'assurance', with determination to build "an understanding of what good citizen challenge might look like in the industry". That way, she hopes the groups can build a strong and trusted relationship with Ofwat. "I hope that someday our mandate is restored," she confides.

However, as it stands, it is not clear whether the ICGs will be expected to deliver anything directly to the regulator. It sits a bit oddly that, while water companies have voluntarily embraced in-

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dependent challenge, the watchdog at the heart of the process will not. The citizen on whose behalf the groups are acting may well want to be able to challenge the PR24 process and the stakeholders involved in framing it, as well as how companies deliver against it – particularly now water has become a major public interest issue.

COG collaboration

Things being as they are for PR24, Warner says “Alone we would be entirely dependent on the chairs and members being persuasive and building the personal credibility to effect as much influence as possible.” She has every faith in the people who chair the ICGs: “The ICG chairs are fabulous. There are some really excellent people. They are punchy, independent thinkers. They don’t hold back. They are in absolutely no way captured by their companies – not at all. However, we don’t always have access to all the data that would be useful to us and that is where the COG comes in.”

The COG is all about giving the chairs strength. She explains: “The idea and purpose are simple essentially. CCW have a central body of research and data analysis that offers comparison between companies. This intelligence is of significant contextual value to ICGs and can inform how we challenge our companies on their performance and ambitions.” She illustrates: “For example, we had an excellent discussion around affordability, social tariffs and water poverty at the last COG, led by CCW’s Andy White. We were able to identify that most of us only had sight of our own company’s financial vulnerability mitigation programmes and did not have a good understanding of how each might compare to others.

“Furthermore, we realised that we do not have access individually to any modelling that can indicate the impact of a national social tariff. Andy has since pulled together comparative data for us all that is incredibly insightful and will enable an increasingly sophisticated set of challenges.”

It’s early days; detailed agendas for next year’s COG meetings are still being drawn up, and as chair, Warner is still finding her way on how to make the most of the meetings. But the early signs are good. All ICGs are represented on the COG, and all have welcomed the concept. “ICG chairs have been very supportive of opportunities to contextualise the work of their group with comparative data. We are also very keen to create opportunities for discussion and debate. The latter is easier said than done because we have 17 ICGs represented at each meeting plus the team from CCW and often Ofwat as well. It can feel like we are skimming the surface of some very big topics. As we evolve, I hope it will become clearer how we can make the most effective use of our time together.”

She continues: “There are a lot of topics to discuss, and there’s not a lot of time...we’re not going to be able to cover everything so we have got to focus first I think on where we can find meaningfully useful central data that provides some additional consumer context for the questions we can ask our companies.”

Warner adds: “In my executive career, understanding consumers in depth was utterly crucial to business success. Consumer insight may not have been traditionally a core competency of the water industry but I believe improving this will lead to more efficient business as well as to better outcomes for citizens.”

Shining a light

As an integral part of ensuring the ICGs can play their part in providing robust challenge on behalf of citizens, CCW has commissioned an independent review of their early formation. This is being undertaken by Indepen, led by consultant Ashley Gunn.

Phase one, which is underway now, is focused on assessing how well each company has established independent challenge arrangements that are fit for purpose. “The independent reviewers will be looking at the extent to which these arrangements are properly constituted, adequately resourced and appropriately expert,” Warner explains. “They will also be expecting to see that the companies are going to be sincerely listening to these groups and building learnings into business improvement practices. To that end, there will also be an assessment of the extent to which company boards are taking account of ICG work programmes.”

Phase two is yet to be commissioned, but the hope is that will take place in 2023 and focus on how well each ICG is operating in the run up to PR24, as well as how well each company is responding to its group’s challenges.

The existence of such a review in itself is likely to focus each company’s mind on its challenge group’s structure, resourcing, secretariat support, access to information and more. “Is the company allowing the group to operate properly in that sense? Are they given time, are they prepared? – all of that sort of thing,” Warner says. Where current arrangements are found wanting, there is also clearly scope for the independent reviewer to offer recommendations for improvement.

Both strands will serve to empower the ICGs’ independence, leading to more robust challenge to companies and better outcomes for citizens. A neat offshoot benefit, in the absence of a regulatory mandate, will be that independently-verified, appropriately-constituted challenge groups will be harder for Ofwat to brush aside in its PR24 decisions.

Research warning

Finally, already challenging on behalf of citizens, Warner sounds a warning about the slow progress of many of the key planks of PR24 and the implications of this for the ultimate outcomes. Notable here is the timing of the detail on the collaborative research the industry and watchdogs are conducting together this time around, as well the timing of the final methodology itself. She is frustrated that guidance and methodologies always appear to arrive rather later than is ideal.

“In fairness, the draft guidance for affordability and acceptability testing that has just been delivered looks strong and the joint team leading this from CCW and Ofwat has done a great job but I do wish we’d had it sooner...Companies now have to design, commission and consult on a complex programme of prescribed research in a few short months and then triangulate that with multiple other sources in insight.”

She believes all the difficult questions that customers and citizens will need to weigh up at the next price review are perfectly addressable through expertly crafted research – but she points out that that takes thorough planning and preparation. “Many ICGs, like my own for Affinity, are pushing for better forward-planning and have been urging their companies to get their research foundations established well in advance of the delivery of official guidance and methodology.”

The importance of foundational insights

During PR19, Warner was on the Affinity CCG as a consumer advocate for CCW. While she is proud of what was ultimately achieved, including driving stretching performance commitments, “the journey was far from easy”. She explains: “The CCG was critical of the quality of research during PR19. Firstly, we felt that the company failed to fully identify foundational insights and intelligence from existing research or operational sources. This meant that the business strategy was not driven by consumer insight fundamentally. Secondly, the initial proposals for business plan research had significant weaknesses. Eventually, the company did recover lost ground but only after a poor rating from Ofwat for their draft business plan. The lessons drawn have all been recorded as part of the excellent CCW post-mortem of PR19.”

Warner recalls that while Affinity Water was shocked to be put in ‘significant scrutiny’ for its PR19 business plan, having had the joy of being one of only two companies fast tracked through PR14, “It didn’t come as much of surprise to me because, coming from a position of having run brand businesses, the very first

thing you do is understand what you already know...

“You also need to understand where trends are heading. To do that you need to see clearly where you are right now before you can start to predict the future. And in the water industry, predicting the future is really, really important...Companies can do that from a technical perspective, but increasingly in my view the water industry needs a sophisticated understanding of the views of customers, because they are relying on customers to participate in the solution to the accelerating disconnect between supply and demand. If companies don’t understand customers’ motivations and how to work with those motivations positively, there’s no chance of ever getting customers wholesale to participate.”

She offers the example of a company spending hundreds of thousands of pounds on a generic campaign to save water without first checking which actions are customer negotiable. She continues: “If you understand what is going to motivate people positively, you might be able start tailoring campaigns that really start to have an effect. I’m still yet to see comprehensive approaches to this [in water].” She adds: “Surely too, there are opportunities for collaborations between companies in this space. I would be delighted if we could find a way to further incentivise this sort of joint working over time.”

Frontline fingers on the pulse

The starting point, though, is foundational insight, and here she has good news to report from Affinity. “For PR24 and beyond, Affinity has been working hard to establish solid foundations by analysing all existing research and by establishing an exciting new platform for ongoing intelligence that can keep track of consumer attitudes, views and perceptions in real time. The question now will be how to use all that rich insight in strategic planning as it is triangulated with new PR24 specific research learnings.”

The company is now using these insights to drive business strategy. But, Warner says, a missing piece of the puzzle that she is still pondering is “how do you talk to your bartenders?”

She explains: “Where I came from, I would always talk to bartenders because they know exactly what people are interested in in the drinks industry...it’s likely that there must be people in the water industry who have that too. These people will be in call centres; others will be doing home efficiency checks; but there will be a multitude of water industry staffers who will be talking to customers day to day – and they will have insights from that unique perspective. I have yet to see anybody try to mine that source of intelligence.”

In her position of COG chair, and working shoulder to shoulder with her fellow ICG chairs, Warner concludes: “I really hope that we can leave a legacy of strengthened influence of ICGs with companies, strengthened trust in ICGs with the national organisations and emerge from PR24 with a clear vision of how to develop the next phase of independent challenge that builds in continuous improvement for citizens, in addition to the more intense periodic focus as part of the price reviews.”

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KEY LINES OF ENQUIRY FOR THE AFFINITY WATER ICG

The Affinity ICG has established the following eight key lines of enquiry to frame its work at PR24. Warner explains these have been derived from thorough analysis of all existing Affinity customer research, combined with insights from operational data, drawing on lessons learned from the PR19 experience.

I Resilient – Customers expect their water supply to be clean and reliable now and in the future.

ICG commitment: Prioritise asking questions to ensure that everyone can maintain confidence in the security of this supply now and in the future.

I Resourceful – Customers do not want water to be wasted by the company or by consumers.

ICG commitment: Keep asking questions that encourage the company to put waste reduction at the heart of its plans, demonstrating that it is reducing leakage while supporting citizens to minimise water wastage at home.

I Protective – Customers expect their water company to protect the environment.

ICG commitment: Uphold the expectation that the water company should play their part in looking after local rivers and streams so that future generations can continue to enjoy them, and behave in ways that are environmentally responsible.

I Innovative – Customers expect public service companies to give back to the communities they serve.

ICG commitment: Celebrate and promote all aspects of innovation designed to improve the lives of the citizens the company serves.

I Affordable – Customers need affordable bills, and some customers need financial assistance.

ICG commitment: Look carefully at bills and support options to ensure that charges are affordable for everyone and that there is help available for those who need it.

I Caring – Customers who are experiencing vulnerability need extra support from their water company.

ICG commitment: Travel alongside everyone who needs extra support and consider how the company can improve services here.

I Inclusive – Customers expect easy access to information and contact options.

ICG commitment: Help ensure that all paths of access are open and take account of multi-language needs.

I Responsive – Customers expect enquiries and complaints to be answered quickly and in full.

ICG commitment: Work with the company to ensure queries and complaints are handled quickly, easily, and pleasantly.