

South East Water Customer Challenge Group

Assurance report to Ofwat on
the Actions resulting from the
initial assessment of
South East Water's
business plan



**Customer
Challenge Group**

www.customerchallenge.co.uk

April 2019

INTRODUCTION

This report is South East Water's (SEW) independent Customer Challenge Group's commentary on the company's response to Ofwat's initial assessment of its business plan. The following points should be noted:

- We include assurance on the two Actions explicitly requested by Ofwat - SEW.AV.A1 and SEW.AV.A2.
- As requested by Ofwat, we have restricted our comments to "aspects of the company business plan re-submission that the CCG considers need comment on the quality and influence of related customer engagement".
- We have not given a view either positive or negative on Ofwat's initial assessment and the conclusions made by the regulator. We will raise any issues as appropriate with the regulator separately.

To clarify, the CCG has had sight of the following IAP submission documents (versions as of 24 March 2019) in drafting this report:

- The Summary submission to Ofwat
- Chapter 1: Engagement
- Chapter 2: Addressing affordability and vulnerability
- Chapter 3: Delivering outcomes for consumers

The views we outlined in our [September 2018 CCG assurance report](#) still stand and these will not be repeated below, apart from where clarification and signposting to the CCG report may be useful for Ofwat's review.

CONTENTS

Actions where CCG assurance is required

SEW.AV.A1	4
SEW.AV.A2	4
Appendix 1	17

Other actions – where comment on the quality and influence of customer engagement is relevant

SEW.AV.A3	5
SEW.AV.A4	7
SEW.OC.A1	8
SEW.OC.A4	10
SEW.OC.A6	11
SEW.OC.A12	12
SEW.OC.A22-27	12
SEW.OC.A28	13
SEW.OC.A29	13
SEW.OC.A30	13
SEW.OC.A31	14
SEW.OC.A32	14
SEW.OC.A33-35	15
SEW.OC.A36	15
SEW.OC.A37	16
SEW.OC.A38	16

Actions where CCG assurance is required

Ofwat Action and commentary	CCG assurance required	CCG view
<p>SEW.AV.A1</p> <p>South East Water is the only water-only company (WoC) that has not tested the acceptability of its combined water and wastewater bill. South East Water should test the acceptability and affordability of its combined bill for 2020-2025 and report the results.</p>	<p>South East Water should confirm that testing will be assured by its CCG and conducted in line with social research best practice.</p>	<ul style="list-style-type: none"> At the CCG chairs meeting on 13 February 2019 it was agreed with Ofwat that the timeline for water companies' responses to the IAP was too tight for the companies to deliver 'best practice' research in this area. Instead, Ofwat stated that it expected companies "to take a proportionate and pragmatic approach to generating new evidence of customer support in the time available". We take this into consideration in providing our views. Overall, it is the CCG's view that SEW's research to test the acceptability and affordability of its combined water and wastewater bill for 2020-25, and its longer-term bill profile, is acceptable. Information about the approach, and from the survey, was shared with the CCG. See Appendix 1 (p.17) for more detail and commentary. SEW has adopted a proportionate and pragmatic approach to undertaking the requested research, which was based on its July/August 2018 survey which met best practice requirements. The company was not able to undertake new qualitative or cognitive testing of the revised survey instrument so as to meet 'best practice' requirements in the time available, however, the survey followed a similar structure and format as the original research. The research showed strong support, 82%, for a stable bill profile for 2025-30. This is in line with SEW's research for 2020-25 which showed 92% of customers wanted a stable bill in 2020-25 and 88% for the next 20 years. This is also consistent with wider customer insight. More younger people want an increase in bills over the longer term – 22% against 10% overall. SEW should review its insight holdings and undertake a deeper dive with younger customers to explore what is driving this. However, the research found that acceptability of the combined bill for the proposed flat bill is low – some 42% found the combined bill acceptable when 'uninformed' and 50% when 'informed'. Similarly the research found that affordability of the combined water and waste water bill for 2020-29 was only 42% uninformed and 48% informed. This compares to an informed result of 67% for the affordability of the lower water-only bill. SEW has not yet provided insight as to why this might be the case. Further investigation is required by the company into the reasons for this and the relationship between affordability and acceptability. The survey did not include information on Southern or Thames' business plan proposals or performance so this may have had an impact on acceptability and affordability levels.
<p>SEW.AV.A2</p> <p>South East Water has not provided sufficient evidence to demonstrate that it has tested multiple bill profiles with customers beyond 2025, particularly for the 2025-30 period. South East Water should undertake customer engagement on long-term bill profiles and provide sufficient evidence to demonstrate customer support for each of the profiles tested.</p>		

Other actions

– where comment on the quality and influence of customer engagement is relevant

SEW.AV.A3

Ofwat Action required

South East Water has not set out the social tariff cross-subsidy level or the support for it. It has acknowledged that it has not undertaken the final round of social tariff acceptability testing.

South East Water should undertake engagement with customers to confirm the level of cross-subsidy they are willing to pay to support the social tariff.

CCG view

- We can provide assurance that prior to SEW's business plan submission, in September 2018, the company tested customer willingness to pay (WTP) for financial support for customers struggling to afford their bills in accordance with best practice quantitative research in May/June 2018.
 - This engagement was scrutinised and challenged at each stage of development by the CCG, including observing the qualitative focus groups that informed the main quantitative surveys. SEW was very receptive to challenge (see CCG report p.25 col.3 and 4 for key challenges and responses).
 - The research identified good acceptability for SEW increasing financial support for customers in financially vulnerable situations – 77% accept £2 (on top of the current £1.50 commitment) and 72% accept £4. This amounts to £5.50 per year towards financial support.
- For ease of reference, please see p.108 of the CCG report – '*Customer acceptability of financial support*' which outlines the WTP for different levels of cross-subsidy; the segmentation of that support; customer views on the current approach to social tariff bill capping, and wider customer insights which should inform the design and delivery of the social tariff.
 - However, as noted, SEW has not yet carried out acceptability testing to 'reconfirm' the level of cross-subsidy given the proposed number of customers benefiting, nor tested the acceptability of its suggested 'new social tariff +' with relevant stakeholders. The CCG has concerns that adding yet another social tariff, while well intentioned, appears to run counter to what expert stakeholders want – notably tariff simplicity. It is the CCG's view that SEW needs to carry out further work to provide assurance that its approach to affordability is well targeted, and as efficient and as effective as possible (CCG report p.107-110) and only then complete the final round of social tariff/financial support acceptability testing.

- In response to this challenge, we welcome that SEW has committed to carry out further research and engagement to inform the design of its new financial support packages and has shared the timetable for this activity with the CCG. This activity will need to include:
 - Deepening its understanding of customers who are financially vulnerable in the region (including the triggers for, and distribution of, financial vulnerability).
 - Reviewing the eligibility requirements for its social tariff to ensure it is well targeted.
 - Engaging with customers and stakeholders on how to get the right balance between level of support (what and how much help should be offered) for each household versus breadth of support (numbers that can be helped) given the WTP available.
 - Updating its package of financial support and the performance commitment (PC) appropriately once this activity is complete.
 - Testing the co-created financial support package acceptability with customers and stakeholders.
- The CCG will challenge SEW to ensure this is an exemplary approach and are happy to provide assurance to Ofwat, including via our annual CCG report in 2020. In the meantime, the company has put forward a flexible performance commitment that enables any new insight from this activity to be incorporated while remaining within customer acceptability for WTP.

SEW.AV.A4 and SEW.OC.A31

Ofwat Action required

South East Water has already proposed a reputational performance commitment on Priority Services Register (PSR) growth (PR19SEW_J.1). It is proposing to increase its PSR reach from 1.7% in 2019/20 to 6.8% of households in 2024/25. We consider this to be an insufficiently ambitious target. In addition, the company has only checked 7.7% of PSR data over the past two years.

We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): South East Water should adapt its performance commitment on 'Household customers receiving non-financial support' (PR19SEW_J.1). It should increase its proposal for PSR growth to at least 7% of its customer base (measured by households) by 2024/25. It should also commit to checking at least 90% of PSR data every 2 years via its performance commitment.

CCG view

- The CCG can provide assurance that the 6.8% target quoted only included customers who *the company* has identified for inclusion on to its PSR, but excluded those customers who were signed up to its PSR as a result of data sharing with the energy companies, which is commencing in April 2020.
 - The total target number of households with at least one person registered on the PSR for 2024/25, including 'data-share PSR sign-ups', is intended to be 110,000, or 10.8% of SEW's customers. This figure is based on household connections rather than billed properties.
 - The CCG had requested that SEW exclude data share PSR numbers from the target and report on both its own sign-ups and data-share PSR numbers separately because we wanted to ensure that the company was sufficiently incentivised to undertake new activity to identify and record customers with additional needs beyond delivering on its existing cross-sector commitment. This is especially the case as this data sharing approach has been slow to develop and is long-overdue. In addition, there is also a continued drive in the energy sector to increase PSR numbers and therefore the potential for SEW to get 'easy wins' on this target.
 - SEW estimate that they may receive 10,000 customers per year via the 2020 energy data share activity – 50,000 over the five-year price review period.
- In order to ensure this now common PC incentivises the right outcome for customers in vulnerable situations, we welcome that SEW has agreed to:
 - Annually monitor the number of PSR sign-ups from data sharing.
 - Report alongside this PC on:
 - The number and types of different services delivered in practice to customers with additional needs – to ensure that registration on the PSR is actually delivering improvements in service.
 - A breakdown of numbers on the PSR by additional needs – to ensure a focus on all kinds of vulnerability not just low-hanging fruit.
 - PSR movement (those going on and off the PSR) – there should be movement given the transient nature of certain vulnerabilities.
 - We understand that Ofwat has requested that if more than one person within a household is signed up to the PSR support, that this only counts as **one** sign-up towards the target. The CCG will also monitor the number of consumers within each household on the PSR to ensure South East Water continues to identify all members of the household who may need additional help. For example, elderly households commonly have more than one person who may have a disability or long-term health condition. Please see the CCG report p.85-88 for further commentary on this PC.
 - We strongly support Ofwat's focus on improving the quality of PSR data (see CCG report p.98-99 for comments on SEW's PSR data quality).

Delivering outcomes for consumers

Please note: the CCG's comments on SEW's outcomes, performance commitments and ODIs are in Part 3 of the CCG report. In particular see p.66-73.

SEW.OC.A1

Ofwat Action required

The company should provide justification for discontinuing its PR14 Value for Money PC (E1: Customer satisfaction - bills are value for money and affordable) and provide evidence that value for money will be explicitly tested as a separate performance commitment.

If it cannot provide sufficient justification for dropping the PC, the company should continue its PR14 Value for Money PC.

CCG view

- The CCG is supportive of SEW's proposal to retain a 'value for money' PC. However, it should be noted that this proposed PC is not a direct continuation of the PR14 value for money performance commitment.
- The current PR14 value for money question is as follows:

"Do you consider your current water bill to be value for money?" With five options: a) Yes, very good value b) Yes, reasonable value c) I pay too much d) I pay far too much e) I'm not the bill payer. It is an annual postal survey, reported as a percentage, calculated in the following way:

 - All the responses are collated.
 - Questionnaires that have multiple responses for the question are discounted.
- Totals are tallied and the percentage worked out for each category of response.
- A and B percentages are added together to give the reported PC.
- Under the proposed new approach, the question that underpins this PC will be as outlined below, with the score based out of 5, so as to align with the company's other customer satisfaction measures:

*"On a scale of 1 to 5, where 1 is 'Very poor value for money' and 5 is 'Very good value for money' how would you rate your water bill in terms of 'Value for Money'. **Think in terms of what you pay and the service you receive.** 1) Very poor value for money 2) Poor value for money 3) Neither good nor poor value for money 4) Good value for money 5) Very good value for money 6) DO NOT READ/Don't know/Not sure*
- We are supportive of the following proposed changes to the value for money PC:
 - The inclusion of 'think in terms of what you pay and the service you receive' in the question to encourage a more considered response.
 - Alongside annual reporting, it will be tested monthly – thus enabling more regular monitoring and insights than the current annual approach.
 - The company propose to use its now standard mixed method approach, including phone, online (potentially utilising a panel), and an element of postal, as opposed to just a postal survey – this should improve reach, uptake and representativeness.

- Following CCG challenge, the monthly survey will include a follow-up qualitative question so that SEW can better understand the reasons for customers' decisions and therefore respond to the drivers behind perceptions of value for money.
 - However, we would prefer the PC being measured out of 10 or remaining a percentage. While we understand the 'neatness appeal' that comes from all the satisfaction measures being out of 5, and the fact that the company has comparable data back to 2015 to inform the baseline, we think such a shift in measurement would be a move in the wrong direction. SEW needs to increase the granularity of all its customer satisfaction measures to at least an 'out of 10 approach', or preferably a percentage – this is particularly important given the relatively incremental movements in satisfaction (as outlined below).
 - Based on SEW's own historic performance data the PC seems quite stretching:
 - SEW's 'out of 5' value for money annual scores based on the question outlined show results of: 2015/16 = **3.7**; 2016/17 = **3.8**; 2017/18 = **3.7**; 2018/19 (April 2018 to February 2019) = **3.7**.
 - While not directly comparable, SEW's % survey scores (the current PC) show a similar trend: 2014/15 = **72%**; 2015/16 = **71%**; 2016/17 = **74%**; 2017/18 = **71%**; and 2018/19 = **73%**. The company has not shown a steady improvement in this area, and is not currently on track to meet its 2020 target of 80%.
- CCWater's latest Water Matters monitoring¹ found that on average **72% of customers think their water-only bills are value for money**, noting "the seven-year trend in these figures has remained static for seven years" – thus arguably highlighting that moving the dial to its proposed target '4' would be a step change. The research highlighted that water services value for money over last seven years has a rolling average of 69-76%; South Staffs achieved the highest score at 85% in 2015 and SEW's highest score over the last seven years was 83% of customers think their bills are value for money – though in the same year SEW only achieved 3.7 in its own proposed five out of five score.
 - We are also mindful that this is a subjective perception measure, which may by its nature be stretching given likely rising public expectations and other external influences.
 - The drivers that underpin customers' value judgements in this area are also not straight forward. For example, the company's bespoke qualitative research indicated that when assessing value for money customers make the following mental assessment – 'quality of water + reliability of supply + trust = value for money'. But CCWater's research suggests that customer views on value for money may be influenced by a range of factors – some within and some outside the company's control including: price, the fact that SEW is a monopoly provider, service issues and complaint resolution and cross-sector benchmarks among other factors.
- Against this, we note that:
 - SEW has not in practice taken any specific steps outside of its business plan engagement to better understand the drivers behind customer perceptions for value for money, and therefore no specific actions have been taken to address underperformance (i.e. no action beyond wider service improvements and brand awareness activities).
 - That there have been satisfaction measures where the company has achieved greater increases than 0.1 per year e.g. 2015/16-2016/17 – leakage level acceptability went from 3.4-3.8; frequency of supply interruptions for satisfaction 4.2-4.6; and water use restrictions 4.2-4.4.
 - CCW is calling on water companies "to aim for more" given the static value for money customer scores.
 - Importantly, unlike the current PC, this proposed new PC is reputational rather than financially incentivised. The company says this is due to the potential overlap with C-MeX. We do not have any customer or stakeholder evidence to inform a CCG view on this. The CCG's general approach to financial v reputational incentives is outlined on p.70 and p.72/73 of the CCG report.

¹ <https://www.cewater.org.uk/research/water-matters-household-customers-views-of-their-water-and-sewerage-services-2017/>

SEW.OC.A4

Ofwat Action required

The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments. If it cannot do this, the company should remove the outperformance payments.

CCG view

- For ease of reference, the CCG's views on SEW's engagement around water quality are on p.141-148.
- SEW's research found that high performance on water quality, taste and odour is fundamentally seen as part of the core service a water company should provide to customers. In terms of the outperformance payments on PCs – we draw Ofwat's attention to p.143 of the CCG report – which highlighted some, albeit limited willingness to pay for reducing discoloured water contacts and addressing taste and smell concerns. Also, qualitative feedback from focus groups indicated that in practice a higher value was placed on this by some customers than might be inferred from the WTP.
- We welcome SEW introducing underperformance payments to unplanned outages – this is a customer and stakeholder priority.

SEW.OC.A6

Ofwat Action required

Per capita consumption PC: The company should reconsider its proposed service levels and ensure that these are stretching given that it is in a water stressed area. The company should clearly set out the evidence and rationale for the revised targets.

The company provides insufficient evidence that its proposed service levels for 2020 to 2025 are stretching. It proposes a high service level of 140.3 litres/head/day in 2024-25. The company is in a water stressed area and nearly universally metered. We do not consider its proposed per capita consumption targets to be stretching, particularly in comparison with other South East companies.

CCG view

- We remind Ofwat that CCG members and wider stakeholders had mixed views on whether this target was suitably stretching given SEW's current comparative performance, capabilities, and the wider regional context. See CCG report p.137-138 for more detail.
- The Environment Agency (EA) continues to think this is an ambitious proposed service level – that the reductions are welcome but remain challenging, especially for a company that is already circa 90% metered.
- Just over half of SEW's Environmental Focus Group think the target is stretching.
- A number of stakeholders felt unable to give a view on how stretching the proposed level is without a better understanding of the proposals that underpin it and the extent to which SEW are really adopting best practice in this area. We have an open challenge for the company to properly benchmark its activities against not just South East/UK-centric practice but also international learning. This is particularly important given that water efficiency campaigns and behavioural change approaches in the UK are

arguably only in their infancy, so 'the art of the possible' may not be fully acknowledged or understood. SEW also has little expertise in this area and no dedicated behaviour change expert.

- In addition, for all members of the CCG to be assured that this is a genuinely stretching target we would like the company to provide further:
 - a) Detail how much water reduction it expects to be achieved from the company and the customer side respectively – and more information on its proposals to deliver each target.
 - b) Reassurance that 10% of customers really are, and will remain 'unmeterable' despite potential technological developments and customer support for genuinely smart metering.
 - c) Evidence of thinking on how it might apply its values based customer segmentation to deliver behaviour change in this area.
 - d) Commitment to increasing the effectiveness of its role in collaborating with other companies and agencies, including NHH retailers, in this area. In

particular we'd like to see SEW taking more of a leadership role, e.g. on joint engagement and behaviour change approaches; sharing of data and learning; water efficiency communications. We'd welcome Ofwat considering how they can facilitate and encourage a step change in the current level and effectiveness of collaboration, especially given the competitive tensions between water companies, the different performance and 'stages of development' of companies in this area, and slow and inadequate progress of collaboration to date.

- SEW also needs to provide further information on what opportunity the company sees to deliver non-household water reduction including from different segments, the rationale for that, and its related proposals.
- SEW's qualitative research indicated that many customers want SEW to take more a proactive leadership role on resilience issues, e.g. advocating on house building and design, and product labelling. While the outcomes of this kind of activity are very uncertain, we have also not yet seen any evidence of this kind of activity in its strategy.

SEW.OC.A12

Ofwat Action required

Supply interruptions PC: The company should also provide the additional information set out in 'Technical appendix 1: Delivering outcomes for customers' to allow us to better understand the causes of variation in ODI rate for supply interruptions and assess the appropriateness of the company's customer valuation evidence supporting its ODI.

CCG view

- For ease of reference, the CCG's comments on SEW's supply interruption research are on p.28, p.32, p.69, p.139-140 – to clarify, the ICS research cited was not used in the design of the ODI for supply interruptions.
- It should be noted that while the company undertook research as to who should receive any underperformance payments in case of supply interruptions – those directly impacted by poor performance or all of SEW's customers (p.72 col.1) – it did not test the actual compensation package with customers – figures used were only illustrative.

SEW.OC.A22-27

Ofwat Action required

Segmented satisfaction of household customers: The company should provide more detail around sample size, how customers will be approached and how it will ensure the sample is representative. In addition to this the company should explain how it will avoid bias in the samples.

CCG view

Following discussion with CCG the company has committed to a number of steps to improve its sample size, maximise representativeness and minimise bias:

- Adoption of a wider mixed-mode survey approach including online, phone and potentially also an element of postal survey.
- Ensuring the sample is representative of SEW's regional socio-demographics - based on Census 2011 for its constituency.
- Weighting of the sample according to population statistics rather than head of household. The latter, which is an historic standard in market research, leads to the under-representation of women's views in findings (see CCG report p.25 col.2).
- Greater focus on how SEW can reach seldom heard or harder to reach groups e.g. non-English mother-tongue communities in its region such as the Nepalese community.
- A larger sample size – 400 customers per values based segment – to enable more granular analysis and learning.

We have an open challenge for:

- SEW to provide a methodological paper on its 'golden question approach' which is used to identify its values segments, in order to test its robustness and effectiveness.
- The company to consider transitioning from satisfaction 'scores out of 5' to scores 'out of 10' (running the 'out of 5' and 'out of 10' approaches in parallel) as out of ten is a metric that provides more granularity in terms of movement, and more easily enables comparison with Net Promoter Scoring (and therefore greater cross-sector benchmarking), C-MeX, and UKCSI.

SEW.OC.A28

Ofwat Action required

Satisfaction of household customers who are experiencing payment difficulties PC: The company should confirm the size of the sample it intends to use. The company should also confirm that the survey will be externally assured and conducted in line with social research best practice.

SEW.OC.A29

Ofwat Action required

Satisfaction of household customers who are receiving non-financial support PC: The company should confirm that survey will be externally assured and conducted in line with social research best practice for this PC.

SEW.OC.A30

Ofwat Action required

Satisfaction of household customers on our vulnerability schemes during a supply interruption PC: The company should confirm that survey will be externally assured and conducted in line with social research best practice for this PC.

CCG view for SEW.OC.A28-30

- The CCG can confirm that it will continue to scrutinise the development of these PCs and will report on them in our annual report. Our assurance activity in this area is undertaken as a minimum by our Research Methodology Sub-Group, which currently includes the CCG Chair, CCWater and Leslie Sopp, an independent consumer research expert, with a background which includes vulnerability research – including working for Which? Age UK and the Financial Conduct Authority. He is also a Fellow of the Market Research Society.
 - With A28 and A29 we have challenged the company to appropriately segment its household customers in payment difficulties and on the Priority Services Register to ensure the survey reflects customers receiving the full range of support services and doesn't lead to bias of one support method over another (as some support services may be more effective than others). SEW acknowledges that once this activity is undertaken it may be that the sample size of 100 is not sufficient and needs to be increased.
 - With A30, we also queried the sample size. We're supportive in principle of a flexible approach, given the unknown numbers of customers who may suffer supply interruptions, but have yet to have a discussion on the precise numbers proposed.
 - The company has confirmed that it aims to survey customers within 24 hours of water going back on, subject to them being able to access appropriate customer contact details in a timely way. This should limit external influences and minimise 'memory loss'.
- The company has committed to use learning from the surveys of all of these PCs to identify any emerging issues, and to subsequently undertake deeper dive engagement to investigate any issues further.
 - The CCG has received assurance from SEW that its research suppliers' interviewers are given appropriate training to ensure that engagement with people in vulnerable circumstances is handled in an effective manner which complies with the [Market Research Society Guide Best Practice Guide on Research Participant Vulnerability](#).
 - While we do not doubt the good intentions and general compliance of SEW and its suppliers, we think there is scope to update SEW's approach. Following challenge SEW has therefore agreed to develop and put in place a structured policy for its research providers which includes a requirement on research providers to provide greater assurance that effective vulnerability training programmes are in place for all staff and interviewers. This will require that the MRS guidance can be systematically and comprehensively evidenced and answered, and will include reference to MRS and Social Research Association guidelines alongside wider vulnerability training best practice.

SEW.OC.A31

Ofwat Action required

Household customers receiving non-financial support PC: Refer to Affordability and Vulnerability documentation for actions related to this PC.

CCG view

See Action SEW.AV.A4 above – p.10

SEW.OC.A32

Ofwat Action required

*Satisfaction of **stakeholders** in relation to assistance offered by South East Water PC: The Company should explain why half of this PC is allocated to the water network plus price control.*

Satisfaction of stakeholders in relation to assistance offered by South East Water PC: The Company should explain which stakeholders will be included in the measurement of this PC and confirm that the survey will be externally assured and conducted in line with social research best practice.

CCG view

- While it is useful for SEW to understand and report if its current relationships with vulnerability stakeholders are working well, we do not think it appropriate for SEW to limit its stakeholder sample for this PC to those stakeholders with whom it has an existing relationship. This is because, despite progress, SEW's stakeholder mapping and database is still evolving and would likely miss a number of key individuals and organisations, with whom they should, but perhaps don't yet, have effective relationships or engagement with.
 - We have challenged the company therefore to, following the appointment of its proposed new Vulnerability Stakeholder Manager, and in line with its partnerships toolbox approach, to:
 - Systematically map and record its stakeholders, including those working with or representing customers in vulnerable situations.
 - Keep this list of stakeholders up to date, with as a minimum an expert comprehensive two-yearly review (see p.92 of the CCG report).
 - Strategically prioritise and segment these stakeholders – so the company is clear what level of engagement would be optimal for each stakeholder and get views from organisations representing a range of different relationships with SEW – from light touch to high levels of engagement.
 - Ensure they have an appropriate range of vulnerability stakeholders relating to the different types of customers with financial and non-financial additional needs.
 - Include an appropriate range of different types of organisation, e.g. council-led, charity, third sector, community groups, etc.
 - Ensure those being interviewed represent a range of roles people hold within those organisations and therefore their different relationships with SEW.
- It is our view that this kind of list (or prioritised list) of stakeholders should be the basis of the survey.
- In addition the company should have a clear view as to what a robust sample and response rate looks like.

SEW.OC.A33-35

Ofwat Action required

Gaps and voids

CCG view

While we recognise this is a regulatory priority – we note that the company's approach to gaps and voids has not been specifically consulted on (acceptability was tested only as a package of measures) by SEW and no evidence of customer support has been provided. That said, to have a focus on this area would seem consistent with customers' sense of fairness that customers should pay for what they use.

SEW.OC.A36

Ofwat Action required

Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration PC: Companies should focus on delivering what matters to their customers, rather than the delivery of certain outputs and schemes. The company should resubmit its definition to measure a direct customer outcome.

CCG view

- The Environment Agency, Natural England and SEW's stakeholder and expert Environmental Focus Group challenged SEW to make this measure more outcomes focussed rather than activities based (CCG report p.126-8.) The company has consistently maintained that its longer term aim is to adopt an outcomes measure but that given the time it would take for benefits of this approach to pass through (10 years+), that an outputs based approach is more pragmatic at this time. This was accepted by the EFG including the Environment Agency and Natural England as a pragmatic interim approach.
- It should also be noted that following CCG challenge and EFG feedback a number of changes were made to the measure to ensure that the activities that underpinned it were effective, best practice and future-proofed. Natural England is working with the company to help it develop a reliable deliverable outcome-based metric for the next AMP.

SEW.OC.A37

Ofwat Action required

Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration PC: The company should provide further evidence to support the use of outperformance payments and how this ODI will benefit customers.

CCG view

- For ease of reference, stakeholder and customer views on this area are on p.126-7 of the CCG report.
- As with the majority of the ODIs, the *acceptability* of the final individual ODI was not tested on customers, though the WTP that underpinned the company's approach was tested with HH and NHH customers, and the acceptability was tested as part of a combined package.
- It should be noted that this was a reasonably high priority area for domestic customers (ranking fifth out of 11 priorities) and was popular with the overwhelming majority of Environmental Focus Group members.
- It is Natural England's (NE) view that this is an important performance commitment that will deliver very valuable outcomes for drinking water quality protection, resilience, climate change adaptation and habitat enhancement – both for customers now and in the future. NE states that likely changes to farming regulation through the Stacey review and through Environmental Land Management Schemes (ELMS) will not invalidate the use of catchment approaches to tackle nitrogen, emerging pesticides, and other diffuse elements such as turbidity that locally affect drinking water quality (outside of metaldehyde). They note that the policy drivers for company catchment approaches are being strengthened in the emerging and published legislation/ policies and in the ELMS pilot projects – one of which is in South East Water's supply area – and is working with the water company's existing catchment scheme to help develop the pilot.

SEW.OC.A38

Ofwat Action required

Bespoke Abstraction Incentive Mechanism PC: The company should explain why it has chosen its AIM sites and why these are different from those in the 2015-2020 period. The company should also provide sufficient evidence as to how it has consulted with stakeholders and customers in the selection of these sites and in agreeing the PC as there is insufficient evidence on the following:

- *What participation there was.*
- *From what pool of stakeholders.*
- *What the process was.*
- *Stakeholder views and how these were incorporated in the policy.*

CCG view

- There was no consultation undertaken with customers on the selection of these sites.
- The EFG members were consulted. We cannot provide assurance on the quality of engagement with them on the sites selected as we had no visibility of this. However, EFG members' views on the quality of SEW's overall engagement on this area are on p.129 of the CCG report. See also slide 25.
<http://www.customerchallenge.co.uk/media/document-library/EFG%20Survey%20report%20August.pdf>
- The Environment Agency confirms that it worked with SEW in the identification and proposals for the selected AIM sites, Kingston, Itchel and Charing.
- To clarify, we didn't give a view on this measure in the CCG report, as "at the time of writing, SEW was updating the measure to reflect feedback from stakeholders. The EA had not seen the financial incentive proposed but were supportive of rewards and penalties on environmentally sensitive sites" p.129.

Appendix 1:

CCG assurance activity on required areas - SEW.AV.A1 and SEW.AV.A2

The CCG's Research Methodology Sub-Group reviewed the company's approach to the required new research to a) test the acceptability and affordability of its combined water and waste water bill for 2020-25, b) test multiple bill profiles for the 2025-30 period.

The Sub-group consists of Leslie Sopp, an independent consumer research expert and Fellow of the Market Research Society; Karen Gibbs, Senior Policy Manager at CCWater; and CCG Chair Zoe McLeod. In addition, Liz Cotton, Research Manager at CCWater also provided comments on the draft surveys and overall approach. We outline below, with commentary, the areas we scrutinised in making our assessment.

Overall research approach

Commentary: At the CCG chairs meeting on 13 February 2019 it was agreed with Ofwat that the timeline for water companies' responses to the IAP was too tight for the companies to deliver 'best practice' research in this area. Instead, Ofwat stated that it expected companies "to take a proportionate and pragmatic approach to generating new evidence of customer support in the time available". We took this into consideration when making our assessment.

The CCG's view is that social research best practice would be to develop the survey in the following way:

1. Effective supply chain tendering to find an appropriate provider.
2. Qualitative testing to assess concepts, presentation and language.
3. Iteration and improvements from step 2 learning.
4. Cognitive testing to understand customer assumptions and how they are making their decisions.
5. Iteration and further improvements following step 4 learning.
6. Piloting to ensure effective respondent engagement with and completion of the survey.
7. Rollout to a suitably sized and representatively structured sample.

This was not possible in the time available, in particular because of the number of water companies requiring a limited number of expert research companies to undertake complex programmes, and the time needed to recruit appropriately sized and effectively designed samples. SEW therefore adopted a pragmatic approach. It worked with its original research provider Accent and adapted its July/August 2018 acceptability testing to include both of the requested new engagement areas. This meant that the majority of the approach, and the survey (but not the new information) had gone through the best practice steps 1-6 above. This approach also enables greater comparability with previous research.

South East Water did also conduct the same research amongst its NHH customers. It had not been specifically requested to do so, but felt it important to also include this group in the new survey for comparability and forward baselining. The CCG has commented separately to South East Water regarding the efficacy of the NHH research design, but believes it is generally fit for purpose (though the sample size is too small to enable robust segmentation).

Survey delivery

Commentary: In this new survey we know that stated ease of understanding and completion rates were generally high – 68% said that all or most of the questions were easy to understand and answer; a further 22% thought many were. The highest rates for lack of comprehension and ability to answer were in social class DE; those in debt, and those who were digitally excluded – i.e. those potentially more vulnerable.

Questions were included in this new survey, as they were in the original research, regarding characteristics of vulnerability, but these do not appear to have been factored into the analysis undertaken so far, and South East Water should ensure that it undertakes further analysis on this important group.

Neither has any reporting has been provided by South East Water as to what conclusions to draw from this, and what it would intend to do in building from this. The CCG would encourage the company to do more to understand the dynamics around engagement and response from more vulnerable customers.

Survey design, questions and framing

Commentary: We note that the format and structure of the new information was in line with the research previously undertaken but any new information or gaps in information were not able to be tested.

Some information was removed from the original 2018 survey which formed the basis of this survey. This was primarily linked to performance commitments/outcome delivery incentives and should not have impacted on the responses to the key questions as they formed the latter part of the original survey.

Performance information was included, but not comparative performance information. This was not seen as essential given the purpose.

No information was provided on Southern and Thames' business plans, so the informed and uninformed views refer to informed about SEW's activities only (which was provided by South East Water in an infographic). This might have had a bearing on customer responses, but it is also difficult to see how this would have been processed and responded to by survey participants.

The Sub-group reviewed the survey and in response to CCG scrutiny and challenge, SEW:

- Made a number of amendments to the proposed new survey text and presentation to aid clarity and understanding and ensure the framing was not leading.
- Included a customer consent question so that they could re-engage with the customer on an ongoing basis – this will now be BAU practice for SEW.
- Included a question on whether respondents were aware of affordability assistance measures, as well as being on the Priority Services Register. We recognised that SEW has reported on this separately and this won't change, but if it is a factor which correlates with responses to proposed bill levels it would be useful to include.
- SEW tested a flat bill excluding and including inflation.

A range of profiles were tested for 2025-2030: high to low bills, low to high, and flat bills.

There are no affordability scenarios in the survey where customers situations don't stay as they are/the economy changes. There were missed opportunities to understanding how fragile affordability is. Doing affordability testing with changing scenarios would however be very complex and was outside the time available to undertake the necessary research. South East Water should consider how they might approach this possibility in its future planning.

Sample size and composition/representation HH

Commentary: 1,006 interviews were undertaken with household customers: 202 in-home with an interviewer (covering more vulnerable customers) and 804 online via Dynata commercial panel (ex SSI/Research now).

The design for HH sample appears good in terms of expected size, as it is on a par (slightly higher) than the previous sample. CCG will work further with South East Water to explore the detailed shape and nature of the sampling approaches and outcomes (for example how the areas and the households were selected for the in-home interviews).

The CCG is content with the overall size and design of the survey methodology, and the opportunity that comparability with the 2018 survey brings, and that it is generally fit for purpose.

Extensive discussions were held with South East Water during the original 2018 survey regarding the basis for weighting, which have been brought forward into this survey design. The CCG is broadly content with the representativeness of the survey data collected, and with the approaches adopted regarding weighting.

Following representations made by the CCG, the age banding for respondents to select from regarding presence of specific groups in the household was changed in this new study, to separate out the 65-74 year olds from those aged 75+. However the analysis shown to the CCG does not separate out this group, although the sample size is low (not too low to be included).

There was no detail before as to how the face-to-face in-home CAPI interview areas were selected, other than (as SEW repeat in the research cover note) 'the in-home interviews will focus on more socially deprived areas'.

The previous survey measured 56% of respondents as having any vulnerability indicator (in line with OFWAT estimates) and SEW should achieve the same or thereabouts this time round if the same identification and sampling procedure is followed. It is not possible to tell from the analysis provided to date.

Data were weighted using the same framework as that employed for the 2018 survey, which aids comparability but has the same inherent issues given CCG questions regarding sample design and efficacy.

A comparative analysis and further reporting should be undertaken of the two surveys to explore similarities and differences, especially by overall vulnerability incidence.