



CCG REPORT DECEMBER 2023



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Introduction From Sukhvinder Kaur-Stubbs

In monopoly markets like water and sewerage, where people have no choice, it is vital that companies engage their customers to understand their priorities and deliver the service they want at a fair price. As a customer challenge group (CCG), we have remained independent and worked strategically to help Thames Water stay focused on its customers.

Essentially, our efforts are invisible to customers because our influence is behind the scenes through review and challenge of plans and their evidence base. Where we have been most effective is in helping improve understanding of the rich diversity of needs across London, the Home Counties and Thames Valley and in hearing from communities that don't always speak out. When different Thames Water teams present to us, they have to adopt a consumer lens. Over time, this strengthens internal connections between disparate workstreams relevant to customers. It also supports the company in culturally re-orientating from the complex mechanics of its business to how it impacts on the people it serves. We hope that our singular focus on meeting the needs and wants of customers, consumers and communities of interest provides valuable assurances to the Thames Water board and sharpens communications and messaging.

The core element of our output this year has been scrutiny of the company's 2025-30 business plan submitted to Ofwat, the water sector's economic regulator, as part of its price determination. Although this is detailed in a separate report, here we set out an overview of the context within which we have worked and highlight areas where we are making a difference to the quality of service that customers receive. Peppered through this report are vignettes of the challenges we have posed.

As ever, I am grateful to my colleagues on the CCG for the expertise they bring and the dedication with which they apply it to all aspects of Thames Water's proposals and performance. Members of the CCG are drawn from a wide variety of backgrounds, reflecting much of the demography and geography of Thames Water's customer base, and are listed at Appendix A.

1. OVERVIEW

These are turbulent times for the water sector as a whole and Thames Water faces especially strong headwinds. As the UK's largest water and waste-water company, responsible for services across most of London and the Thames Valley, it is rarely out of the spotlight. The very varied nature of its customer base, by geography and income, throws up distinctive challenges. And its history of often indifferent performance dictates a public narrative that the company's ageing infrastructure makes hard to turn.

The Thames Water CCG was set up in its current form at the start of 2022. This is our second annual report. We are an independent body, albeit funded by Thames Water, with a remit to hold the company to account on behalf of its 16 million customers. In doing so, we are always cognisant of external commentary, but our focus is on the quality of service delivered day to

day and its value for money. This perspective may not always align with the dominant narrative of politicians, the media and environmental and other interest groups.

Challenge example

Our challenge: Was Thames Water being sufficiently responsive to customer complaints on social media?

Thames Water response: A commitment to monitor adverse social media references to billing and payments, leaks and burst pipes and sewage discharges and to seek to reduce their number.

Since our first report, published in June 2022, our energies have necessarily been directed largely on scrutiny of the preparation of Thames Water’s business plan for the period 2025-30. This was formally submitted and published in early October 2023. The company is proposing to spend £18.7bn over the plan period, including investment of £4.7bn in the water network and other assets. This would be more than double the current level of investment. To help fund this, customer bills would rise by £14.55 a month over the five years and the company wants to apply this increase, which would raise the average bill by 40% by 2030, largely at the start of the period. It accepts that this is “a big ask” of customers at a time of intense cost-of-living pressures.

A summary of the CCG’s view of the business plan is given below and our full report is available [here](#). We conclude that it is “crucially important that [the plan] leads to tangible improvements in service for present and future customers”.

Details of the CCG’s work on the business plan and our wider activity in 2022-23 are contained in our [Challenge Log](#). This records the principal challenges we have made to Thames Water and the company’s responses. We are grateful for the company’s active engagement with us and the receptive and positive attitude shown by senior staff. We are aware that, elsewhere in the water sector, other independent challenge groups do not enjoy the same level of co-operation and transparency.

It would, however, be remiss not to comment on the sudden and largely unexpected managerial and strategic upheaval that occurred at Thames Water in June 2023. The resignation of the company’s former chief executive, Sarah Bentley, and the refocusing and acceleration of the eight-year turnaround strategy she had been leading undoubtedly caused concern, especially as it coincided with a planned change of company chair. The CCG was, however, reassured by the priority given by the incoming chair, Sir Adrian Montague, to meeting us and personally stressing the importance he would be placing on improving communications with customers within a new, quicker turnaround strategy.

We look forward to seeing early results of that resolve and to welcoming calmer times for Thames Water as it sets about its formidable task of improving its performance and profile.

2. HOW WE WORK

The CCG's overarching remit is to ensure that Thames Water has, and is able to evidence, a comprehensive understanding of its customers' issues, needs and priorities. We are mandated to provide feedback to the company's customer service committee every six months and to engage annually with the main board on strategic issues.

When we embarked upon our work in 2022, we adopted six principles:

- We aim for the widest possible range of people to be engaged with and heard.
- We pay special attention to customers who are deemed 'vulnerable', or in vulnerable circumstances, and to those who speak and advocate for them.
- We respect environmental assets and seek to ensure that standards are complied with.
- We balance the interests of people living in London boroughs with those of customers elsewhere in the varied region.
- We check for equity across the generations and assess the benefits of addressing immediate issues, such as flooding, leakage and sewer discharge, against the need to invest in sustainable supply for the future.
- We support Thames Water in mobilising partnerships that increase opportunities for public stewardship.

These principles hold true. We believe that our record shows how we have made them integral to our work and have encouraged Thames Water to adopt them in its own considerations. A good example of this is the CCG's activity around vulnerability. Relative to some other water companies, Thames Water has a strong record of support for customers deemed vulnerable and has pioneered thinking on innovative social tariffs. However, its understanding of vulnerability, of the many different causes of it and their intersectionality, has in the past been limited. Prompted by the CCG, the company commissioned a report from Community Research that was published in March 2023 and concluded that a "considerable number" of customers were missing out on available support and lacked agency to manage their water costs because of financial struggles, language barriers, digital exclusion and limited grasp of choices open to them.

One striking finding from the report was that water quality was an especially strong issue among some minority ethnic groups. Partly as a result of mixed knowledge of how fresh water is supplied and waste water disposed of and treated, many of these customers reject tap water for drinking and instead buy costly bottled water with its heavy environmental footprint. These are issues that the CCG will return to in 2024.

In its first year, 2022, the CCG also adopted five broad focuses for its work and allocated its resources and time accordingly. These focuses were:

- **Inclusivity** – ensuring that Thames Water takes account of the diverse needs of current and future customers.
- **Choices** – testing the company's criteria for making longer-term strategic decisions and ensuring that the process, including investment trade-offs, is transparent.

- **Affordability** – giving voice and effect to customers’ expectation of fair and affordable bills, especially in context of the cost-of-living crisis.
- **Performance** – identifying outcomes for customers in the current, 2020-25, business plan where it seeks to drive service improvement.
- **People** – challenging the company’s workforce profile to reflect wider society, and the communities it serves, and promoting more positive engagement.

The growing demands of PR24 and the need to work to tight deadlines on Thames Water’s business plan necessitated some revision of our approach in 2023. Research frameworks and findings typically came to us later than anticipated, often because of the need to adhere to detailed Ofwat requirements and templates. A core focus group of CCG members was formed to work alongside the company further upstream, identifying key areas for attention based on our principles and themes while respecting commercial sensitivities (see next section). This gained us valuable extra time and enabled us to meet our PR24 deadlines.

The wider group reordered its work to support the Ofwat-guided process of assurance on effective customer research and engagement. It adopted three broad themes for this period:

- Acceptability testing of the emerging business plan - scrutinising research and consultation processes to be satisfied that the eventual core proposal, for a front-loaded increase in bills at the start of the 2025-30 plan period, was understood by customers and approved by a majority of those consulted.
- Vulnerability – ensuring that the interests of the most disadvantaged customers were prioritised in drafting and agreeing the business plan.
- Water resource management – scrutinising consultation on Thames Water’s proposed water resources management plan (WRMP) 2024, to sit alongside its business plan, setting out long-term aims for water consumption and supply. Formal consultation ran from December 2022 to March 2023, with the company responding and publishing a revised draft in August.

Challenge example

Our challenge: Did Thames Water’s research methodology for its PR24 business plan adequately reflect the full profile of its customer base?

Thames Water response: Although the methodology was in line with Ofwat guidance, a booster sample was added to reach more minority ethnic groups and a specialist research firm sub-contracted.

This contingency meant that some of our initial focuses necessarily received lower priority. However, we were able still to show an impact in key areas. While we were, for example, not in a position to move forward our work under our “people” focus as rapidly as we might otherwise have wished, we were none the less able to progress analysis of correlation

between customer experience and staff satisfaction. We engaged with staff networks enhancing equity, diversity and inclusion and maintained our pressure on Thames Water to ensure that apprenticeship and other recruitment programmes better reflected local populations. It is a credit to the Thames Water HR team that they are recognised in the Best 100 Apprenticeship Employers 2023-24.

Similarly, on “inclusivity”, we prompted a significant shift by Thames Water from a single focus on customers deemed vulnerable to an understanding of specific communities with views and challenges often unheard. We encouraged Thames Water in forging partnerships with debt charities to better support those eligible for extra help and in developing data sharing arrangements that benefit those on the Priority Services Register. We also questioned the comprehensiveness of the company’s existing network of community stakeholders and partners, providing suggestions for a fuller list, particularly of minority ethnic groups. This remains work in progress.

Another issue we intend to re-focus on in 2024 is fostering behavioural change on the part of customers, leading to reduced water use. A family of four reducing their shower time by just 1 minute each could save over 11,000 litres of water a year. While the CCG continues to challenge Thames Water on the priority it gives to tackling leaks, we also appreciate the need for all of us to play our part. We therefore welcome recruitment by the company this year of a behavioural economist and look forward to seeing their insights woven into strategy, reflecting a greater understanding of the whole customer journey.

At the same time as the CCG was re-focusing its programme to meet the overriding demands of scrutinising the business plan, we sought to sharpen and deepen the nature of our challenge. With advice from specialists familiar with the work of challenge groups elsewhere in the water sector and other utilities, we reflected on our approach and our record in our first year. We paid particular attention to the risks of being diverted from our central purpose by controversy surrounding the sector, re-visiting and clarifying the boundaries of our remit. As a result, we believe our work in 2023 was more tightly drawn and made best use of our time and resources.

3. PR24

PR24 is shorthand for the 2024 price review process undertaken by Ofwat, the water industry regulator, to determine fair charges for customers for the period 2025-30. Each water company has submitted a business plan setting out its ambitions for the period, which Ofwat will assess. The regulator expects companies to show how their independent challenge group or equivalent, representing customer interests, has played a key role in assuring the affordability and acceptability of the proposals. They also need to explain how their challenge group provided scrutiny of the preparation, delivery and interpretation of customer research underpinning the proposals.

Thames Water’s plan was based on more than 200,000 responses to an initial service survey, followed by proactive engagement with almost 20,000 customers or consumers and other

stakeholders. Every step of the process was shared with the CCG, which offered comment and challenge. In many instances, the company consequently revised its processes.

Challenge example

Our challenge: Was Thames Water taking sufficient account of the views of large business customers in preparing its business plan submission?

Thames Water response: Acknowledgement that research with large businesses had not been sufficiently transparent. The independent agency that undertook the research for the company was asked to revisit it and the results were expressed more clearly.

As described above, the CCG decided that to meet the tightening timetable for proper scrutiny of the plan, and its genesis, a core group should work alongside Thames Water's research and policy leads. The group identified its own key areas for focus including:

- **Discretionary spend** – where there was scope, and acknowledging that such scope was extremely limited, to prioritise in the plan investment in areas of greatest importance to customers, whether their expressed preferences or areas of most potential detriment, if unaddressed, such as sewer flooding.
- **Deliverability** – to gain a greater understanding of barriers to future performance. A prime example was impact of the Water Industry National Environment Programme (WINEP), which sets out water companies' statutory environmental obligations. One key and costly obligation is to take action further to reduce phosphorous levels in rivers. The CCG scrutinised the requirement to satisfy itself that there were benefits for London and other urban areas, as well as more obviously for the Thames Valley, and weighed it against other investment priorities.
- **Complaints** – to press for a more effective balance in the plan between reducing complaints by prevention and by resolution. The company agreed to prioritise action to counter leakages and improve billing controls as ways to bolster prevention. A key part of this work involved reimagining customer journeys through Thames Water systems.

Challenge example

Our challenge: Did investment decisions in the submitted business plan reflect the magnitude of potential harm and detriment to customers if issues were not addressed?

Thames Water response: Decisions took account of a balance of factors and did not always follow customers' expressed preferences in research. One example was trunk main bursts, often not prioritised by customers but presenting grave risk to those affected.

At PR19, the previous price review exercise, Thames Water's plan had been criticised severely by Ofwat for its failure to demonstrate a clear "line of sight" between its customer research and what it was proposing. Consequently, the CCG paid special attention to line of sight in its scrutiny of the company's PR24 exercise. We were satisfied that the line was clear.

Challenge example

Our challenge: Did the proposed business plan demonstrate a clear line of sight from customer needs and wishes to the company's chosen priorities?

Thames Water response: Criteria for prioritisation of investment were developed and refined in response to CCG comments and challenges. This included explicit use of customer feedback in decision-making and resolving conflicts thrown up by research findings.

The CCG was pleased that the final plan recognised the issues that customers said were important to them:

- An easy customer experience and tailored support.
- Fair and affordable bills.
- Safe, high-quality drinking water.
- A reliable supply with minimal disruption.
- Prevention of sewer flooding and safe removal of waste.

Customers also wanted Thames Water to have a positive impact on the community and, with environmental concerns very prominent while the plan was in preparation, they wanted:

- Prompt fixing of leaks and guaranteed water supply.
- Reduction of environmental impact and restoration of damage.
- An end to pollution of rivers and an improvement in their quality.
- Reduced emissions and demonstrable progress towards net zero.

The CCG noted with satisfaction that the plan tells a clear story of Thames Water's commitment to meet delivery imperatives against acknowledged challenges including a backdrop of weak performance, poor asset health and high customer and regulatory expectations. We were pleased that the final iteration of the plan reflects our pressure for it to have customer interests clearly woven in throughout, rather than bolted on at risk of being seen as an afterthought.

None the less, the CCG expressed concerns that there remained areas of difference between customer expectations and the anticipated outcomes of the plan. We stressed that customers should not be disadvantaged by limitations on the company's capacity to finance and deliver its plan and we noted discrepancies between the plan and regulatory requirements at the

time of its submission. We were clear that any impasse over these discrepancies should not be to customers' detriment.

Our report concluded: "The CCG considers it important for the regulatory model to support investment so that: future customers do not pay disproportionately for the [company's] asset deficit, the environment is protected; and customers continue to get good-quality water and waste treatment."

The CCG recognises that submission of the PR24 business plan is the beginning of discussions with Ofwat and we will continue to offer constructive support and, where appropriate, challenge to Thames Water in any changes that may be required. Where hard choices are made, we shall press for them to be reached transparently and with careful consideration of their impact on customers.

Challenge example

Our challenge: In research for its PR24 submission, Thames Water asked customers to rank different options to enhance services. Initially one option was expressed more emotively than others.

Thames Water response: Research materials were amended to ensure that all options were presented neutrally to remove any bias.

4. THAMES WATER'S PERFORMANCE

Our annual report is appearing later this year than last, partly to enable us to incorporate our response to Thames Water's business plan but also to enable us to comment on the company's Annual Performance Report, published in July. It is fair to say it made unhappy reading.

On the company's own assessment, it met only 26 of almost 50 quantified performance targets in 2022-23, failing on 21. This was a deterioration on the previous year, when it met 29 and failed on 18. As a result, it incurred £82m in financial penalties last year, against £36m in 2021-22.

The company was undoubtedly facing strong headwinds and it pointed, in particular, to the effects of climate extremes: a drought in the summer of 2022 followed by a dramatic freeze-thaw in December. This put great pressure on ageing pipework: the drought alone led to a 38% rise in bursts. While there was a good deal to welcome where targets had been achieved, for example a reduction in unplanned outages of water supply and an increase to more than 300,00 households now receiving help with their water bills through the social tariff, there were concerning failures to meet targets especially in the very visible category of leakage and in high-profile areas such as pollution incidents and sewer flooding.

While the CCG understands that the climate crisis brings unpredictability and greater danger of major service breakdown, this is not a surprise – climate scientists have been warning of it for many years – and we believe that Thames Water may not in the past have adequately factored all aspects of the risks into its forward planning. We are assured that this is now not the case and we look forward to seeing this reflected in the next business plan period.

We welcome the backing of shareholders for the company's turnaround plans. This saw an extra £500m invested in 2022 and a further £750m has been promised for the period to 2025. We note that no shareholder dividends, as investment income, have been taken for six years. We welcomed also this year the lead shown by Thames Water's former chief executive, Sarah Bentley, in waiving any bonus payment. We commend other members of the executive team who followed suit.

5. ENVIRONMENT

Water companies are key actors in management of the environment. Public, media and political concern for river and beach health ran at unprecedented levels in 2023 amid growing awareness of the extent of discharges of dilute sewage at times when drainage systems are overwhelmed by heavy rainfall.

Thames Water often found itself the focus of attention not necessarily because its record was any worse than those of other waste-water companies, but because it took the step in January 2023 of placing online a near-live, interactive map showing storm discharge activity as recorded by event duration monitoring (EDM) equipment. We commend Thames Water for being one of the first companies to do so. We recognise the monitors are not yet 100% accurate and that they do not measure the volume of discharges as distinct from their duration. Nevertheless, we regard the initiative as an important demonstration of transparency and a daily reminder that there is a national imperative to upgrade our overstretched drainage and sewage systems. Demonstrable improvements in performance in this, as in other aspects of service delivery, will be critical for boosting customer confidence in the water sector.

Thames Water says that the planned opening of the Thames Tideway Tunnel, a 16-mile "super sewer", in 2025 will stop 95% of discharges into the Thames. If that turns out to be the case, it has the potential to be a game-changer for the company and for the health of the Thames.

It was disappointing, however, to learn in October 2023 that the Evenlode Catchment Partnership, one of three Smarter Water Catchment pilots within the Thames Water area intended to show how building community assets around rivers could ensure more sustainable water supply, had decided to sever working relations with the company. The reason given was failure to include in the 2025-30 business plan improvement works that had been promised previously. If this disagreement is not remedied, it will represent a serious setback to Thames Water's environmental reputation.

6. EXTERNAL ISSUES

The CCG operates independently. Although it welcomes support offered by the Consumer Council for Water and values involvement in the Customer Oversight Group, which brings together chairs of all the water sector independent challenge groups, it would appreciate a more direct relationship with Ofwat on region-specific issues. Such a relationship would enable the CCG, for example, to engage in discussion on how penalties imposed by the regulator are used. While there are good grounds for continued direct reimbursement of customers, there are strong arguments also for reinvestment directly in areas that could make a conspicuous difference to customers.

A significant disappointment for the CCG in 2023 was Ofwat's decision to withhold Green Economic Recovery (GER) funding for Thames Water's enhanced smart meter rollout programme. Ofwat had in 2021 promised £72 million for the installation of an additional 205,000 meters in the company's area to reduce both leakage and customer demand. Of these, up to 50,000 are due to be installed by the end of 2024 and some £20 million of the funding has been spent on preparations in the Thames Valley area. However, Ofwat has withheld all the funding because Thames Water has breached a condition of the agreement by defaulting on its three-year overall leakage reduction performance target in just one of these years. The company will now proceed with a lower target of up to 50,000 additional meters without GER funding. The CCG is concerned about the impact of Ofwat's decision on customers and on the environment.

Separately, Ofwat also rejected Thames Water's suggestion of a bespoke performance target on customer vulnerability. While we accept that the company already evidences good practice in this area, with a progressive social tariff and a strong priority services register, there are pockets of deprivation and disadvantage among the customer base that would benefit from innovative approaches to vulnerability. We shall continue to press the company to pursue such approaches without the spur of a bespoke target.

Challenge example

Our challenge: Did Thames Water understand the potential impact of the cost-of-living crisis on customers at risk of vulnerability?

Thames Water response: A commitment to innovate with new social tariff eligibility criteria that better targets those impacted by the cost of living crisis. Also to innovate a rising block tariff that identifies new funding streams for social tariffs to extend the support available to those above the Affordability Threshold.

Having said that, the CCG hopes that Ofwat will endorse Thames Water's proposal in its 2025-30 business plan to pilot a "rising block tariff" that would reduce bills for metered customers using average quantities of water, but increase them for those using more. The company estimates that this approach could raise an additional £60m for its social tariff subsidy for low-income customers, on top of the existing ceiling of £95m. The CCG believes this could be an important development, provided proper safeguards were put in place for customers with special medical or other needs for above-average water use.

7. CONCLUSION

From our first annual report, last year, the CCG drew out three key recommendations to the Thames Water board. These were:

- **Simplify** – especially in communications with customers, messaging needed to be more direct, succinct and easier to understand.
- **Connect the vision** – the company should make greater efforts to win hearts and minds by linking its short- and long-term goals and by underpinning its strategy with embedded values and positive behaviours.
- **Sequencing** – customers were impatient for change and needed to hear a narrative that set out a clear pathway to service improvement.

The then board chair, Ian Marchant, welcomed our recommendations and explained how they would be addressed in the context of the company's then eight-year turnaround plan. Events have this year overtaken that, but much of what we said in 2022 still holds good. We would re-state those recommendations and we look forward to hearing how they might be met within the shorter timeframe of the new turnaround plan, especially in a context where the primary focus of the board and management may be on internal issues.

We would, however, wish to make three further points this year:

- **Communications** – this remains a particular and recurring weakness. Customers understand that things may go wrong, but they expect to be kept informed in language they understand. In November 2023, a major outage of supply in the Guildford area left thousands of householders, businesses, schools and other public services without water for up to five days - in a few reported cases, even longer. The company blamed an electrical fault caused by Storm Ciaran, but it failed to explain further. In a letter to Thames Water after the incident, local MP and Chancellor of the Exchequer Jeremy Hunt commented: "Many constituents reported that what they found frustrating – more than anything else – was the poor information and reporting they received."
- **Stability** – by any standard, 2023 was a year of huge upheaval at Thames Water. In addition to changes of chair, chief executive and strategy, there was considerable churn among senior management. The CCG remained well supported and serviced throughout and the new chair, Sir Adrian Montague, and the interim co-chief executives, Cathryn Ross and Alastair Cochran, have brought a welcome period of relative calm at senior level. However, the announcement in November 2023 of plans to cut some 300 jobs as part of the company's turnaround strategy will have created unease across the organisation. In our view, it is essential that customers' perception of Thames Water is one of greater stability overall and that stakeholders, including the CCG, can have confidence in the continuity of leadership and management.

- **Delivery** – above all, there can be no excuse for failure to deliver service improvements in 2024. Thames Water has been honest about its past shortcomings, which have been considerable, and has for several years now been promising a better deal for customers. But performance results in 2023 came as a profound disappointment. With rising bills set against increasing cost of living, customers deserve transparency about company priorities and clarity in communications about improvements to performance.

Challenge example

Our challenge: Is the organisational culture of Thames Water sufficiently orientated towards customer service?

Thames Water response: An undertaking to explore available data to understand whether there is a correlation between customer satisfaction and employee satisfaction.

The CCG hopes that a page has now been turned for Thames Water. In looking to the year ahead, the CCG will maintain an unswerving focus on better outcomes for customers, particularly in the context of rising bills. We will engage with the company on Ofwat’s draft price determination. Development of innovative tariffs will remain important options for those at risk of vulnerability. As Ofwat’s new customer-focused licence becomes embedded, aiming to set a fresh basis for how water companies treat their customers, we will support efforts that draw insights from a wide range of stakeholders to improve Thames Water’s performance. And above all, we will continue to look to schemes that promote longer-term sustainability of our water and waste-water management systems and underscore the responsibility that we, along with future generations, must exercise to ensure best use of this most precious resource.

CCG Members

To find out more about the CCG and how to contact us, view the member profiles below or access this link:

<https://www.thameswater.co.uk/about-us/performance/our-customer-challenge-group>



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