



# Value for money and good service

a decade of improvement for water customers  
..... but still more to do for England and Wales



**Dame Yve Buckland** reflects on ten years as Chair of  
the Consumer Council for Water

# Foreword by Professor Stephen Littlechild

**In what follows, Yve Buckland provides a most encouraging account of the increasing contribution that CCWater and customer groups have made to recent price control reviews, resulting in outcomes that better reflect the needs of water customers. She argues that “as we head into 2015, it essential that these gains are consolidated and developed.”**

**I agree. And taken in a historical and international context, I believe that we may look forward to a continually evolving and developing customer role not just in water regulation but in utility regulation generally.**

## The past

North America led the way in customer engagement from the early 1960s with early adopters including the US Federal Power Commission (FPC) and its successor body the Federal Energy Regulatory Commission (FERC); the Public Counsel in Florida, and the National Energy Board in Canada.

In all these industries, settlements brought better deals for customers. The agreements better reflected what the customers themselves wanted rather than what regulators thought they wanted – or ought to have. In the process of negotiation, all parties came to better understand the needs and preferences of other parties. Relationships improved and trust began to be established. Here in the UK, utility regulation did not begin until 1984, with the privatisation of British Telecom. UK regulators have always listened to what customers have to say, but have generally felt that it was their duty to take all the decisions themselves.

The Civil Aviation Authority (CAA) was the first to propose a greater role for users. In 2004, conscious of the problems of the previous

price control review, it proposed what it called ‘constructive engagement’. It invited each price controlled airport and its airline customers to try to agree some central parameters of the price control review with determining the rest. There was widespread scepticism among the parties, but the process worked at Heathrow and Gatwick. And once the heavily-disputed new runway at Stansted was taken off the table, constructive engagement worked there too.

## The present

So much for the past. What has been happening recently? Ofwat has allowed a greater role for Customer Challenge Groups in setting price controls for companies in the water sector in England and Wales. Ofgem has taken a similar approach in setting price controls for gas and electricity transmission and distribution networks. Companies that get the support of their customers for their business plans have been eligible for “fast-tracking” through the price control reviews. The Water Industry Commission for Scotland (WICS) has gone furthest. Together with Scottish Water and Consumer Focus Scotland it set up a Customer Forum to research customer priorities and to represent the interests of customers to Scottish Water and to WICS; to seek the most appropriate outcome for customers in the strategic review of charges; and, later, to seek to agree a business plan with Scottish Water.

Further analysis of these latest examples of customer engagement is needed. Yve Buckland’s article is a splendid contribution. From my position as observer on the sidelines, I am impressed with the remarkable degree of enthusiasm and commitment by all parties involved, not least the companies and their customer groups. From its inception, CCWater made research a central strand of its modus operandi, determining the needs of water customers, and working with water companies to explore alternative means of meeting these preferences. Water companies have – by and large – listened and have demonstrated willingness to change and to innovate in order to satisfy customers. The new customer engagement processes have been more successful than might have been expected at the outset.

Returning to the regulators, they have had significant reservations about other aspects of the latest price control reviews, particularly about the options offered by most companies. While encouraging companies and customers to engage and negotiate over business plans, the regulators have emphasised that the final decisions about price controls remain for themselves.

In a sense, agreement between companies and customers is a necessary but not sufficient condition for a business plan to obtain regulatory approval. And in the event many business plans proposed by companies and supported by customers have not been approved.

The CAA acknowledged that agreement between Stansted and its airlines was a justification for no longer regulating it, but it set central parameters of Heathrow's price control and of the price undertaking that it accepted from Gatwick in lieu of a price control. Ofwat and Ofgem fast-tracked only a handful of company business plans and required significant revisions to the others. In contrast WICS accepted the business plan negotiated by Scottish Water and the Customer Forum as the basis of the price control.

## The future

Why did the CAA determine or require changes in the price controls of Heathrow and Gatwick? Why did Ofwat and Ofgem not accept business plans supported by customer groups? Primarily because company plans embodied what the regulator regarded as too high costs of capital and projected operating costs. It is, of course, the duty of the regulators to be satisfied on such matters.

But it would be unfortunate if this jeopardised an increasing role for customer engagement, by leading companies and customers to conclude that negotiation and agreement were not worthwhile.

What then might be done to facilitate customer engagement that would meet the requirements of the regulators too? Consider the successful experience in Scotland. Two aspects of the policy adopted by WICS seem to have been helpful. First, through the price control

review process, WICS issued a series of Guidance Notes exploring the issues and indicating its own view. Increasingly, these Guidance Notes identified a range of parameters within which Scottish Water and the Customer Forum could fruitfully negotiate, with the prospect that an agreed business plan would indeed provide the basis on which WICS could and would set a price control. Second, WICS suggested that, in the event of outcomes varying significantly from the agreed business plan, the parties would together consider remedial action, including to share any unexpected gains and losses. This gave the parties more confidence in committing themselves to agreement, and encouragement to work together over time.

The success of the approach in Scotland may – or may not – have been facilitated by the fact that Scottish Water is a monopoly and publicly owned supplier. Nevertheless, whether and how far such approaches would be effective and appropriate in the England and Wales water and energy sectors deserves careful consideration. Would it not be possible for regulators in England and Wales to indicate their views on cost of capital, future operating costs and other significant issues before or during, rather than after, the process of customer engagement with companies?

Competition is a rivalrous discovery process taking place over time. If we wish to discover new ways of reducing costs and of improving quality of service, and of finding what works best for customers, we must allow companies and their customers to explore and adopt new and different approaches. Over time, companies and customers and regulators will learn from these different experiences.

UK regulators have been moving in this direction, with good results. The next round of price control reviews will provide the opportunity to go further. CCWater is to be congratulated on its participation in this project, and on the production of this succinct and encouraging encapsulation of the importance of this process for customers.

Professor Stephen Littlechild



# Value for money and good service

## a decade of improvement for water customers

### ... but still more to do

Over the past decade, water customers have gone from price review outsiders to sitting at the very heart of the process. They are getting better value for money and better service and consequently complaints against water companies have more than halved. Dame Yve Buckland is about to step down as Chair of the Consumer Council for Water (CCWater) after ten years in post.

Here she reflects on her period of office and the difference that CCWater has made to consumers and the way in which the industry has responded to the changes it has advocated. But her overarching message is that successes and gains made must be consolidated and developed further. Above all, she is adamant that the customer voice should continue to be heard as new challenges emerge.



#### **The water customer in 2005: victim of monopoly?**

In 2005, the water industry in England and Wales had been privatised for 15 years. There is no doubt that in those early days customers were not receiving the service they wanted and deserved – nor were they getting value for money. By that I mean a good service at an acceptable price.

Before CCWater was created, the 2004 price review (PR04) had determined bills for 2005-10. Charges were calculated with little attention to customers' willingness – or ability – to pay. Consequently, average bills leapt

8.5% (before inflation) in April 2005, and 18% over the five-year period. Not surprisingly, this put pressure on household budgets, especially for those on low incomes.

The situation was made worse by the limited availability of payment assistance schemes – as well as lack of customer awareness of the help that was available.

Unsurprisingly, complaints about water and sewerage services were rocketing. By 2005, they were growing at a rate of around 20% a year, to peak at 273,000 in 2007/08. Around half of these complaints were about bills and charges.

#### **The customer's problem recognised: the creation of CCWater**

Political concern about this state of affairs had reached such a height by 2003 that the Water Act of that year included provision for the establishment of an independent statutory consumer body. And so CCWater was created on 1 October 2005, replacing the ten regional customer service committees that formed WaterVoice and were part of economic regulator Ofwat.

## The customer's problem recognised: the creation of CCWater (continued)

Faced with so many pressing issues, what was CCWater's top priority in 2005? Our first step was to undertake customer research so we could base our policies and areas of focus on proper evidence. Customers told us that what they wanted was:

- value for money and a safe, reliable service
- better resolution of problems by their water and sewerage suppliers, and
- someone to speak up for them.

These have been adopted as the principal areas of focus for my Board and colleagues throughout CCWater over the past decade.

I believe that CCWater offers customers two distinct advantages over what went before:

- independence from companies and regulators: we are able to act entirely on the customer's behalf and do what is right for them, transparently and unfettered by broader regulatory concerns or associations. We are free to gather our own evidence about customer views, priorities and preferences, so we can work to deliver what customers really want;
- a single voice: unlike the regional committees which all acted independently, we can co-ordinate activity to amplify the customer voice on a national level and work for best practice industry-wide.

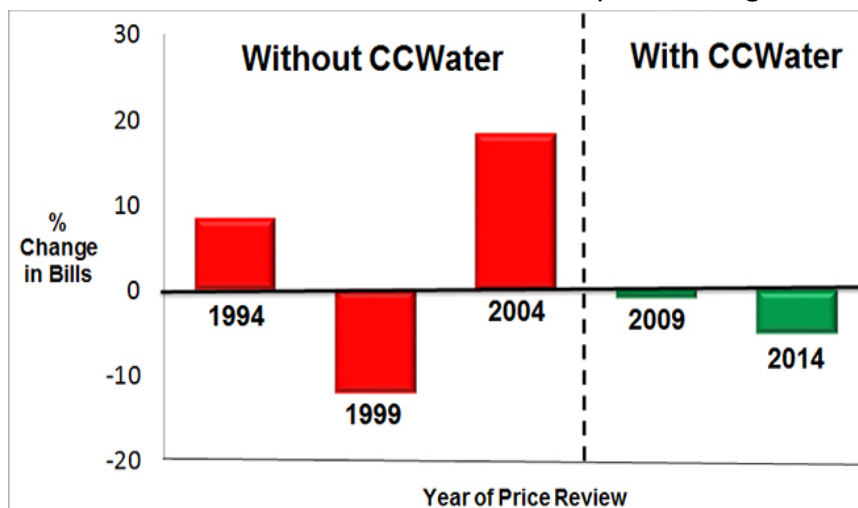
## Moving customers to the heart of the water industry: better value for money

In order to deliver better value for money for water customers, we had to ensure that they had influence when prices were set. PR04 had locked in prices until 2009/10. Customers had had a limited say in the process and the outcome. We were determined that the 2009 price review (PR09), which set prices for 2010-15, had to do better.

CCWater worked hard ahead of PR09 to get customers a seat at the negotiating table. I am proud to say that companies saw the value in what we proposed and the review that followed was very different in nature to the 2004 experience.

Customers took their place in what became known in England as the 'quadripartite' process and, in Wales, the Wales Water Industry Forum. A group comprising four main stakeholders – the company, CCWater, the Environment Agency and the Drinking Water Inspectorate – was set up in each water company area to discuss investment requirements, service packages and costs ahead of company business planning and throughout the price setting process. Natural England was a member of some, but not all, groups. The deliberations of these groups drew heavily on consistent research overseen by CCWater, which tested customer appetite for investment and their priorities. We worked well with the water companies who to a large extent listened to what consumers had to say.

Customers at the heart of the latest price setting





## Moving customers to the heart of the water industry: better value for money (continued)

In this capacity, CCWater was able to act as a curb on both regulatory and company spending ambition: we fought for the customer and reminded the negotiators how their investment plans would affect customers' pockets. We based our positions on the findings of direct customer research, which allowed us to compare what we were hearing across companies – sending a powerful message that was hard for any of those involved to ignore.

We ended up with a deal that was far better for customers than PR04 had been. It wasn't perfect. We thought the cost of capital was set at too high a level and there were other concerns. But bills, before inflation, stayed broadly flat and investment reached record levels. 82% of customers found the package acceptable. We had begun to shift customers to the heart of the industry.

Let's fast forward five years. In the 2014 price review (PR14), we have seen this success consolidated and formalised to give the customer view more weight than ever. Our research on value for money told us that customers needed to get more directly involved in price setting. So we prompted Ofwat and the industry to make customers a central part of the price review.

In this we were backed by the Gray Report into water regulation. We advocated, and then supported, the establishment of customer groups later designated as Customer Challenge Groups (CCGs). They comprised the quadripartite stakeholders plus many other lobby groups and interests – for example, local business representatives and local authorities.

These CCGs engaged with companies from the outset and have continued to work hard throughout the PR14 process. Together, companies and customer groups have surveyed and interpreted consumer views more extensively than ever before, both at business plan development stage and as they were reworked after feedback from Ofwat. The objective has been to produce a review that was acceptable to a large proportion of customers. Undoubtedly the deal for customers in the 2014 Price Review is the best yet.

Yes, there have been problems which need to be addressed for next time, but the approach has put customers in the price-setting driving seat. In Ofwat's Final Determination issued in December 2014, all water companies have been set price limits that are negative in real terms. At the same time, at the national level, we have kept a constant downward pressure on the cost of capital allowed by Ofwat, which in previous price reviews has been too generous to investors at customers' expense.

Ofwat has listened and set a cost of capital of 3.74%, which is within the range that our consultants recommended.

Nonetheless, from a customer perspective, there are still issues. We should not be too self-congratulatory. Once inflation is added to bills over the five years, the average £20 fall announced by Ofwat will translate into a £30 increase by 2020. And the sting in the tail for customers of Thames Water is that the costs of the Tideway Tunnel have yet to be determined or added to bills. That will probably happen for the 2016/17 charging year.

Between price reviews, we have worked with companies to focus on better value for money by doing the right thing by their customers. A particular emphasis has been to encourage them to share the financial benefits obtained from a lower cost of debt than Ofwat assumed and higher RPI than Ofwat forecast when it set prices at the two previous price reviews. Our track record in this respect is pleasing.

In 2008 we convinced six companies to return over £130 million to customers through additional investment, rebates and assistance for those in water debt. Since then we have continuously pushed for more and in the 2013-15 period, we managed to secure over £1 billion of benefits to customers.

## Moving customers to the heart of the water industry: better value for money (continued)

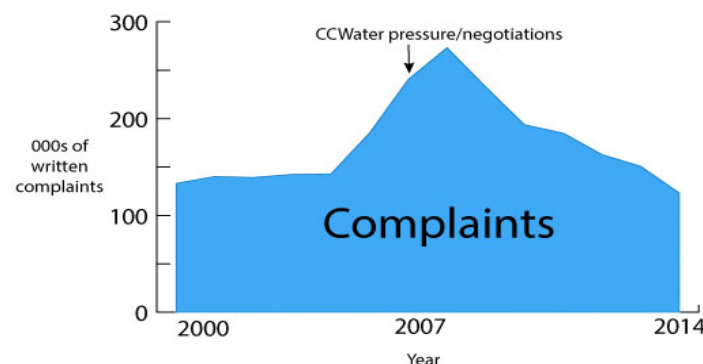
Meanwhile, the help available to those who struggle to pay has also improved. CCWater led a project to improve the take-up of the vulnerable groups' scheme and in 2007/08, rebranded it as WaterSure. The new name (common across the industry), a simplified application process and ongoing publicity and promotion have increased customer take-up significantly. Over 85,000 metered customers are now registered for help – an increase of 426% in the seven years since CCWater led the project to improve take-up.

Similarly, I can place on the record that our work with companies to re-launch their Special Assistance Registers for elderly and disabled customers has boosted take-up by 120% to 224,000 since 2008. However, on affordability, there is still much more to do.

### CCWater: a robust approach to complaints and their causes

At our inception, the trend of relentlessly rising complaint levels had to be arrested – and then reversed. In fact, complaints management was one of the main reasons independent consumer representation was initiated.

CCWater: robust on complaints



Our first port of call was to put pressure on poor performing companies to do better through industry-wide comparisons. Many took positive action. We also scrutinised root causes of customer complaints and urged water companies to do better in these areas, chief among which were billing and charging. When customers do raise complaints with companies, we have worked to foster a 'right first time' resolution culture.

Absolutely key to both 'right first time' complaints handling and better underlying service was the introduction of the Service Incentive Mechanism (SIM) in 2010. We worked with Ofwat and the industry to replace the previous system, the Overall Performance Assessment, because it was difficult to

understand and focused on the wrong measures – for instance, how quickly phones were answered. Meanwhile, many customers told us their complaints were not properly resolved.

For 2010-15, the SIM offered companies price adjustment incentives in the range of +0.5 to -1 percentage points on operating costs, based on their performance against two equally weighted measures: a quantitative measure, which reflects the number of complaints and telephone contacts companies generate; and a qualitative measure, which reflects how satisfied consumers who have had direct contact with their supplier are with the quality of service they received.



## CCWater: a robust approach to complaints and their causes (continued)

All this has worked: SIM figures show an improving service trend, and the dark days of 2007/08 when complaint levels topped 273,000 a year are now a distant memory. In 2013/14, written complaints to companies fell for a sixth successive year. They were down 18% on 2012/13 levels to just over 123,000 – well under half the peak number. Telephone and written complaints to CCWater fell in line with this pattern.

I take considerable pride in the fact that CCWater's performance levels when customers come to us with complaints are best in class. We exceed our published standards of resolving 70% of complaints within 20 working days and 85% within 40 working days. In 2013/14 we resolved 84% and 93% respectively. Although customer satisfaction with our service is high, we aspire to always do better.

In total, since 2005, CCWater has returned over £18 million to household and business customers in compensation and rebates as a result of complaints investigations.



### The water customer, 2015: closer to the heart of the water industry

So today's water customer is in a far better place than the water customer of a decade ago. Prices are more under control. Customer priorities are integral to company investment plans. Service is better. There is less reason to complain, and complaints are resolved much more effectively.

CCWater's adherence to evidence-based policy-making and our choice to work constructively within the industry – to get a seat at the negotiating table, to coax, compare, influence and when necessary press companies to serve their customers better, and only to clash with them publicly as a last resort – have proved their worth.

The 2011 Gray Review of Ofwat and consumer representation in the water sector wholeheartedly endorsed our achievements,

approach and, indeed, our very existence. We have from day one lived with the ever-present possibility of being disbanded or merged into another consumer body; we still do, despite Gray's praise, although I am pleased to report that there are no plans to dispense with CCWater at the moment. The majority of our stakeholders support our work in consumer advocacy.

But far from weakening us, this has sharpened our focus and strengthened our determination to deliver for customers – and without overburdening them. We have consciously kept rigid control of our costs, because we know these are ultimately borne by customers. In fact, our costs have fallen. Each water bill payer spends just 21p a year on CCWater, down from 25p in 2008/09. We have chosen not to exercise our right to ask for Retail Price Index uplift each year, keeping our costs 43% less than they could have been.

This is good news for customers because they will continue to need an efficient, influential, expert, independent consumer body to champion their interests. Consumers still want value for money, good service and someone to speak up for them on issues that concern them. There is no scope for companies to slacken or for the strength of consumer advocacy to be undermined. 93% of customers tell us they still think it's important to have an independent and industry-focussed consumer body representing them.



# Much achieved, more to do

## In my view the upcoming challenges are:

**Value for money.** There is the immediate challenge of monitoring delivery of the PR14 settlement. We must ensure companies deliver on their promises to customers and that customers share in benefits of outperformance. We will also ensure that companies demonstrate that they are playing fair in their tax arrangements and corporate structures.

**Looking ahead to the 2019 price review.** We must fend off any potential dilution of the customer voice. The role of CCGs must be seen to be fully legitimate by customers and not 'captured' by the industry. Ofwat has a key role in ensuring that their governance is robust with consistent and transparent standards. We will push for lessons to be learned from the PR14 CCGs – in particular, the question about the use and timing of provision of cost information to help get the best deal for customers.

**On affordability.** One in five customers has already told us their water bills are unaffordable. This may get worse as the cost of living rises and welfare reform bites. Customers need to be made more aware of the assistance that is available now, and many companies are working to achieve this. CCWater will continue to look for solutions beyond the cross-subsidised social tariffs that are unpopular with bill-payers but have found favour with policy-makers.

**We need to keep a lid on complaints.** Under no circumstances can complaint levels be allowed to bounce back up. This is a particular challenge in light of the extension of metering and the variable bill changes it brings. There is also the challenge of market reform. We will push companies proactively to cater for customers' needs; for instance, to press on

with the good work many have done already on transitional and permanent tariffs when meters are rolled out. We need to avoid price shocks for customers at or between price reviews.

### **Alternative Dispute Resolution (ADR) Scheme.**

As a result of joint working between CCWater, the industry and Ofwat, a new Alternative Dispute Resolution (ADR) scheme will be launched in 2015 for customers whose complaints have become deadlocked – where they are dissatisfied with the company and/or our response to an issue and want to take it further. From April, the ADR will be able to impose binding decisions on companies whereas previously going to court was the only option for some customers. We must ensure this service works for domestic and business customers alike.

**Service Incentive Mechanism.** And while the SIM has improved the customer's lot significantly, there remains more to do. Consistently under-performing companies need to be forced to deliver better outcomes for customers. Market reform should not be allowed to undermine the effect that SIM has had on improving operational complaints. In response to an Ofwat consultation we proposed a stronger incentive/penalty range (of +1% to -3%); a higher weighting (90%) for the qualitative measure to address the reluctance of companies to communicate with customers in case it attracts SIM points; and for the mechanism to bite wholesalers as well as retailers once the market is opened to competition. CCWater will continue to keep a close eye on this.

**Market reform.** Business retail competition from 2017 and upstream competition in the 2020s have

the potential to benefit business customers, but competition must not come at any cost. Customers who are not eligible to participate in the retail market must be protected from poorer service and price de-averaging. As for eligible customers, the market must be designed to work for them – all of them, not just larger customers – and regulatory action to address any issues that surface after 2017 must be swift and clear. Those who opt not to switch supplier will need to be protected from covering the costs of those who do. Those who actively participate will need to be safeguarded from the sort of bad practices that have dogged the energy sector – rollover contracts, data errors, mis-selling and the like. This cannot be allowed to happen in water. Moreover, all eligible non-households must also be looked after if and when incumbent retailers exit the market. The process must be hassle free and must not leave customers any worse off.

"It is good to see water customers much more at the heart of the industry than they were back in 2005. There is a lesson to learn from the loss of a customer advocate for energy customers and the resulting breakdown of public confidence in the industry and its regulation. As we head into the 2015-20 period and beyond, water customers need a strong, independent advocate to look out for them – to secure the value for money and the safe reliable service that they hold dear. The customer voice must not be fragmented as the market opens up; or undermined by changing regulatory fashions and experiments. The future of the water industry and its legitimacy depend on it."

Dame Yve Buckland

CONSUMER COUNCIL FOR



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