

Commentary on Thames Water's Performance Commitments 2017

Prepared by the Thames Water
Customer Challenge Group



What is a Customer Challenge Group (CCG) and what does it do?

The Thames Water Customer Challenge Group (CCG) exists as a group which is independent of Thames Water. All water companies in England and Wales have similar groups. The Thames Water CCG has two main roles; to monitor whether Thames Water is meeting its commitments and reporting what progress it finds on an annual basis and also to see whether Thames Water's future plans reflect what customers need and want. It then reports on its findings to Thames Water customers, the wider public and Ofwat.

Our mission

To represent the needs and interests of current and future customers in ensuring Thames Water both develops and delivers an affordable and sustainable business plan, including encouraging the company to consider the impacts on the environment and wider society in a customer context.

Our objectives

To be

- Independent
- Customer focussed
- Transparent (to customers, stakeholders, Ofwat and the company)
- Able to offer a balanced view in the light of the external environment eg. customer needs, environment challenges, regulation.

As you will see from our membership, we are drawn from a cross section of customers, regulators and other groups who play an important part in the life of our region.

To find out more about the CCG Terms of Reference and our Members List visit:
<https://www.thameswater.co.uk/sitecore/content/Corporate/Corporate/About-us/Customer-Challenge-Group/About-the-CCG>

What has the Thames Water CCG done this year?

The CCG met eleven times for its regular meetings including 4 quarterly reviews of performance. In addition, the CCG had 7 "deep dives" looking in more detail at specific topics including strategy and some research methodologies. During the year the CCG was visited by the outgoing CEO Martin Baggs, the new CEO, Steve Robertson, and Dame Deirdre Hutton, the independent Thames Water Board member with an interest in customer issues. The CCG visited Thames Water's Customer Service centre including a visit to the complaints team; members also attended numerous customer research sessions. The CCG responded formally to 3 Ofwat consultations. During the latter part of the year a Customer Engagement Sub Group started which is intended to focus on the detail of Thames Water's customer research programme and its implications.

Explanation of Green Amber Red

- Performance at, or favourable to, Thames Water's committed performance level for 2016/17
- Performance adverse to committed performance level, but within some agreed ranges
- Performance adverse to committed performance level and outside some agreed ranges

A more detailed explanation is at Annex 1, page 16



Introduction

This is the second year of Thames Water's commitments made in its 5-year Business Plan 2015-2020. Thames Water have reported to the CCG on their progress against these on a quarterly basis, giving the CCG the opportunity to challenge directly and understand why progress is and isn't being made.

The CCG recorded its disappointment last year that Thames Water chose to separate the publication of its annual results and their summary of their performance against their commitments. This separation will happen again this year and the CCG again wishes to record its disappointment that Thames have chosen to split their reporting in what seems an unfortunate way as it does not give (and indeed may distort) the overall picture.

The CCG observes that this year has been a difficult one for Thames Water; some of this difficulty is reflected directly in these results, and some is not but has clearly affected the company and its operations. The £20m fine for river pollution was handed down in March this year, even though the pollution had taken place some years before. Serious flooding in London in late 2016 and an interruption to water supply in Hampton on Christmas Day both received unfavourable press coverage. There were new shareholders. The company gained a new CEO, Steve Robertson, a new CFO and a new Customer Service Director. That all represents a great deal of change and a continuing refocusing of the business. However, in the year being reported on, a rather mixed picture of outcomes can be seen.

The CCG has been encouraged by Thames's willingness to brief it in considerable detail about operational issues and to discuss their plans in an open and transparent way. We were pleased, for example, to have sight of the "forensic analysis" into the various bursts and floods, and to hear a detailed account of what happened at Hampton. The CCG was also briefed on the changes in operational approach that have been made in recent years to address the pollution and other incidents to avoid reoccurrence. However, we do hear on a frequent basis that operational edicts in various aspects of the business do not always seem to "stick" and that mistakes are repeated, albeit in different locations. This is something that we have challenged Thames about on a number of occasions and we will continue to do so. We are always keen to hear more, too, about management changes and what Thames is doing to evolve its structure and culture, and also about the progress of Thames Water's Infrastructure Alliance.

Another area for challenge is whether Thames is doing enough to tackle the issue of asset health – whether the infrastructure that makes up the Thames network is fit for purpose and can do what is required of it. It is clear that the types of profound change and investment that will be necessary to address some of the underlying issues such as deterioration in the basic infrastructure cannot be resolved in a single plan period, not least because of the sheer volume of work that is required. A systematic and sustained approach is needed and Thames will need to be able to demonstrate that in the coming months and years and, of course, in its 2020-2025 business plan.

The CCG believes that there are 6 key issues that Thames Water must urgently address if it is to meet its commitments by the end of this business plan period and indeed in the intervening years. These are

- The need to achieve sustainable and replicable performance. Evidence we have heard this year suggests that on too many occasions corrective decisions are not followed through assiduously and systematically, leading to repeat issues and surprises.
- The need to think beyond the 5 year business plan and plan further out in order to take the "correct" decisions about asset replacement and investment. There are encouraging signs that Thames are beginning to think this way. Ensuring resilience is key and this simply cannot be done without appropriate levels of asset investment and management focus. Customers expect that infrastructure will be improved and that leaks, for example, will be reduced.
- The need for clear strategic direction from the Board which recognises the investment that needs to be made to take asset health to a stronger position.
- The need for radical and rapid improvements in Thames's IT and telephony which, although not directly part of the commitments, clearly has impacted customer satisfaction throughout the year.
- The need to persist with improvements to customer service and customer engagement, and to build on the impetus we have observed to move from passive relationships with customers to active ones. One specific and important development welcomed by the CCG is the fact that Thames Water's social media operation is now 24/7, 365 days a year. There is also some evidence that social tariff payment plans are being more readily taken up; the CCG looks forward to further progress in the coming year.
- The need to ensure – as we noted last year – that learning and best practice is shared across the company and not kept within organisational "siloes", with internal communications encouraging best practice to be adopted to support customers.



Progress against water performance measures

CCG members attend many customer focus groups and hear directly from customers what really matters to them. Possibly one of the most important issues for customers is leakage, alongside interruptions to supply and water quality. It is therefore of considerable significance that one of the "red" measures this year for Thames is the leakage measure. Discussions between the CCG and Thames suggest that this measure will not be met in possibly the next two years and that only mild weather and a helpful set of circumstances enabled it to be met in the previous year. During the year, the CCG has robustly challenged the company and its executives around this topic on a number of occasions. The CCG has also given advice around how best to discuss this issue with customers in order that they can make an informed input to the research process for the next plan period.

Water annual performance measures

	2015/16 Actual	2016/17 Actual		2015/16 Actual	2016/17 Actual
WA5: Customer side leakage free repair [R]	1404	2089	WB6: Security of supply index [FP]	100	99
WB1: Asset health infra [FP]	Marginal	Marginal	WC1: Greenhouse gas emissions [R]	284.8	160.7
WB2*: Asset health non infra [FP]	Stable	Stable	WC2: Leakage [FRP]	642	677
WB3*: Drinking water quality supply [FP]	99.96	99.96	WC3: Abstraction incentive mechanism [R]	N/A	0
WB4: Low pressure performance [R]	0	5	WC4: Customer education [R]	17,491	20,898
WB5: Supply interruptions >4hrs [FPR]	0.12	0.12	WD1: Energy imported - energy exported [R]	496	491

*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

It appears to the CCG that Thames has listened to our concerns. Thames assure us that they will have an integrated plan going forward, with a single accountable owner. This has not been the case in previous years. They acknowledge that they were slow off the mark in the first year, with unrealistic expectations of what their new contractor alliance might achieve. Thames recognise that this is a hugely important customer priority and they know too that they must begin to reduce the level of leaks as well as maintaining current performance. The CCG was encouraged to hear this open approach to the issue; we will continue to challenge in the coming year as we have in this one and we will look to see that there is an integrated plan and that the plan, supported with appropriate investment, is being delivered. Thames will be returning £8.55m to customers at the end of the 2015-20 Business Plan period for failure to achieve its leakage performance. The CCG will continue to monitor the leakage issue closely and have asked Thames to provide regular briefing on progress alongside the performance monitoring data.

Another important issue for customers is security of supply. This appears in these measures as Asset Health Infrastructure. More than 6051 properties lost supply for more than 12 hours, which exceeds the maximum allowed for in Thames's performance target, although it represents an improvement on the previous year.



The lower the number the better for this target. The CCG have heard that Thames are looking at a strategy to address their pipe infrastructure and is broadly supportive of their approach. Thames have shown through another supply measure (supply interruptions of greater than 4 hours) that they can have an impact; a combination of innovative approaches including tanks and diversions appears to be paying off, although the CCG will be keen to see that this is sustainable. Getting asset health "right" must be a core part of Thames's approach going forward.

Security of supply (WB6) is a measure of Thames Water's ability to supply water in extreme conditions. In 2016/17 their performance of 99 was 1 point below the committed level of 100 arising from a shortfall in the London water resource zone. Thames Water tell us that this shortfall is mainly a result of higher than planned levels of leakage which contributed to higher than forecast demand. This result has led to a penalty of £2.3 million. Again, the CCG will look carefully at the issues around this throughout the year.

As a result of the leakage failures, the measure relating to "energy imported vs exported" was also missed, although running of the desalination plant briefly to check it was working properly also had some impact on the outcome. While beating the target, drinking water quality has remained at the same standard as last year; Thames have focussed this year on ensuring that hygiene at the sampling stations is as high as can practically be achieved. This is a hard measure to shift materially, but it is again one that is critical to customers so any improvement is to be welcomed.

Water 5 yearly performance outlook












The CCG comments that Thames assure us they have looked again during this year at their physical and cyber security in order to deliver at the end of the period on their Security and emergency measure target; their smart metering education programme is contributing to the water efficiency target.



Progress against waste performance measures

Another topic which customers frequently raise when discussing their water and waste provision is sewage discharge. So, as with leakage, it is a disappointment that the sewage treatment works discharge compliance target has not been met, with 6 sites failing their permit conditions, and also that the sewer flooding target (other causes) has been missed due to third party damage and sewer abuse (blockages). The CCG was concerned to learn, for example, that builders have been known to pour concrete down sewers and the issue of blockages caused by wet wipes being flushed down the toilet by customers is well known. Thames have discussed with us some operational issues at one particular works and have explained a process change that they have made. As before, this is to be welcomed, but ensuring that such changes are implemented systematically is crucial. The CCG have engaged throughout the year on this topic, pressing Thames to explain not only what their future plans are but also to look at how they have handled customers during previous events and to think through how better to support them if future events occur.

Waste annual performance measures

	2015/16 Actual	2016/17 Actual		2015/16 Actual	2016/17 Actual
SB1*: Asset health non infra [FP]	Stable	 Stable	SC3*: STW discharge compliance [FP]	99.13	98.28 
SB2: Asset health infra [FP]	Stable	 Stable	SC5: Sludge disposal [R]	100%	100% 
SB4: Internal flooding incident other causes [FPR]	1,410	1,214 	SC6: Customer education [R]	17,491	20,898 
SB9: Deephams STW [FP]	N/A	Delivered 	SC7: Odour reduction [FPR]	N/A	1,305 
SC1: Greenhouse gas emissions [R]	468.5	346.7 	SD1: Energy imported - energy exported [R]	533	477 
SC2*: Pollution incidents [FPR]	232	315 			

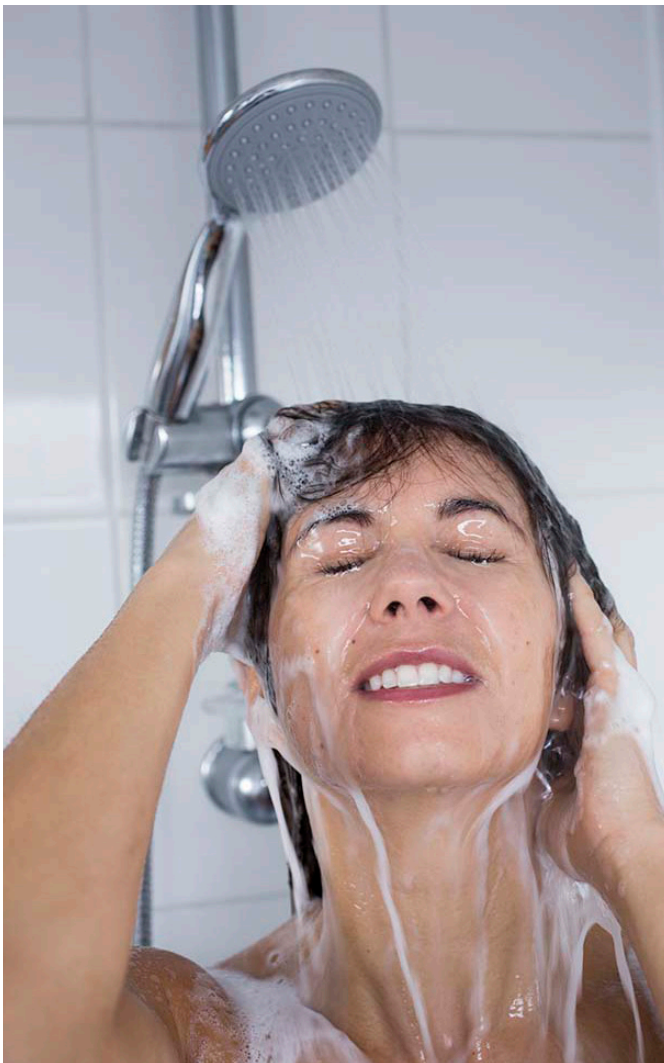
*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

Again, these failures will result in the return of money to customers at the end of the 2015-20 Business Plan period. The CCG would urge Ofwat and manufacturers to respond to both the wet wipe issue and also to tackle pre-emptively the microplastic situation that is now developing. The CCG also urges Thames Water to make more use of the data and cost implications of "bad" and avoidable behaviour and to continue their communications efforts in an effectively targeted way.

The number of pollution incidents has also risen although the measure is within target; given the £20m fine for the pollution incidents relating to previous years in Oxfordshire, Buckinghamshire and Berkshire we would expect the company to be focussed on this as an issue. The CCG will follow progress in this area with particular interest. The CCG was pleased that there has been some progress on odour reduction.

5 year performance for waste - outlook

Sewer flooding is another issue of great importance to customers. Thames insist that this is a major priority for them with both strategic and tactical options being considered. They are working closely with the Environment Agency to move this forward but it is unfortunate that something that is so important to customers is still not on track.



Thames have a number of targets relating to the Tideway Tunnel. This has been a year when work has been ramping up but when the profile of the Tunnel has inevitably diminished as it is no longer novel and is not yet operational. The CCG continues to urge Thames to communicate creatively with a variety of audiences through a range of media and are pleased to hear that Thames are confident of meeting the 5 year measure.

Tideway tunnel performance

	2015/16 Actual	2016/17 Actual		2015/16 Actual	2016/17 Actual
T1C: Completion of category 2-3 works [FP]	9	19	T2: Stakeholder and infrastructure provider engagement [R]	N/A	4.9

*Calendar year, [R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward



Progress against retail performance measures

The key customer satisfaction measure is effectively a measure of how well interactions between Thames and customers are handled rather than a simple satisfaction measure.

It ended the year as red (there was some improvement, but not enough to make it amber or green). Other red measures such as those around written complaints have contributed to this. Thames know that they must do more and have put in place a programme designed to tackle this critical issue. The CCG will track it with interest. Gains that had been made in reducing the number of written complaints from previous years have been lost. Thames tell us this was down to slowness in answering billing queries and some systems issues as well as a flawed on line form. Handling of these complaints has shown some improvement, however, with quicker and earlier resolution. The CCG are confident that problems with the phone system have contributed to the increase in written complaints. It is to be hoped that Thames can effect a step change improvement in order to provide more reliable customer contact channels.

Retail annual performance measures

	2015/16 Actual	2016/17 Actual		2015/16 Actual	2016/17 Actual
RA1: Minimise the number of written complaints [R] (No per 10k HH properties)	14	19 ▼	RA6: SIM points performance relative to industry (/100) [FPR]	76.7	77.3 ▲
RA2: Improve handling of written complaints [R]	92%	94% ▲	RB1: Online account management supported by webchat [FP]	Limited online	Limited online
RA3: Improved customer satisfaction (charging & billing) [R]	4.61/5	4.63/5 ▲	RC1: Increased number of customers on payment plan [R]	54%	55% ▲
RA4: Improved customer satisfaction (Operations) [R]	4.27/5	4.46/5 ▲	RC2: Increase cash collection rates [R]	88.2%	87.9% ▼
RA5: Increase the number of bills based on actual meter readings [R]	91%	97% ▲			

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward



There has been some improvement in customer satisfaction, especially in Waste, where customers are surveyed more quickly.

Cash collection rates ended the year as red due to the handover of Business customers to Castle Water which led to delays in cash collection. More household customers also contributed to this.

There has been a small, improving, movement in the number of customers on payment plans, which is to be welcomed.



Progress against wholesale wastewater customer facing performance measures

Real progress was shown in handling of written complaints, with absolute levels of waste water complaints escalated to the second stage complaints procedure less than half the volume of last year. Overall satisfaction also improved but did not hit the target – better root cause analysis, better management of solutions and trying to resolve earlier have all contributed to that progress. Looking across the piece, there are real signs of positive movement which is to be welcome.



Wholesale wastewater customer facing performance commitments

	2015/16 Actual	2016/17 Actual
SA1: Improve handling of written complaints (%) [R]	87%	93% ▲
SA2: Minimise the number of written complaints [R] (No per 10k HH properties)	6.46	6.21 ▼
SA3: Improve customer satisfaction [R]	4.50/5	4.57/5 ▲

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward

Progress against wholesale water customer facing performance measures

Managing complaints end to end in Wholesale Water seems to have had a positive impact with an amber measure moving to green.

Satisfaction held steady while the number of written complaints rose slightly.

Wholesale water customer facing performance commitments

	2015/16 Actual	2016/17 Actual
WA1: Improve handling of written complaints (%) [R]	91%	96%
WA2: Minimise the number of written complaints [R] (No per 10k HH properties)	8.84	9.12
WA3: Improve customer satisfaction [R]	4.44/5	4.50/5

[R] Reputation. [FP] Financial penalty. [FPR] Financial penalty & reward



There are a number of measures which go across the various organisational boundaries.

Greenhouse gases

Thames have now let a contract with a supplier which means that their greenhouse gas measure has been met and will continue to be met. All energy used by Thames either from their supplier, Haven or generated by Thames themselves can now be shown to be 100% renewable. The CCG was very pleased to hear this.

Education

Thames have outperformed against their targets which mostly relate to school speaker and visit programmes. Schools have shown a greater interest and more have requested a speaker than planned. Thames has also undertaken a number of advertising campaigns aimed at changing behaviour around water usage and also disposal of waste. These have apparently been found to be effective



in that blockages reduced where the campaign had been conducted. The CCG understands that Thames is also working with Water UK to try and change wording on wet wipe packs to remind people that they should “bin it not block it” and to remove the “flushable” label. Thames is to be commended for these initiatives; their home visits as part of their smart meter roll out programme also have real educational impact – as well as increasing customer satisfaction – and this can only have positive results.

Innovation

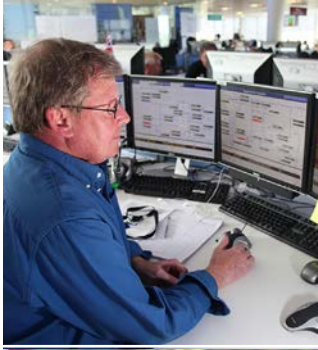
During the year the CCG has been keen to hear about innovation; Thames gave one substantive presentation which outlined dozens of individual initiatives. The CCG is especially keen, however, to hear how Thames is using creativity and innovation to deliver against its commitments. Thames’s approach to customer research shows how innovation can deliver real insight using different tools and techniques; some of the new approaches shown in tackling leakage are also worthy of note. Overall, though, the CCG would welcome a continuing determination by Thames Water to spell out how innovation is being used every day to tackle the key issues.

Customer research & engagement relating to 2020-25 business plan

The CCG continues to be deeply involved in Thames’s research and engagement programme related to the business planning process for 2020-25. Thames’s programme is extensive and at the end of the year had begun to move into more focussed research that will directly help to inform decision making within the company. Thames appears to be trying to use a combination of approaches including some new and innovative ones in order to get the most robust understanding possible and the CCG would like to compliment them on the efforts they made during 2016-17 to listen to customers and engage with them. Their work around intergenerational understanding and their ambition to open dialogue with future customers through participating in youth orientated events such as Battle of Ideas and Debating Matters were interesting and positive experiments. The coming year will show how well engagement continues and how clearly the voice of the customer is being translated into plans, and will show also whether there is a clear enough line of sight between customer requirements and priorities and the investment plans being made.

Thames have also told us that they are keen to engage more proactively with their customers in addition to engagement planned around the Business Planning cycle; they are conscious that there is little contact with customers in the normal run of events. The CCG welcomes any such customer engagement initiatives and the company’s recognition that ways must be found to build a relationship with customers outside of the purely “operational” interactions. The CCG would urge Thames to find a way to better reflect local priority and preferences, by building on the local engagement activity which forms part of this research

One research area where we would like to see more focus is that of being a good – or “responsible” company, rather than just a good neighbour. Company behaviour and approach is mentioned frequently by customers and issues such as the pollution fines and the floods lead to greater customer interest in this area. We hope to see more about this in the coming year.



Conclusion

In the year under review, Thames has met many of its targets. But it is also clear that Thames is currently not delivering against what really matters to customers – avoidance of supply interruptions, leakage, sewer flooding and floods, and also how they are dealt with when they contact Thames. These are all issues which are at the heart of what Thames does. Further, when customers have had reason to be in contact with Thames during this year, it is clear that for too many customers the customer experience has been less than satisfactory by the company's own measures.

Looking forward we can see some encouraging plans being proposed. It is key that Thames delivers against these plans. The CCG have asked for regular updates on major programmes alongside updates on the performance commitments.

The CCG believes that good work has been and is being done in terms of customer research and believes that this will be of real benefit to Thames as the business plan process moves forward.




The CCG also believes that it is imperative that Thames' Annual Performance Report and Annual Report be published simultaneously-in the interests of transparency and to allow proper scrutiny of how Thames are delivering on their performance commitments to customers, against their financial rewards to Thames' shareholders, executives and staff. This year the Annual Report was again published prior to the performance report-which does not serve these objectives. Next year we expect Thames to publish their performance report simultaneously with their Annual Report.

During the coming year, it is imperative that Thames addresses the underlying issues and invests now for the future, to ensure long term asset health, and as a result their ability to deliver water and wastewater services to a growing population in a water-stressed region.

Annex A

A detailed explanation of red amber green

Performance at, or favourable to, Thames Water's committed performance level for 2016/17

RAG rating	Description
	Performance at, or favourable to, Thames Water's committee performance level for 2016/17
	Performance adverse to committed performance level, but either: <ul style="list-style-type: none"> ■ within the range allowed without a penalty (the 'deadband') if defined (water and waste); or, if not, ■ within 5% of our committed performance level (water and waste); ■ or marginal asset health (water and waste); or ■ within 1.5% of our committed performance level (retail)
	Performance adverse to Thames Water's committed performance level if: <ul style="list-style-type: none"> ■ outside the deadband (if defined) (water and waste); or, if not: ■ adverse to committed performance level by more than 5% or deteriorating asset health (water and waste); or ■ adverse to committed performance level by more than 1.5% (retail)