



SPA
Future
Thinking

Threshold of Acceptability



Prepared for: CCWater
Ref: J1551/RM/JM
Date: July/2013

LONDON OFFICE
Laystall House, 8 Rosebery Avenue
London, EC1R 4TD, United Kingdom
T +44 (0) 20 7843 9777
F +44 (0) 20 7843 9779
E info@spafuturethinking.com
W www.spafuturethinking.com

UK | FRANCE | ITALY





Contents

- Summary
- Background & Objectives
- Methodology
- Main Findings
- Conclusions



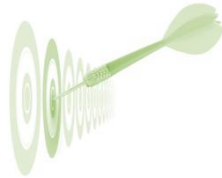
Summary





Summary of Findings: Threshold

- Participants were given a brief outline of the Price Review, water company business plans and the role of acceptability research before they were asked what proportion of customers should 'accept' a business plan before CCWater could recognise on their behalf that the plan was acceptable. Most participants said 70-75%.
- 70-75% was deemed realistic because it is significantly higher than 50% but also allows room for those customers who are unlikely to accept any plan which may be presented.
- Attitudes towards suggested 82% and 90% thresholds divided into three sub-sectors of both business and domestic customers with no majority view:-
 - those in favour felt it was right to expect water companies to improve on the average acceptability score of 82% at the last Price Review in 2009
 - those against believed 90% was an unrealistic target for water companies and ultimately an unfair challenge
 - also concerns that using the 82% threshold was misleading as this related to Ofwat Draft Determinations rather than company business plans and with a very different economic landscape
 - a further group felt that 90% was possibly unrealistic but that a target could be set based on the level of acceptability that each company had achieved in 2009 (+ x%)
- **As a spontaneous response, the 70-75% is likely to be the level most closely aligned to real expectation of when CCWater should support a business plan based on customer opinion.**
 - however 82% acceptability scores or higher would be deemed an example of excellence by customers for whom the majority were pleasantly surprised by the average acceptability towards Ofwat draft determinations in 2009.



Qualitative research conducted across England and Wales

- 6 qualitative focus groups with household customers
- 8 depth interviews with business customers

The sample size for this research is small; therefore findings are only indicative of customers' views. However, findings show a good degree of consistency of views among customers



Summary of Findings: Threshold Characteristics

- **Most customers believe that the same threshold of acceptability should be set for all water companies regardless of the propositions within business plans or water company bill level starting points.**
 - Consistency was seen as vital, with the belief that water companies should want to challenge themselves to deliver plans which are acceptable to their customers and be able to fully justify their proposed actions to gain customer acceptance (regardless of any bill impact they may have).
- Having action plans and support systems in place for 'non-acceptors' is seen as integral to the customer consultation process.
 - Education and communication is seen as most important particularly on support and assistance for low income and vulnerable customers
 - Businesses feel it is important to clarify business plans so that detractors can understand the areas of investment
- Introducing a buffer zone for companies with acceptance below the threshold but within 10%, where they have action plans in place to address the reasons for non-acceptability was supported by only a minority of participants.
 - Most felt that the actual target becomes meaningless if companies know they can achieve lower than the threshold
 - An action plan ensuring the reasons of non acceptability are addressed was seen as insufficient repercussion for a business plan which was below the acceptability threshold
- **If a water company does not achieve the acceptability threshold, most felt that this should automatically mean CCWater does not support its business plan and it would need to be reviewed to take into account customer concerns raised within the survey.**



Background and Objectives





Background

One of the ways Ofwat regulates the water and sewerage industry is to set the price, investment and service package that customers receive.



Price review

Every 5 years Ofwat requires all water companies in England and Wales to provide business plans which outline what they propose to spend and invest to deliver services to domestic and business customers over the next five years

- In November 2014, Ofwat will announce the price limits which will apply to water and sewerage bills in England and Wales for the five years from 2015 to 2020. In preparation for this, the water industry is currently developing business plans for investment in their services which will lead to bill changes.
- Companies are expected to take responsibility for engaging with and researching the views of their customers throughout the price review process.
 - when each company has arrived at their proposed final business plan, they should ask their customers if the service levels they will get from 2015-2020 for the prices they will pay, are acceptable to them.
 - the percentage of their customers who rate their plan as acceptable or unacceptable will be a key factor in the agreement of each business plan by Ofwat.
- To support the process of gauging customer acceptability of business plans, CCWater has set out the key principles that it expects companies to consider when they conduct their acceptability research.
- CCWater also wishes to set companies a threshold percentage of customers that should find their price and investment package acceptable.
- The CCWater Board also wanted to understand customer views on an aspirational 90% target. This exceeds the 82% of customers who accepted Ofwat's Draft Determinations (rather than water company's submitted business plans) in 2009.
- CCWater commissioned SPA Future Thinking to carry out research to gain evidence of customers' views on an acceptability threshold. This included whether a 90% target and a 80-89% target with mitigating actions to help improve acceptability is an appropriate level of acceptance for CCWater to recognise on their behalf.



Objectives

Research was undertaken to gain a clear insight into what threshold of acceptability, business and domestic consumers want CCWater to set for water companies

Business Objectives

- To ensure that CCWater is properly representing customer views on what is an acceptable business plan.
- To gain a stronger justification of the target to help CCWater press companies to work towards achieving a high percentage of customer acceptability when testing their Plans.

Research Objectives

- To identify and explore the percentage threshold for customer acceptability at which CCWater can be confident that it can judge a plan as acceptable on behalf of customers.
- To understand whether customers believe different average bill levels and different proposed plans should affect the threshold for acceptability.
- To examine views on an aspirational threshold of 90%.
- To explore perceptions of the concept of a buffer zone if a company has measures in place to help address non-acceptability.
- To understand customer views on ways of improving acceptability such as providing information or help for customers who struggle to pay.



Methodology





Selecting a Methodology

- CCWater commissioned a qualitative programme of research to meet its objectives.
- Such an approach was favoured due to the complexity of the subject matter which would require customers to:-
 - Understand the Price Review process
 - Recognise that water companies will undertake research with customers outlining their business plans and gauging acceptability
 - Assess what threshold of acceptability they would deem appropriate for CCWater to support a business plan.
- The research would be used to feed into a regulatory process and is something which is unfamiliar and not tangible to people.
- The success of the research was dependent on people sufficiently understanding the process to be able to ascertain their preferred threshold of acceptability
 - ensuring understanding was deemed most likely through a discussion where participants could be guided through the process to accurately consider the subject matter.
- CCWater felt that a structured survey carried the risk that respondents could select a number for an acceptability threshold without fully engaging or understanding what it was they were being asked
 - A pilot focus group confirmed that a qualitative approach was appropriate in ensuring full understanding of what was being asked
 - Without moderator guidance on the process and supporting information and discussion, participants were unlikely to fully consider the process and their desired threshold.



Composition

Qualitative research was undertaken across England and Wales with domestic and business customers

Domestic Customer Focus Groups



	Water Company	Age	Social Class
London and South East	Southern Water	25-44	C1C2
Central and Eastern	Severn Trent Water	45-64	C1C2
Northern	Northumbrian Water	65+	C2DE
Wales	Welsh Water	25-44	BC1C2D
Western	Wessex Water	65+	ABC1
Western*	South West Water	45-64	BC1C2D

Business Customer Depth Interviews



8 interviews were conducted with businesses ranging in size and across different industry types (all interviews were with Thames Water customers)

* Two groups were conducted in the Western region to ensure findings included customers of South West Water where bill level starting points are historically higher



Approach

- The format of the research with domestic and business customers followed the same structure, comprising:-
 - Introduction to CCWater, Ofwat and the Price Review process
 - Stimulus and explanation of how water companies are expected to engage with customers in the 2014 Price Review and the surveys that will be undertaken which will include measuring customer acceptability of business plans
 - Establishing customers' spontaneous expectation of the CCWater threshold of acceptability and reasons behind it
 - Deliberation of stimulus showing simplified example business plans and whether different bill impacts should affect threshold of acceptability set for water companies
 - Consideration of whether different water company bill level starting points should affect the threshold of acceptability set for water companies
 - Exploring potential reasons why customers may react negatively to water company business plans and how these may be addressed
 - Reactions to a proposed aspirational 90% target and potential 80%-89% buffer zone for those companies with mitigating actions in place for customers deeming business plans unacceptable.



Main Findings





Water services more affordable than other bills

- Customers, both domestic and business, are conscious of their water and sewerage bills but generally deem them more affordable than other utility bills such as gas and electricity.
- Most customers had little contact with their water and/or sewerage company with receipt of water bills their only interaction.
- Similarly there was negligible awareness of Ofwat and CCWater.
- Customers assume that their water and/or sewerage bills will increase over the next five years.
 - They are generally cynical that any bills will come down
- Business customers accept that water companies need to fund investments through bill increases.
 - However, they do not feel that high profits are justifiable
- Although most household customers acknowledge the need for infrastructure investments; views on funding are polarised:-
 - some believe that the investment should be funded by water companies through profits rather than bill increases
 - others believe that money is currently wasted through leakage and flooding and better management and control of these aspects would release more funds for service investment





Price Review welcomed despite lack of awareness

- Participants were reassured by the existence of Ofwat and the Price Review process as a means of regulating the investments and prices water companies can implement.
- Some were surprised that they had not heard of the process while others questioned how Ofwat enforce their decisions.
 - There was interest in how Ofwat continued to monitor company decisions throughout the five years and actions it takes to ensure companies adhere to the final determinations



'Commendable in theory that [Ofwat] is going to be thorough and I would hope that they do care about what the customers think.'

Female, Northumbrian Water

'You feel like there's somebody on the outside keeping everything in control.'

SME (0-50 employees), Catering

'I feel good. I think it's good that there's a regulator [Ofwat] so that the company's not self-regulating.'

SME (0-50 employees), Property Services - Charity

'If they're regulated [water companies], that they have to abide by the rules that's fine by me.'

Large business (251+ employees), Advertising & Marketing



Some customer concern regarding survey process to be adopted by water companies

- Concerns with the survey process arose despite reassurances that CCWater has set out key principles which companies are expected to consider when conducting the research.
- Participants cited fears regarding:-
 - The number of customers who would be approached to take part
 - The inclusion and representation of a range of households and businesses
 - The amount of contextual and business plan information that would be provided within the survey to allow customers to make an informed decision
 - The opportunity respondents would be given within the survey to sufficiently explain why they may not find plans acceptable
- A minority of customers suggested having an aggregated acceptability score calculated from separate acceptability scores for bill impact, service changes etc.
 - It was felt this would enable a more accurate interpretation of true acceptability of business plans and potentially prevent a business plan being completely revised if only one aspect of it was particularly unattractive to customers



Another argument for breaking the business plan down into sections and having different acceptabilities if you like, is because in terms of flood defences, if you don't live in a flood defence area, you're not really going to care, but for the people that actually live in that area, that are affected, then it's very important there is a high level of acceptance in that area'

Female, Welsh Water

'If you give as much information as possible in as plain a language as possible, people feel as if they're making an informed decision'

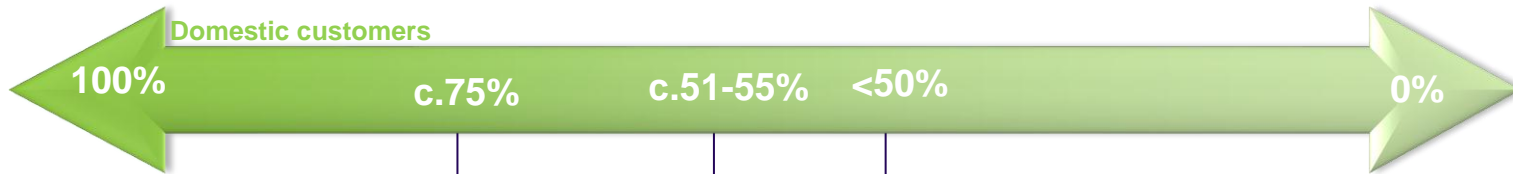
Male, South West Water



Majority spontaneously favour threshold of 70-75%



- Across the domestic and business groups there was relative consistency of opinion in the threshold of business plan acceptability which CCWater should recognise on behalf of customers.
- With only exposure to information regarding the price review and research process and CCWater’s intention to set a threshold of acceptability, the majority* of customers spontaneously felt 70-75% was a suitable level.



Business customer opinion broke down as:-

1/8 = 95%

5/8 = 75%

2/8 = 60%

42 participants favoured a significant majority

5 participants

5 participants

→ Those favouring a threshold of 75% believed this was a fair target:-

- Gives a majority consumer verdict but far enough over 50% to be a challenge to water companies to ensure consumer views are considered in their plans

→ Selected as majority would be accepting proposals

- Comparisons made with British political system and acknowledgment that some companies may struggle to achieve a higher threshold

→ Selected on the assumption that water companies could not realistically achieve high levels of acceptability

- Recognition that if companies propose bill increases, consumers are unlikely to be in favour

* 52 domestic and 8 business qualitative participants is a small base size and should be treated with caution



There was deliberation and debate of the threshold

Customers were keen to talk through their arguments and reasoning for selecting their preferred threshold

75%

'There's surely got to be a majority, never expect that everybody [will accept a proposal] but I would have said closer to 70/75% should be acceptable, we're talking about a business plan for the next five years'

Female, Welsh Water

'If 75% of any poll said yes, ... that is a clear majority, 3 to 1 majority is no problem whatsoever'

Male, South West Water

'I think the companies already, without us thinking this, the companies already have an idea of what our views would be and I think they've produced something that would get a return of 75%-80%.'

Male, Northumbrian Water

51% - 55%

"I don't think it needs to be as high as 75-80...as long as it's in the majority. 80% is great but if they didn't [achieve that] and it came out at 67, it wouldn't bother me as long as it was above 55%'

Male, Northumbrian Water

<50%

"There is always going to be an instinctive refusal to agree a price increase.'

Male, Wessex Water



Exceptions and Allowances: Business Plans

Most business and domestic customers did not feel the proposals within business plans should affect the threshold which water companies are set

Business Plan Proposals

- It was generally felt that one threshold of acceptability would ensure that water companies were consistent in their approach to their business plans.
- Despite some water companies being likely to propose bill increases (and therefore perhaps incurring greater negativity from customers) it was felt that if transparent and reasonable justifications are given for the proposals, it should still be able to achieve the target set by CCWater.
 - Some did feel that those companies which will need to increase bill levels to achieve improvements and investment for the future would have a harder task to achieve a high threshold of acceptability and perhaps could be given greater allowance. However, this was only a minority of customers overall

'...it's the impact on the customer, whether you are improving the service or whether you are reducing the service, the impact either way is ending up on the customer.'

**Large (251+ employees),
Construction management**

'Why should one [water company] be different than the other. There should be a code of conduct and they should all work to it, and they've got to achieve whatever directives they've been set by Ofwat...you shouldn't set the goalposts and then decide to move them.'

Male, Severn Trent Water

'I think it's got to have the same, it's got to be usable throughout the country, you can't have one company saying well there you are going to have 40%, it would cause a major problem.....'

Female, Southern Water

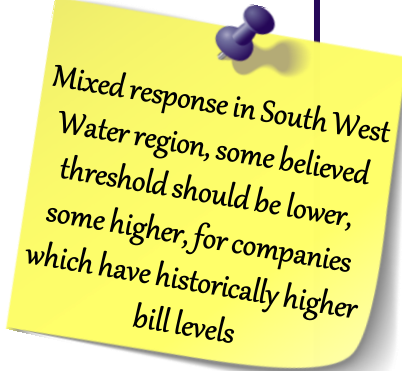


Exceptions and Allowances: Bill Levels

Similarly, most customers also felt that bill level starting points should not affect the threshold which water companies are set

Current water bill levels

- Many felt that CCWater's credibility could be challenged if it introduced a sliding scale of acceptability scoring dependent on individual company characteristics such as their current bill levels.
 - Belief that regardless of bill level, proposals which reasonably justified any service or bill changes should still be able to achieve the CCWater target
- Others claimed that customers within areas of high bill levels are used to this situation and understand why their bills may be higher than average (such as environmental factors).
 - It was therefore felt that customers would not judge the water company too harshly if further increases were required for essential investment.



Mixed response in South West Water region, some believed threshold should be lower, some higher, for companies which have historically higher bill levels

'If you're a serious company you want to have high standards. So, if you're serious and you've got no concerns, your customer base will pass those, because you're good, you're great, you've got the high standards.. if you're scared and your services aren't that good then you'd want it to be 50%.'

Male, Welsh Water



Robustness of research relies on identifying which kinds of customers do not accept business plans

- It was deemed inevitable that 100% of customers would not accept the business plans of a water company.
 - Domestic customers believed it is important for the integrity of the research that the kinds of customers not accepting proposals could be identified
 - Business customers also felt that businesses which are critical of plans should be identified as there may be very specific areas of concern of which a water company should be mindful

- The most commonly identified sub-sectors which were less likely to accept plans were:-
 - Vulnerable customers, particularly those on low income and older customers
 - Disgruntled customers who have had a previous negative experience with their water company
 - Businesses with high levels of water usage or particular service needs

- Ofwat was expected to be able to access this information and interpret the concerns of these sub-sectors to establish their justification for not accepting proposals.
 - It was also therefore perceived as vital that in depth follow-up information as to the reasons for rating plans as 'unacceptable' is gathered within the survey





Communication with 'non-acceptors' viewed as most valuable response from water companies

- Suggested ways of reacting to higher levels of unacceptability from particular sub-groups centred on consultation and information.
- For domestic customers it was expected that a water company would approach 'non-acceptors' - perhaps through community sessions - and offer more education and information. Such an approach could potentially explain business plans in more detail to see if this would make a difference to views.
- Participants also identified that if bill impact was the main reason why a business plan was unacceptable among low income groups, then information on available assistance could make a big difference to perceptions of the business plan overall.
- Within one focus group it was questioned whether it was enough for a water company to address concerns following the survey.
 - Water companies were expected to already know their likely detractors (such as vulnerable customers being more likely to struggle with bill levels increasing) and therefore business plans should already address such issues rather than support solely being proffered in response to a negative survey response



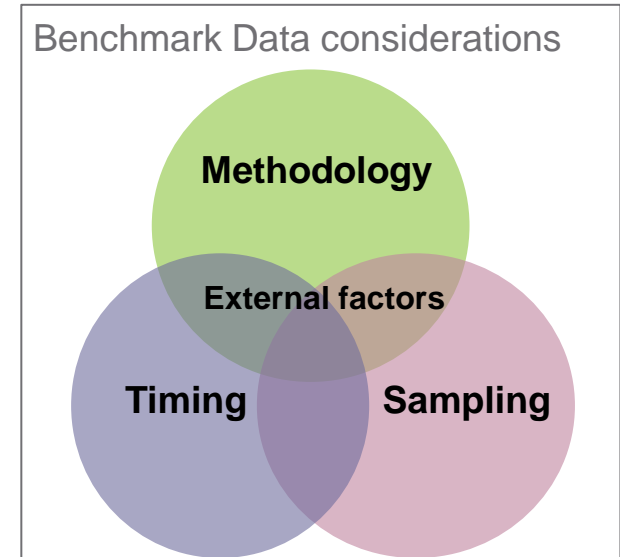
'How would they cater for people who really genuinely can't afford the increase with everything else that's always going up, I know with the energy suppliers there are things, there is not an awful lot but there are things that they will do to assist you with the billing'
Female, Northumbrian Water

If you don't know why a plan is unacceptable, how can you possibly put it right or consider putting it right and if you don't know the detail, then you don't know which direction to go.'
Large (251+ employees), Construction management



Comparability with previous acceptability level

- During the 2009 Price Review, CCWater conducted research with water company customers to assess levels of acceptability with Ofwat's Draft Determinations.
 - The research found an average acceptability score of 82%
- The CCWater Board therefore considered setting an aspirational 90% target for the level of customer acceptability companies should achieve for the current Price Review.
- Setting performance indicators based on previous data has a number of considerations which should be taken into account (shown opposite).



- While the 82% average level of acceptability achieved in 2009 is a useful *indication* of achievable acceptability, it does bear risks in being used as the basis for setting the 2014 target.
 - Another reason why this customer research is so important in setting the final threshold
- There are many expected differences with the 2014 customer surveys which may impact on the comparability with 2009 – and therefore the feasibility of an aspirational target of 90% (based on improving on previous result) could be tenuous.



Each water company will commission research rather than CCWater



Customers will be considering water company business plans and not Ofwat's draft determinations



Different influencing factors such as the economy may affect customer opinion

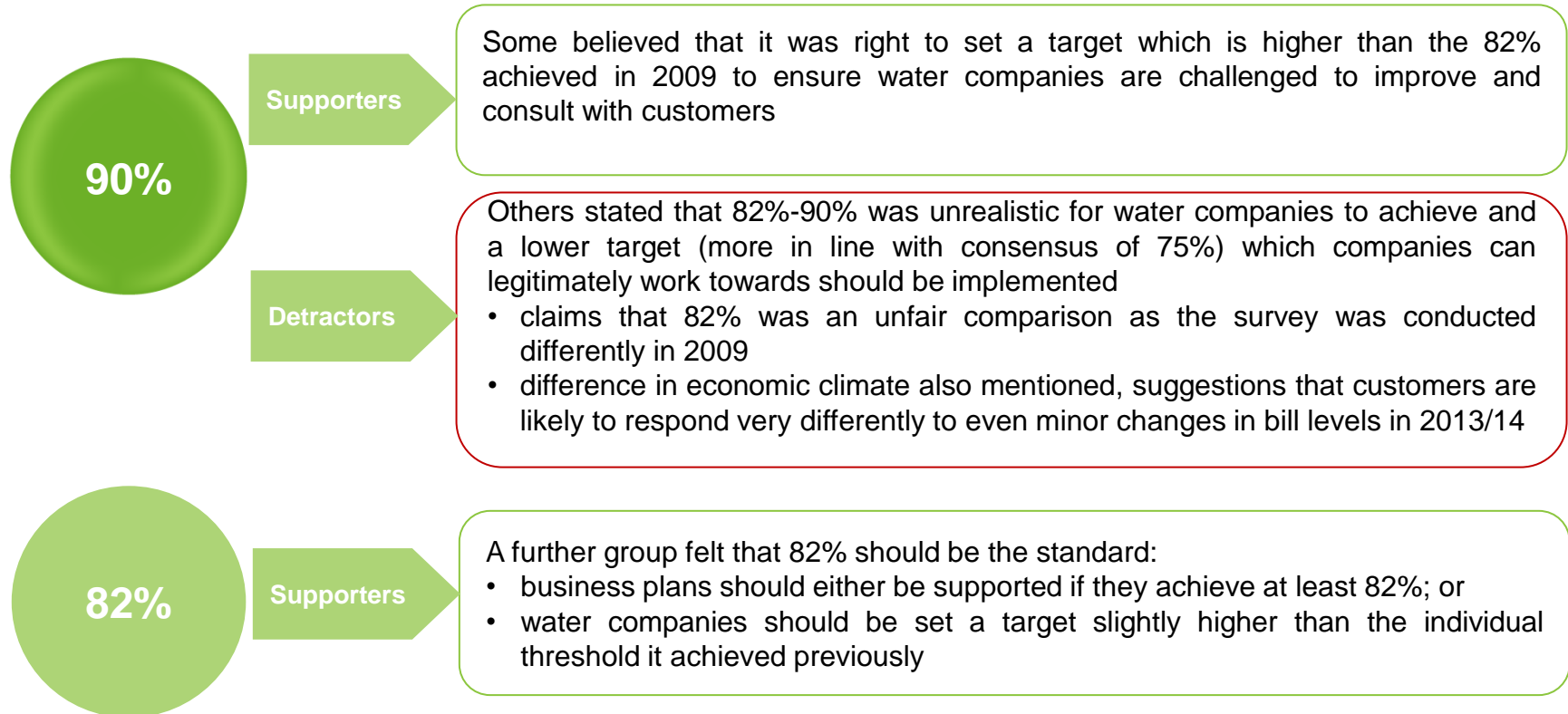


Many customers impressed by 82% average achieved in 2009

With the majority spontaneously citing 70-75% as a suitable threshold of acceptability, customers were pleasantly surprised to find a higher average of 82% had been achieved previously

→ However a minority were sceptical of how information was presented to achieve such a high level

Attitudes towards proposals of 82% and 90% threshold were very mixed





We asked customers why they supported or challenged the 90% proposition....



'They should be improving so I think it should go up.'
Female, Severn Trent Water

'The fact it's a substantial increase on the previous round shows a greater commitment for improvement as well'
Female, Welsh Water

'I think 90% is a good target it's a big target. I think that's a challenge and it's not obviously too easy for water companies to achieve so if they work and strive to deliver 90% specification, I think that's pretty damn good.'
SME (51-250 employees), Hospitality

Customers of Wessex Water and Southern Water were particularly critical of a 90% threshold believing it to be unrealistic for water companies to achieve, especially in the current climate.



'You know when you see a sign at the train station and they say 96% of trains run on time, big or small print, on time means within 5 minutes either side. Well that's not really on time then is it? I suppose 90% feels quite tough'
SME (0-50 employees), Property Services - Charity

'I think using figures from 2009 are too out of date, too many things have changed'
Female, Southern Water

'It's a ridiculous figure 90%... if they give you the water for nothing then they would get 90% then wouldn't they, there is no way you will get 90%'
Male, Wessex Water

'I just don't feel that you're ever going to get 90% of people doing a survey to come up with the same. Yes, I just think it's unrealistic so I just think it's a 'pie in the sky' figure.'
Large (251+ employees), Hospitality



The buffer zone concept was not welcomed by the majority

CCWater wished to explore reactions to the concept of supporting business plans if water companies achieved within 10% of the threshold but have action plans to satisfy needs of 'non-acceptors'

- Many felt that water companies would not take the higher target seriously if a buffer zone of being within 10% of the threshold was in place.
 - they felt there would be no incentive for water companies to aim for the actual threshold
- Others believed that allowing a buffer zone would not encourage companies to really challenge themselves to deliver a business plan that was acceptable to customers.
- There was a minority who supported the concept, particularly after considering the different bill level starting points and likely variances in business plans across the industry.
 - identified that there will always be a range of achievement from the water companies, particularly those with higher bill level starting points



'You're taking their opinion away, it's been set at 75 and then all of a sudden its. [not achieved]. You're giving power back to the company of lowering it again, saying well we're nearly there.'
Male, Severn Trent Water

'If they are doing what they should be doing they shouldn't be worried about reaching the target percentage.'

Female, Southern Water



Mitigating Actions

Customers expected harsh measures for companies not achieving the threshold of acceptability

- Most customers felt that anything below the threshold of acceptability would mean a business plan should be deemed unacceptable.
 - some however stated that there is little point in having a target if anything below it can still carry an element of support
- Despite discussion of actions which water companies could take to respond to sub-groups not accepting business plans, customers expected plans not achieving the target to be completely revised in light of customer feedback.
- They did not expect such plans to be supported by CCWater if they do not receive the required customer advocacy.

'It's like anything isn't it, you set a target, you achieve it, then it should be put a little bit higher so that it gives you more to go forward and make things better.'

Female, Severn Trent Water

'If you turn around and say okay we will accept whatever level you can reach, that's like saying well okay you didn't quite make it but that's okay, that's not good really because there's no competition.'

Large (251+ employees), Construction management

'[Ofwat] need to take them to task on an individual basis. There's only 12 water companies so it's not a never-ending task.'

Large (251+ employees), Hospitality



Conclusions





Conclusions

- 70-75% is the spontaneous level of acceptance that customers would expect CCWater to set as a target for water companies
 - and as a spontaneous response is the most closely aligned to real expectation likely to come out of the customer surveys

- 90% is acceptable to some however many feel it is not feasible for most water companies to achieve this level
 - If 90% is based on improving on previous 82% average, there are also issues around:-
 - survey methodology and approach being comparable
 - external influences on opinion such as the current economic climate causing differential attitudes to 2009

- Using 82% as a guide or the individual water company scores is considered reasonable by a minority but also carries the risk of using a benchmark from a survey which used a different methodology and was carried out in a different economic climate
 - participants were pragmatic in recognising this and that acceptability may realistically be lower than scores achieved last time
 - most preferred to see a consistent target for all companies, and using individual company scores from research at the last price review would lead to different thresholds which in the view of most of the participants may not be achievable in the current economic climate

- Overall, customers believe that the threshold should be the same for all water companies with no allowances made for differences in business plan propositions or bill level starting points

- Water companies are expected to have support systems in place for those customers who do not accept business plans
 - however most do not feel this could lead to a buffer zone being implemented

- If a water company does not achieve the threshold of acceptability, most felt that this should automatically mean CCWater does not support its business plan
 - The plan would need to be reviewed to take into account customer concerns raised within the survey
 - There was a suggestion that follow up research into the plans following changes could be conducted to ensure that the revised plan was more acceptable to customers.



SPA Future Thinking^o

innovation

intelligence

inspiration