

INDEPENDENT CHALLENGE FOR SOUTH STAFFS & CAMBRIDGE WATER

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Author: Matthew Cole, Independent Chair, External Challenge Group

This report has been produced by the independent chair of South Staffs and Cambridge Water's External Challenge Group (ECG) to accompany the Company's submission of their proposed PR24 business plan to the water regulator, Ofwat. Although reviewed by the Company for accuracy only – for instance, to validate any statistics referenced – the intention has always been that this would sit as an independent piece of work to provide insight, reflections and recommendations regarding the process the Company went through in the production of its plan, and it's the level of support for its final proposals.

1. Independent Challenge

- 1.1 In April 2022 I was appointed as independent chair to lead the Company's external challenge process and to provide oversight over how challenges were being used to drive to a better business plan. Although the immediate focus of the process was to provide surety around the production of the PR24 business plan, the Company's position was clear that external independent challenge is a critical component of their governance processes and as such should operate beyond the PR24 planning process and time horizon. This clarity of ambition around challenge enabled a longer-term approach to be taken, where challenge was seen to be part of day-to-day activity and that stretched beyond submission of the PR24 business plan itself. This meant that conversations were not purely limited to PR24 itself.
- 1.2 The role of the external challenge process was formally agreed as to provide the Company with challenge in the following areas: on the quality, range and breadth of the Company's qualitative and quantitative engagement with customers and stakeholders; to hold the Company to account for the promises that have been made to customers and stakeholders about the services that will be delivered; around how effectively feedback has been used to shape business plans, policies and objectives over the long term; and to ensure that future plans deliver the best outcomes for customers, communities and the environment, both in the near and far term. Separately, I also engaged with CCW's Central Oversight Group, to identify potential areas of additional focus, and provided advice to the Company on how to best communicate their future plans with customers and stakeholders, whilst providing a structured forum for two-way dialogue and engagement.
- 1.3 As a smaller company, the ambition was that the external challenge process would embed the best of the previous PR19 Customer Challenge Group, but would operate in a streamlined, more strategic level, given the environmental challenges and the

increased pressure placed on household budgets that were to be addressed in PR24. A consideration shared by both the Company and me was that any cost of independent challenge would ultimately be borne by customers, and therefore it was critical that challenge costs were minimised, collaboration and opportunities to learn from others encouraged, and processes optimised.

- 1.4 As independent chair of the ECG I was supported by an independent and impartial panel of stakeholders and experts from across the Cambridge and South Staffs regions, with interest, passion and expertise across all ESG disciplines. I identified, short-listed and approached these stakeholders, and although the Company identified some stakeholders who they believed may want to contribute, the overall composition of the panel was my responsibility. The panel met at least quarterly, both in person, and virtually, in a mix of open and closed sessions, and consisted of people with a range of expertise, across infrastructure management, vulnerability best practice, customer service delivery, environmental protection, and academia, from both licenced areas in which the Company operates.
- 1.5 Separately I met with senior members of the Company and with members of the PR24 central team – on average on a weekly basis – to provide a greater level of challenge and to enable a wider and deeper exploration of potential issues, customer and stakeholder insight and feedback, and proposed options to meet these needs. This enhanced level of oversight was formalised following a review of all PR24 challenge processes undertaken by CCW, where we were able to assure ourselves that we would not fall out of kilter with the other challenge activity in place in the sector.

2. [Using Insight to Build a Better Business Plan](#)

- 2.1 The Company had recognised previously that a greater investment in insight would enable a more customer-centric business, and this was most evident through the step-change seen at PR19 where more than ever before the customer voice ran as a strong theme throughout their plan. Post PR19 plan submission this attention to detail around understanding customer wants, needs and expectations continued and upon being appointed as independent chair I was encouraged to see real depth and focus, and management attention and action being driven from the Company's research programme.
- 2.2 It was encouraging that the Company had elected to appoint a customer research practitioner to head up their research activity. This delivered strong outcomes for customers in that it enabled a balanced programme of research activity to be developed, with a mixture of qualitative and quantitative research completed in house, and through external specialist agencies. The benefit of the Company having internal research delivery capability was that it enabled a very quick internal sense of issues that were percolating in their customer base alongside the ability to test specific propositions to address these. And the investment in a specialist research practitioner heading up the Company's research strategy ensured that healthy tension existed between the central function who would commission research and any external agencies that delivered it,

which drove up standards, and in turn enhanced customer outcomes. As chair I was invited to view the selection process for externally-provided research, and it was clear that the award process itself operated in a very transparent and fair way: there were no favoured partners, and no automatic 'rubber stamping' of a decision to appoint a particular agency, with real focus and attention rightly given to ensuring that an agency's proposition and skills base best met the needs of any research brief.

- 2.3 I was invited to attend – as an observer – all customer research that the Company had scheduled. I also asked to observe the process through which an appointed agency goes from contractual appointment through to delivery of insight from the research itself. The Company was very willing to allow me to see the process end-to-end, and for me to provide feedback and challenge at all stage, around both content, and process, if applicable. Over the last 18 months I have observed at least three end-to-end research processes covering future customer expectations, qualitative and quantitative testing of proposed business plan propositions, specifically related to the long-term delivery strategy, tariff research and affordability and acceptability testing of end proposals against the framework developed by Ofwat, each delivered by different agencies. I also observed at least 15 different research sessions, some online and some in person, and was encouraged by the way that any feedback and challenge was taken, discussed, alternatives suggested, and a way forward agreed. It was particularly noted that the Company saw feedback and challenge around research as a critical and welcome part of the process, and not simply a 'box to be ticked'. During this process over 50 challenges were raised and addressed.
- 2.4 As a small company in relation to some of the other players within the sector it was clear that the Company valued and invested in research at a scale and reach that was greater than potentially expected for its size. I took counsel from an academic research expert on the ECG who confirmed that my reflections around the Company's ambitions were correct, and they commented that the Company did 'punch above its weight'. This was also evident in the preparation and planning that took place for the *Your Water Your Say* initiative. Although not part of the Company's original PR24 plan, the Company was keen to see how the process could aid and inform the development of its plan, and to learn from others regarding how they could ensure high levels of engagement to generate a quality conversation, which in turn could be used to test, or inform the business plan.
- 2.5 For a research and insight programme to be balanced it is critical that stakeholder research and insight is also of high quality, and this formed the basis of many early conversations with the Company. My initial reflection was that the high quality of customer research – both the process itself and the insight that flowed from it – highlighted some opportunities where stakeholder engagement could be enhanced to emulate the very high standards in research. As an example, although there was a clear process to map stakeholders, these tended to be those with regulatory or governmental responsibilities, and as such some stakeholders – such as consumer advocate groups – were unintentionally omitted which potentially could lead to issues around buy in and advocacy at a later date. It also appeared that stakeholder engagement sometimes operated at a more tactical rather than strategic level and although many critical themes

were being discussed, the processes to allow this insight to flow to the centre were not as robust as they could be, meaning that critical views and input could be lost.

- 2.6 This formal challenge around stakeholder engagement was taken positively and accepted by the Company and discussed at many levels including with the Board where I was encouraged to help cocreate how stakeholder engagement could be enhanced, both within the PR24 business planning process, and beyond it. As a result of this challenge a number of changes in approach were developed and then rolled out, including enhanced processes to ensure that stakeholder insight was consistently captured and shared, the identification and subsequent engagement of a wider and deeper range of stakeholders to allow their insight to inform business planning, and a commitment to further enhance stakeholder engagement across and beyond the next regulatory planning period. I was encouraged by the Company's efforts to address this challenge, given the significant external challenges that Company was facing at the time alongside the pressure of developing the business plan; and as a result, this aided the development of a stronger plan.

3. Understanding and Delivering Customer and Stakeholder Priorities

- 3.1 Through the review meetings with the Company a number of themes for the business plan were discussed that were driven by a mix of corporate ambition, customer and stakeholder wants and needs, and regulatory expectation. In these discussions we reviewed the opportunities or target performance standards alongside any insight related to or that had informed the Company's current thinking. The tension between delivering a sustainable plan that benefitted customers, especially within the context of the cost-of-living crisis and whilst upholding and enhancing environmental standards was clear.

- 3.2 A reflection was that in PR14 the Company may have potentially over-focussed on the environment and as such in PR19 a correction was applied where there was an increased focus on the delivery of customer-driven benefits. The Company's ambition was that the PR24 business plan would not prioritise the environment over supporting customers, or vice versa, but rather would develop a number of proposals that incrementally ratcheted up targets and objectives across both areas whilst recognising and responding to the significant challenges that exist, in particular around concerns of water scarcity and deep-set affordability challenges. Furthermore, it was clear that there should be a clear aim to deliver a plan without any no regret spend, whilst ensuring that future generations were not unfairly disadvantaged. This reflected the feedback I had seen and heard from stakeholders and from the discussions within the ECG.

3.3 Environmental priorities.

- 3.3.1 Stakeholders and customers were clear about the environmental stewardship expectations they had on the Company in the South Staffs, and in the Cambridge region. The issues impacting the River Cam in 2021 absolutely focussed attention

on the risk of water scarcity, and the leadership role that is needed to ensure that the population growth forecast of Cambridge is not hindered by issues around supply, nor abstraction taken from the aquifer that materially and potentially irrecusably damages chalk streams in the region. I saw and heard conversations with stakeholders and research with customers about this subject and how the conclusions from these led to greater ambition about what was possible, with leakage commitment targets now extended to 20% in Cambridge and 15% in South Staffs. These performance commitments were clearly supported by 51% of people surveyed across both regions during the AAT phase with a slightly higher level of support in Cambridge, as anticipated.

- 3.3.2 Longer term action was also an expectation, and the transfer from the Grafham Reservoir will allow around 25m litres of water to be transferred into Cambridge, with an investment of just under £10m. Notwithstanding the environmental benefits that this will enable, additional insight is needed throughout the AMP to ensure that the implementation of the transfer is achieved in a way that meets customer needs and expectations. This is particularly pertinent given the high taste scores for water from the chalk stream aquifer that will exceed those from Grafham.
- 3.3.3 The Grafham transfer will act very much as a tactical bridge until the proposed Fens Reservoir is commissioned and is providing around 43.5m litres of water per day from the end of 2030s. It is noted that the Company's share of the initial costs of the Fens Reservoir joint venture with Anglian Water are not included within the business plan proposal and this is appropriate. The strategic options for the project are still being developed and need to be fully tested with customers and stakeholders prior to being submitted to Ofwat as a reopener. Given the quantum of the costs of the project, currently estimated at around £2bn, it is essential that further detailed and robust insight is completed to understand the most appropriate ways to recover the costs incurred. At the integration of Cambridge and South Staffordshire Water a principle was established that costs from both regions are typically spread over the customers of the Group, and this was key principle for investments at Hampton Loade and Seedy Mill in PR19 where investment in South Staffs was funded by customers across the South Staffs and Cambridge regions. The total investment of the Fens Reservoir project however is of a different magnitude and therefore should be assessed in isolation to identify the most appropriate cost recovery mechanism. As part of this Ofwat needs to ensure that its guidance reflects the scenario where the recovery of significant costs is over a relatively small group of customers, and when that asset is shared with a neighbouring company where at a household level customers will pay markedly less.
- 3.3.4 The ECG challenged the Company to be ambitious around its metering strategy, seeing this as an enabler to drive further water efficiency and are supportive of the plan to achieve near universality of metering by 2035, with a target of over 75% achieved by decade end. The ambition in this area is recognised, as are the

stretching nature of the targets, given the significant work needed to achieve over 30k meter installations per year.

- 3.3.5 Ambition was also seen in the development of the £16m WINEP programme to deliver environmental enhancement schemes across both regions alongside the prioritisation of nature-based solutions. The additional investment at Hampton Loade on the Severn will avoid small fish and eels from entering the Chelmarsh Reservoir and is the type of stewardship activity that I heard some stakeholders report that they expected the Company to deliver as standard.
- 3.3.6 The ECG also championed the development of an additional performance commitment around chalk stream health and was encouraged to see that this was taken forward by the Company. Disappointingly this was not accepted by Ofwat, and as a result would recommend that additional activity is undertaken during the AMP to identify how this could be progressed as part of PR29 and utilised as a key environmental measure for the decade until the Fens Reservoir is delivering volume water to the Cambridge region.

3.4 Supporting to the Company's Customers.

- 3.4.1 From the start of the process, the Company was clear about its ambition to continually evolve its service and support propositions based on changing customer needs, behaviours and preferences. In recognition of some areas where customer experience and outcomes could be enhanced several customer service process, system and contact changes have been proposed. Although focussing on digital self-serve capability for routine customer service queries and transactions, as informed by customer insight, the Company has responded positively to challenge through the process committing that no processes will be digital only. This means that customers will be able to interact with the Company through a channel that works best for them, which will be of particular benefit for vulnerable customers, or those with limited digital capability. Notwithstanding any desire to reduce operating costs, this focus on the multi-channel service – albeit at slightly greater cost than a pure digital offering – should be recognised.
- 3.4.2 The current Assure social tariff provides critical levels of support to struggling low-income families to ensure worry-free access to household water. Funded through a flat levy of £5 across all customers in both regions, because of the higher levels of need (at both an absolute and at a percentage of customer base level) means that a higher proportion of support is delivered in the South Staffs region. Through discussions with the Company, we challenged for additional monies to be allocated to Assure to ensure that the level of support was not eroded as bills increased, as well as allowing a greater number of customers to benefit. Options were tested though customer research highlighting support for a per household contribution of £7 (with 61% support) or £10 (with 56% support) which would provide an increased quantum level of support to the Company's customers who needed it most. A recommendation would be that throughout the AMP period the Company

continues to review and test how Assure and any household contributions need to evolve, within the constructs of any regulatory settlement, to meet changing customer needs as the impact of the cost-of-living changes both need presented and levels of affordability.

3.4.3 Ambition and innovation are critical differentiators and were principles that were prioritised by the ECG at the commencement of the challenge process. There was also some recognition that innovation can be more challenging in a smaller company where there is less resource available and less customers over which costs can be spread over. Notwithstanding this point the development of the proposed rising block tariff – providing a buffer between the Assure social tariff and the traditional standard tariff for families who don't meet the criteria of Assure but require support nevertheless – should be commended. On implementation of this tariff, we would urge the Company to complete a longitudinal study to ensure that the benefits and outcomes and any potential unintended consequences from this are best understood so a wider, potentially cross-industry implementation can be planned. This will be particularly important if cost-of-living pressures remain.

3.4.4 It was encouraging to see that 70% of the Company's customers accept the proposals detailed in the business plan. It is also important that due consideration is given to the low levels of affordability flagged through the same process. In the AAT quantitative phase only 19% of customers surveyed said that the changes to annual clean water bill value, from £170 in 2023 to £219 by 2030, would be affordable. Although sensitivity analysis is needed to understand the rationale behind the low scores, it is important that the Company assesses whether these present any material risk and whether any elements of the plan should be rephased or redefined.

4. Governance

4.1 Given the relative size of the Company, the fact that approaching 75k customers were engaged to provide insight to inform and test the Company's proposals reveals the level of commitment that was shown to the process. The rigour of the individual elements of research and how these were stacked upon each other to build a consistent picture of customer wants, needs and expectations provided a very detailed foundation from which the plan could be constructed. This was best demonstrated through triangulation where key conclusions from research stretching back over many years were and could be shared, which demonstrated real though and commitment to the principle of developing a suite of services and standards informed by research.

4.2 As independent chair I had access to staff at all levels in the organisation, and indeed I was provided with full site access which demonstrated that nothing was out of bounds. The open and honest culture I encountered at the Company meant that we were able to explore issues and proposals at various stages of their life cycle which allowed challenge and feedback to be embedded throughout the development of the plan. Throughout the process I spent separate time with the Board, the Chair, the CEO and

INEDs, as well as with key members of the leadership and PR24 teams who were all keen to hear an independent voice and to discuss how the plan was evolving.

- 4.3 A challenge log was produced that captured all challenges raised through the independent challenge process. Totalling over 30 pages, this acts as a useful reference point highlighting how the Company's plans and proposals, as well as their research and testing of propositions evolved because of challenge. It has been agreed that post submission of the PR24 business plan that the challenge log process will continue: external challenge is key attribute of the Company and is critical to the way the company evolves and enhances its performance and customer propositions.
- 4.4 It is important to note that midway through the PR24 process the Company was subject to a malicious cyber-attack that compromised the data of a material proportion of its customer. Around the same period there were some significant and unforeseen changes to some of the senior team. Notwithstanding that these had the potential to distract away from the PR24 process, there were no drop-in support being provided to the challenge process, nor any changes to the quality and frequency of input from senior leaders and the PR24 project team.
- 4.5 The Company also continued to engage with external specialists – such as Sia Partners – throughout the PR24 process to provide additional surety and an additional view regarding the quality of both key elements of the plan, and the process followed. The culture of the Company to be open and to be critiqued, and for feedback to be reviewed and embedded was very apparent and should be recognised.
- 4.6 The ECG provided additional opportunities for challenge and review and consisted of a range of skills and experiences covering many disciplines. CCW was invited to be a member of the ECG, but due to resourcing issues was unable to play an active role, only attending one meeting (Lorna can you check this for me please) and only able to make one short supplementary bilateral meeting. I understand however that CCW was able to provide additional input to the development of the proposed PR24 plan through its routine meetings with the Company, but this may be something that Ofwat may want to assure themselves of.

5. Concluding remarks

- 5.1 This is a good, strong plan that will deliver enhanced customer and environmental outcomes. It has been based on a rigorous set of research and analysis that means each proposal is well informed. The Company's focus on outcomes rather than outputs will result in a step change in service and standards being delivered for customers and the environment during the AMP period, which will provide robust foundations from which to build its PR29 plan and proposals. This focus on principles, or outcomes, also aligns with Ofwat's Public Value Obligations.
- 5.2 The Company recognises the strong levels of environmental and customer need within its South Staffs and Cambridge regions and has developed a range of tactical and

strategic solutions to address areas of immediate need and customer and stakeholder priority. Examples of this include, but are not limited to, the drive to near universal metering by 2035, sourcing additional water sources for the Cambridge region, investing in multi-channel service enhancements, providing an expanded Assure social tariff, and innovating to enable launch of a new rising block tariff. It should also be noted that the plan has been supported through acceptability testing, with 70% of those customers surveyed supporting the Company's ambition.

Appendix One: assessment against Ofwat challenge expectations

Area of review	Ofwat expectations	MC position
Independence	<p>The people involved in customer challenge, and the process of challenge, are independent of the company. It is of primary importance that the mechanism for customer challenge is truly independent of the company and ensures that the company listens to representative voices. This means that challenge solutions should:</p> <ul style="list-style-type: none"> • Be at arm’s length from the company, with no restrictions or expectations placed on it which would compromise its independence. Any conflicts of interest or links between the source of the challenge and the company should be clearly explained and justified. • Minimise company contribution to, and review of, any outputs from the customer challenge before it is shared publicly. The public sharing of all outputs from the customer challenge is a key requirement of companies, to ensure transparency. Companies should check for factual accuracy of outputs but should avoid any undue influence. 	<ul style="list-style-type: none"> • The External Challenge Group (ECG) exists to provide challenge to the Company’s plans, performance and ambition. This is externally chaired, with experts appointed by the chair. The Company provides secretariat services but does not dictate what should be covered. • The independent chair also meets with senior Company leaders and managers on a weekly basis to review key themes and challenges to ensure a greater level of debate and review. The company’s SCP keeps a challenge log with line-of-sight from challenge to action by the company. This challenge log will be made public alongside the business plan submission. • The work of the ECG is underpinned by an agreed Terms of Reference produced by the chair, and separate challenge and queries logs.
Board accountability	<p>The company board is accountable for having in place a mechanism for, and listening to, customer challenge. Company boards should be able to demonstrate how business plans and wider decision-making take account of matters that are important to</p>	<ul style="list-style-type: none"> • Have met with the Board, the Chair, the CEO and an INED to discuss key themes emerging from the challenge activity I lead. Themes and challenges raised were

	customers, including those highlighted through the customer challenge process.	<p>considered and discussed to ensure full understanding with the Board and CEO keen to build upon existing capability and plans to see how the challenge conclusions could be built into future business plans.</p> <ul style="list-style-type: none"> • Transparency: documents provided to the Board are available for independent chair to aid challenge thinking and development.
Ongoing	Customer challenge is ongoing, addressing both development and delivery of business plans. Companies should be able to provide evidence of welcoming and responding to challenges on their day-to-day performance as well as during the development of their business plans for price reviews and long-term delivery strategies.	<ul style="list-style-type: none"> • ECG process and is not limited to the PR24 process, with independent chair appointed on an ongoing basis, beyond PR24 plan submission. Plans underway by independent chair (and supported by the Company) to develop 2024 external challenge roadmap. • ECG and independent chair will transition into challenging BAU performance and preparation for the delivery of the PR24 plan itself.
Informed	<p>The challenge process is informed by high-quality, comparative information and trends over time. This includes:</p> <ul style="list-style-type: none"> • The company and others providing access to, and explanation of, all relevant and helpful information, data and evidence with which to compare performance with other companies and over time, to 	<ul style="list-style-type: none"> • The Company's plan is informed by high quality research and insight, the majority of which is commissioned from external agencies. Selection of agencies is based on capability of agency and ability for them to provide quality insight, rather than to

	<p>enable meaningful and effective challenge.</p> <ul style="list-style-type: none"> • Information being provided freely by the companies when requested, with nothing deliberately withheld, and no limitations on sharing (unless justified due to customer data protection or commercial sensitivities). • Those challenging should have the time, resources and expertise to do so effectively. 	<p>just ‘rubber stamp’ a decision already made.</p> <ul style="list-style-type: none"> • Through the ECG process I have been provided with detailed information on subjects and themes under discussion, and have requested, and have been provided with, additional detail about new themes without any issues. Examples include information about Fens Reservoir and Grafham transfer, levels of household need used to size social tariff provision, acceptance of compulsory metering and benefits of smart vs dumb metering.
<p>Transparent</p>	<p>The company is transparent about the nature of challenges raised, the company response to each challenge and the company’s relative performance. Companies should be able to demonstrate that they have been transparent with customers about their relative performance levels by using information with definitions wherever possible that are consistent across the industry. Companies should be able to provide evidence to demonstrate how they are listening to customers. This should include:</p> <ul style="list-style-type: none"> • An explanation of how evaluations of different business plan options have taken account of customer views, with a focus on the options which provide the greatest benefit for customers and the environment. • Timely publication of evidence of customer views gathered through research or engagement exercises (with consideration of 	<ul style="list-style-type: none"> • The challenge log produced by the ECG is available for review. The Company will need to decide which challenges are shared. • At all sessions I have observed have provided previous Company performance metrics which resets the baseline and gives some robust foundations on which to have a more informed conversation and provides more constructive insight. • Insight from the Your Water Your Say programme was easily accessible to both those who attended, and stakeholder and customers who didn’t attend.

	<p>customer data protection and commercial sensitivities).</p> <ul style="list-style-type: none"> • A published record of all challenges raised by customers or their representatives. • Published evidence of the company's responses to these challenges, including reasons for why no action is required. • Clear identification of areas of disagreement. 	
<p>Representative</p>	<p>Challenge comes from a representative range of customers and is open to all relevant local or national stakeholders.</p> <p>The challenge process should ensure that the company takes into account the views and experiences of the broad range of customers they are serving. This could include experienced, technical specialists in customer research and water and wastewater services, and members of the general public (customers).</p> <p>Customer challenge should make sure that the views of the range of end user customers (including household, business, hard to reach, vulnerable and future customers) are understood by the company and taken account of in decision-making. Insight provided by intermediate customers (for example, business retailers) should also be considered</p>	<ul style="list-style-type: none"> • The Company's research is robust and has been reviewed and critiqued in depth by the independent chair, with feedback and challenge considered, and with changes implemented to process, content and context of the research to ensure that it was representative and could stand up to robust challenge. Challenges included breaking the assumption that Cambridge consumers were always in a higher demographic group compared to South Staffs and ensuring that target distribution of research participants was not compromised by the different sizes of customer base in both regions. • Although the Company engaged intensively with regional stakeholders, there was acceptance of the challenge that there could be a greater level of stakeholder engagement with some third parties and as such

		<p>the Company ensured that later phases of research also delved into wider stakeholder views around affordability and acceptability. The Company also agreed to further enhance stakeholder engagement throughout the remainder of the PR19 period and into PR24.</p> <ul style="list-style-type: none"> • Engagement arranged by the Company included both business and household customers, through which several cross-cutting themes could be explored in more detail.
Comprehensive	<p>Challenge is focused on the full range of areas where customers can have meaningful views, including:</p> <ul style="list-style-type: none"> • water and wastewater services (where applicable to the company). • customer services. • significant investment (large one-off schemes). • performance levels; and • bill impacts. <p>Challenge should focus on important and material or urgent issues which companies should incorporate into their business plans and long-term delivery strategies for price reviews or wider decision-making</p>	<ul style="list-style-type: none"> • Challenge was made and accepted on a mix of environmental, governance and societal issues. Some challenge made on issues out with of the Company’s licence (such as wastewater) was not immediately disregarded but was considered to see if any parallels or principles might apply to licensed activity. • Challenges were prioritised to ensure focus on material or urgent issues, with resolution of some less immediately critical issues parked to outside of the business planning period.
Timely	<p>Customers are able to challenge on a timely basis, with companies responding within a reasonable time period. Companies’ challenge</p>	<ul style="list-style-type: none"> • Customer insight is something that is critical for the Company and is

	<p>arrangements should allow sufficient time for effective challenge</p>	<p>coordinated via a centre of expertise. Customers can challenge through various engagement approaches, including the Company's H2Online Communities which have been running since 2019. Membership of the process and outputs from it have been shared and received.</p> <ul style="list-style-type: none">• The external challenge process was agreed between the independent chair and the Company. Independently both bodies reviewed whether a change of approach could deliver enhanced outcomes for customers and the environment, and the Company was supportive of several iterative changes to the model. These were implemented over a month and allowed better insight and feedback and challenge to be made, to better inform the proposed plan.
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Appendix Two: Challenge Log

Ref	Challenge	Date	Company response and updates	Status
Ch1	<p>We challenge the company to ensure that customer and stakeholder insight and analysis includes forecast – or if not confirmed, previous – margin expectations. It is essential that insight is not anchored on inaccurate rhetoric since this may provide a distorted customer or stakeholder basepoint.</p>	August 2022	<p>On each project SSC puts a lot of effort and care into determining whether it is appropriate or not to inform customers about shareholder dividend levels. SSC has included the current dividend level in a number of projects, including the recent Company Specific Adjustment study for pR24.</p> <p>Considerations include:</p> <ul style="list-style-type: none"> • For a number of projects, it is not appropriate to include this information: e.g., a brand/service tracker survey. • For some projects, e.g., Willingness to Pay Study, it is not appropriate to mention this context as it can skew customer trade off decisions on investments in ways that negatively impact SSC’s understanding of the results. In cases like this, customers are given closed question and/or open-ended comments to articulate whether shareholders returns have influenced their choices so this impact can be analysed without risk of distortion. • In the majority of strategic projects which involve acceptability testing and/or long-term planning topics, SSC normally includes the current and/or future level of shareholder returns in the informing stimulus materials to ensure customers are aware and considering this 	Closed

			<p>point when making their choices.</p> <ul style="list-style-type: none"> • However, SSC view its inappropriate to providing this information when being asked to comment on acceptability of future long-term plans when the shareholder dividend is not known. Just providing current level and then not being able to articulate what the level will be in the future is proven through SSC’s qualitative PR19 insights to lead to distorted views and lack of trust in the rest of the information shown – with a common response being “if they can’t provide a figure for the future, I will assume they are going to just raise the dividends to keep the shareholders happy.” We made the choice in wave 1 of the WRMP24 acceptability research testing not to include a mention of shareholder returns for this reason. <p>Once dividend levels from 2025 to 2030 are confirmed, SSC will articulate these to customers in acceptability testing of its strategic business plans.</p> <p>Agreed challenge closed</p>	
Ch2	We challenge the company to address the perception that the integration of Cambridge Water into the Group has resulted in a reduction in engagement with and understanding of issues impacting the	August 2022	<ul style="list-style-type: none"> • There is no research evidence (from PR19 to PR24) to suggest the merger of the company has resulted in a reduction in engagement or an understanding of the strategic issues facing the region – in fact the opposite. • There is indicative evidence (qual and quant) to suggest 	Closed

	Cambridge community and environment.		<p>that part of the reasons for lower c.sat scores in the CW region is due to perceptions that since being taken over that the company is less locally focused and which no longer puts customers' interests first – e.g., customer contact centre service, investment to reduce leakage. This has not been quantified but is a trend seen in survey and research feedback, which has lessened over the last 6 years in terms of its volume and strength of sentiment.</p> <p>Detailed below are...</p> <p>Some key elements from the CAM engagement plan:</p> <ul style="list-style-type: none"> • Our PEBBLE fund for environmental projects is active in both regions, and we tend to award a similar number of projects in both regions annually, despite the difference in area coverage. • We continue to have a dedicated community engagement role that is engaging with customers. • We are actively engaged with and respond to specific environmental queries from many organisations in the Cambridge region, probably more so than staffs, including local river groups, Councillors, MPs, LA planners and other customer representatives. • We are supporting an ongoing local chalk streams project on the Granta, engaging with 	
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			<p>local landowners and other interested parties.</p> <ul style="list-style-type: none"> • We are in discussions with developers on how they can build more sustainably for water and link this to customers when they move into new homes. <p>Agreed challenge closed.</p>	
Ch3	<p>We challenge the company to consider how it can ensure that it partners with local organisations operating in a related space to add value to its engagement activity, to avoid stakeholder fatigue.</p>	September 2022	<p>We have partnered with a number of water companies to undertake various collaborative research and engagement with a common set of stakeholders. This includes Water Resources East Non-household demand project and other WRMP related projects around strategic investments – e.g., holding a large business NHH demand reduction workshop in the Cambridge Water region.</p> <p>The company in discussions with the chair of their ICG has agreed to take a more strategic approach towards their stakeholder engagement building upon the engagement that already exists across the organisation.</p> <p>Agreed challenge closed.</p>	Closed
Ch4	<p>We challenge the company to consider how its engagement and business planning reflects the continually evolving economic, environmental and societal challenges that are being faced.</p>	October 2022	<p>The company’s comprehensive BAU and strategic customer insight programme is focused on tracking golden threads and regular brand and priority tracking to ensure key themes are picked up across all these areas and that insight sources and triangulated following best practice guidance frameworks.</p> <p>We continue to monitor and track external factors and look to adapt or seek new ways of engagement</p>	Closed

			<p>with our customers and stakeholders. For example, we trialled Open Banking through Equifax with a small number of Assure customers (customers on our social tariff). The open banking trial reduced the SLA from application to acceptance. Open Banking is a digital offering which learning from this will be reflected in the PR24 plan.</p> <p>In the PR24 plan, there is also a focus on implementing an omnichannel offering so customers can contact us via the channel of their choice. Customers can also self-serve via My Account similar examples existing within environmental elements of the plan where leakage, metering and water source ambition has been sharpened following customer and stakeholder insight.</p> <p>Agreed challenge closed</p>	
Ch5	We challenge the company to ensure that the panel can contribute to key customer insight programmes without the risk of damaging its independent nature and status.	October 2022	<p>SSC worked collaboratively with the independent chair to facilitate the level of suitable and robust challenge that leads to best outcomes for customers, stakeholders/communities and the environment. Reference number of research insight challenges and sessions attended by independent chair.</p> <p>Agreed challenge closed.</p>	Closed
Ch6	We challenge the company to detail how stakeholder feedback and engagement (as opposed to the customer feedback and insight) has been used to shape	November 2022 as a query, promoted to challenge	<p>Most stakeholder engagement is undertaken as part of consultations for our plans i.e., the drought plan, WINEP, WRMP and PR24. Plans like the WRMP and drought plan directly influence PR24, as these plans</p>	Closed

	and inform the business plan.	e February 2023	<p>must line up and will provide the same results for customers and stakeholders.</p> <p>For our drought plan and WRMP we undertake pre-consultation – essentially, we talk to all of our regulators and key stakeholders (e.g., Natural England etc) and share with them our thoughts, how we’re going about developing the plan and key areas of focus and get their input right at the start. We email out other stakeholders e.g., councils to tell them we’re preparing to undertake the next plan, what it will entail and if they have any input, please let us know. We produce a statement of response that we may use as an appendix to the plan. Then through the development of the plans we’ll hold sessions fairly frequently with the key stakeholders to share the details as we progress and get constant input and feedback. Once the draft plans are developed, they’re submitted to the EA, and they then advise Defra – Defra then give us permission to publish. We send it out to all of our stakeholders and then put it on our website and advertise it on social media etc to get everyone’s view and builds on the plan. After the formal consultation period closes, we have a set period of time to produce a statement of response, and a revised draft plan. Again, submitted to EA and they advise Defra. We may have to make more changes before we can publish the final plan so it can go round a few times in this last loop until everyone is happy.</p>	
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		<p>For the WRMP we under customer-based engagement too, with a customer and stakeholder engagement programme than runs after pre-consultation until the draft plan is submitted. We share details with customers, retailers and non-householders and get them to tell us their priorities, what they want to see, what they'd be willing to pay for etc. As the plan develops, we share our proposals with them and undertake acceptability testing and then make tweaks to the plan as necessary. We must show a clear line of sight in our plan to what our customers have told us and show acceptability. We also undertook roundtable discussions with key local stakeholders e.g., MPs, local charities etc for the exact same input.</p> <p>WINEP is slightly different. This programme is developed through engagement with environmental stakeholders who are undertaking projects we could get involved in or have requirements for us to undertake. We work most closely with the EA who will have some statutory things they expect us to do as well as areas they'd like us to step into. We work with local projects and organisations such as the RSPB, Natural England and the National Trust, as well as council biodiversity teams and catchment partnerships. Here we can identify joint project opportunities and chances for grants, funding opportunities and mutual benefit schemes. We then develop a proposed plan which</p>	
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			<p>we submit to the EA and Ofwat, who then review and determine what they will approve and fund.</p> <p>Cambridge is also slightly different to SST. We have far more regular stakeholder engagement here due to the water resource challenges, so we will hold meetings with the planning teams, university, and local environmental groups e.g., Cam Valley Forum. Through these we share our current and future plans and build relationships.</p> <p>In our business plan for PR24, we are including the stakeholder voice alongside the customer voice, and we are working to triangulate official records from our stakeholder engagement into our engagement with our customers to balance these views. Throughout the next AMP, stakeholder engagement will become more strategic and will build upon the existing foundations.</p> <p>Agreed challenge closed</p>	
Ch7	We challenge the company to consider how resource conflicts are being mitigated and managed, considering the competing employment opportunities that exist in both the South Staffordshire and Cambridge regions.	November 2022 as a query, promoted to challenge February 2023	<p>We have allowed for a right balance of resource in house and external support to deliver the PR24 objectives. This includes gearing up resources for PR24 by bringing additional support and procuring specialist consultants on specific pieces of work.</p> <p>SSC attracts new talent as it is a multi-skilled business with plenty of opportunities to learn and grow, and we also have mentoring system – through which longer serving members of the business can aid new</p>	Closed

			<p>members through their journey and teach them valuable skills. We have a new system that takes advantage of south staffs and Cambridge water's position within South Staffordshire Plc, allowing us to foster and nurture talent within the business. The initial risks seen around HS2 which were discussed with the panel at length have not crystallised.</p> <p>Agreed challenge closed.</p>	
Ch8	<p>We challenge the Company to consider stretch targets around performance that take a wider, potentially global view of the water sector, whilst also considering other service- and infrastructure-led organisations in the UK outside of the sector itself.</p>	<p>November 2022 as a query, promoted to challenge February 2023</p>	<p>Along with benchmarking performance across the UK Water sector which will be Ofwat's primary focus as part of assessing companies' performance comparatively. We have also looked at mains renewal globally when considering our demand management and leakage challenges bringing useful insight from the Netherlands to Tokyo on their low levels of leakage performance albeit different challenges with the regulatory and financial mechanisms in place. Some examples of international benchmarking are outline below.</p> <p>International industry cost benchmarking:</p> <ul style="list-style-type: none"> • We took part in an industry cost benchmarking project with several other water companies and undertaken by the Water Services Association of Australia (WSAA) who have developed the study with the Australian Water Industry over several years. 	Closed

			<ul style="list-style-type: none"> • The benchmarking method and report outputs have been developed by the industry to enable study participants to: • Benchmark their costs against industry peers at a sufficiently disaggregated and comparable level to enable the utility’s management to identify potential opportunities for improvements and/or efficiency gains. • Share results at a high level of potential best practice in each cost category to guide a utility’s further investigation of factors driving operating costs, and • Compare their performance where they participate in more two or more studies over time. <p>In addition, companies have access to an ‘International Report’ which compares the benchmark results for the UK participants with those of a cohort of major Australian water utilities.</p> <p>The outputs have provided us with insight into areas of our business where we are potentially outliers on cost or could look to push ourselves further with some areas feeding into our final PR24 proposals and stretch targets in the longer term.</p> <p>Agreed challenge closed</p>	
Ch9	We challenge the company to consider if there is an over-weight focus on cost of living in current customer	February 2023	Our plan consists of both a customer and societal focus as well as an environmental focus. The independent chair, having	Closed

	insight and whether the current crisis had resulted in themes over-indexing in importance.		seen the plan has stated that the plan is balanced. Agreed challenge closed.	
Ch10	We challenge the company to consider introducing a specific Performance Commitment to measure the health of chalk streams on an ongoing basis.	February 2023	<p>This is currently being considered with the scope/definition being developed whilst recognising WINEP commitments. We will be looking to submit a specific PC on chalk streams seeking early feedback from Ofwat as part of the early bespoke PC submissions required by April.</p> <p>We have submitted a bespoke claim on chalk streams as part of the Ofwat early submissions and await feedback from Ofwat. If this is approved, it will be in the plan.</p> <p>Propose to close subject to confirmation that this will be in the plans. Its ongoing and being considered.</p> <p>A bespoke PC was submitted to Ofwat but was rejected. Key principles around monitoring chalk stream health outside of the PC framework are being taken forward building from AMP7 investigations identifying several morphological measures to improve flows for the ecology until future abstraction reductions can be made through our environmental destination investigations. During or by the end of AMP8 we will be able to adapt our plan to deliver the scale of reductions required and bring schemes forward where scope to do so.</p> <p>Agreed challenge closed.</p>	Closed

Ch11	We challenge the company to examine and highlight any differences between the Cambridge and South Staffordshire regions in terms of customers wants and expectations	February 2023	<p>Our technical triangulation and thematic reviews highlight where there are significant regional differences in these areas.</p> <p>This was evidenced in the research insight debriefs that were shared from May onwards with the independent chair.</p> <p>Agreed challenge closed.</p>	Closed
Ch12	We challenge the company to ensure that the technology it utilises (around new connections and network extensions) is effective and meets customer expectations and standards.	May 2023	<p>Note that this flowed from the comment around the mismatch between partner and company mapping tools.</p> <p>We will continue to explore the innovative theme in our business plan through our ongoing engagement with the challenge panel.</p> <p>Agreed challenge rolls over.</p>	Rolls over
Ch13	We challenge the company to consider how it is able to better mitigate the impact on water resources in the Cambridge region and to ensure recharge of the aquifer, and to consider lowering the threshold for the use of Temporary Use Bans. (Was query 5).	November 2022	<p>The WRMP addresses this, and we have a clear drought plan that has been agreed by the Environment Agency. When thresholds agreed to by the environment Agency have been met, TUBs will be put in place.</p> <p>As all of water supply comes from groundwater, we utilise groundwater specific triggers in our drought plan. They relate to how much recharge we see in the aquifer after the summer period, and therefore whether Tubs would be required in the oncoming summer. However, we recognise that in one year drought situations, this means it is unlikely our TUB trigger will be met. We have committed to undertaking a review of our drought triggers, which is already underway, to look at whether</p>	Closed

			<p>there are any improvements we can make to these. We are undertaking this now, rather than wait for the next iteration of our drought plan, as we are keen to ensure that we are responding to the ever-changing climate needs. Water resources in Cambridge will also be improved by the Grafham transfer and Fens reservoir, both of which are in our business plan and have been discussed at length with the independent chair.</p> <p>Agreed challenge closed.</p>	
Ch14	<p>We challenge the company to consider how it ensures that it's 'channel of choice' approach for key customer comms is refined if desired outcomes are not achieved. (i.e., if early-stage debt collection letters are sent to an email address but are unopened, what happens, considering the imperative to treat customers fairly.</p>	<p>May 2023</p>	<p>We are building new billing software which has the capability to adapt depending on customer choice. This is called Aptumo, and it has AI capabilities which are used to read customer behaviour and make decisions based on this behaviour.</p> <p>Director of customer service talked through what will be delivered with the independent chair, and the channel of choice project is explained in our business plan.</p> <p>Agreed challenge closed.</p>	<p>Closed</p>
Ch15	<p>We recognise the importance to provide greater levels of support to certain customer groups, and that this would require an uplift in the current £5 per household 'levy'. We challenge the company to consider if a matched shareholder/householder model might deliver greater outcomes?</p>	<p>May 2023</p>	<p>The different options and approaches went through vigorous testing, and the independent chair is happy that the £8 contribution from customers is the most supported option.</p> <p>Agreed challenge closed.</p>	<p>Closed</p>

Ch16	Can the Company demonstrate the trade-offs that have been made in the process from insight through to end business plan commitments? (was query 11)	November 2022	<p>Triangulation reports highlight the end position and trade-offs from engagement through to business plan and are complemented by the discussions held in our weekly meetings with the independent chair.</p> <p>Agreed challenge closed.</p>	Closed
Ch17	We challenge the Company to demonstrate the innovation that is in place within its plan: environmental, technical, customer focussed. Specifically, does the size of the Company present any innovation risk, in that the Company may be unable to invest what may be needed in comparison to larger companies. Has the Company considered collaboration in innovation? (was query 2)	November 2022	<p>The company continues to innovate in many areas across the business. This is evident in where we are installing new ceramic membrane-based water-filtration solution at one of our treatment works, the largest deployment of its kind in the UK. We are also testing new leakage detection and repair methods and smarter networks, whilst sometimes can be an “early adopter” taking maximum learning from the industry.</p> <p>The company works closely and collaboratively with the industry as a member of the “SPRING” development group (accelerating and transforming innovation in the sector), other collaborative working groups and a sector reviewer as part of Ofwat’s Water Discovery challenge.</p> <p>The company won the innovation bid that we made to Ofwat’s innovation fund for a project titled Water Efficiency in faith and diverse communities and have shared with the independent chair. Being a small water company, we believe we are agile and can move quickly in the innovation space.</p> <p>Agreed challenge closed.</p>	Closed

Ch18

We challenge the Company to ensure that it delivers best in sector support to vulnerable customers in the current environment. Was query 14)

November 2022

Customer Affordability & Vulnerability Strategy

- Secure funding to maintain/increase the contribution required for the social tariff as bills increase.
- Test resources to offer support to customers financially and educate on water efficiency.
- Deliver a digital financial calculator that can be used by our teams or customers alike to find out what financial help is available, from suitable benefits to our Assure tariff.
- Create a digital application for our Assure tariff that can be used by our teams and customer alike to raise an application. This removes barriers and increase ease of access and removes the need for printed forms and postage, and it allows customers to self-assess who prefer to.
- Introduce enhanced credit control process that increases the ease of application/removes the need for 100% of financial evidence upfront, and removes any delay in receiving support needed.
- Update and verify information and regularly to ensure the identification of vulnerable and affordability, for example PFR and DWP data, and send targeted pro active customer communications to those identified.
- Drive customer awareness of Assure through Charitable Trust grants, and PFR through direct outreach customer engagement, and through being in schools customer success stories across our digital channels.
- Engage awareness of support through being recognised customer understanding of their billing customers through reducing the average reading age and offering clarity on being disused already reviewed.
- Design and deliver a Customer Affordability and Vulnerability Charter and training programme and ensure that all customer-facing staff receive this training.



Securing your water future

Agreed challenge closed.

Closed