PR19 Customer Challenge Group

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Title: Business Plan Production update

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What is this paper about:	An update on the process of producing our 2020-2025 Business Plan
What is the context of this paper:	The company needs to submit its next five-year business plan (max 200 pages for a water only company) and 5-page Board level summary on 3rd September 2018.
What is the relevance of this paper:	To give the CCG an update on how the company is progressing its business plan content, including chapter structures, key messages and evidence base.
Action needed from the CCG:	The Company has produced this paper for information and to provide an update on the timescales for this critical workstream.

Business Plan Production update

4 July 2018

Purpose

- To provide an update on the following:

  – The Executive Summary (5 pages max) and Summary Business Plan (200 pages max):

    - document structures

    - chapters, headings, key messages (and evidence base)

  – The supporting appendices

The Ofwat requirements – a reminder

- Final methodology added new requirement for separate Board-level 5 page Executive Summary of business plan

- Companies' business plans need to:
  - contain well-written narratives that are both easy to follow and understand
  - need to be supported by strong evidence
  - summarise how they will deliver Ofwat's four key themes - great customer service, affordability and vulnerability, resilience and innovation
  - clearly signpost the parts of the plan where Ofwat should carry out their initial assessment
  - be no more than 200 pages for water-only companies.

- Key issues:
  - PR19 methodology has influenced structure – but still needs to be a good, readable plan i.e. not just tick the assessment boxes
  - Structure follows logical narrative - but crucially starts with the customer
  - Challenge will be to weave in four themes - but design treatment and clear signposting can achieve this

The Executive Summary (5 page document for Ofwat Board)

Chapters	Headings

A high quality, ambitious and innovative plan	• A business driven by customer satisfaction – and responsibly delivered
	• A business driven by our new way of working
	• A business which does more than just supply water
	• A business that is ambitious and innovative
	• A business that has had significant challenge (CCG)
	• A business that acts and behaves in the right way
	• Key headlines for our 2020-2025 business plan eg:
	   • average water bill
	   • totex
	   • number of PCs, rewards and penalties
	   • the efficiencies we will deliver
	   • the rate of return shareholders can expect

Shared Know H$_2$ow: building our plan around customers, stakeholders and society	• Customers' and stakeholders' priorities
	• Our outcomes and performance commitments
	• Sharing outperformance with customers
	• How this plan addresses four key themes:
	   • great customer service driven by satisfaction at a segment level
	   • resilience in the round but with a USP of customer resilience
	   • affordable acceptable bills at an average and segmented level, plus vulnerability
	   • Innovation centred on a focussed innovation strategy and toolboxes

Financials	• Corporate structure • An efficient service – proved by comparison • Retail price controls • Wholesale price controls • Cost of capital • Dividends

The Summary Business Plan chapters

Chapter 1	Key messages	Evidence base
Welcome*	• Locally-based essential service • Recognise monopoly privileges • Ambitious plan • Customers should trust our actions and behaviours - trust linked to satisfaction and value for money • Proud of our pure know $h_2$ow and shared passion for water • Board driven strategy following engagement with stakeholders and customers	• Branding research - strong link between VFM and satisfaction; service based in science know how • Out of sector research - satisfaction positively influences trust (and brand loyalty) • Service recovery research - customers value local presence • Stretch of ODI targets and cost efficiency • Board governance approach, board engagement and how this has influenced their thinking and strategy Still to come: • Corporate reporting research findings re: trust

• Signatory of welcome – Paul Butler (Managing Director) and Nick Salmon (Chair)

Chapter 2	Headings	Key messages	Evidence base
Introduction	How we have approached this plan – see key messages What you will find in this plan – structure of plan The evidence that supports this plan – appendices list and signposting treatment	• Who are our customers • business remains driven by customer satisfaction – and we are evolving it even further to segments • stretching and ambitious plan – for cost and targets • plan delivers on the how not just the what e.g. more than just targets, also about the activity via the `toolboxes' • services go beyond water – greater societal role • act and behave in right way - strong, transparent social and corporate ethics. • vulnerable customer a new focus	• Board ambition to evolve customer satisfaction at the heart of plan – number of bespoke PCs support this • PC targets – show level of improvement required from current position e.g. penalties for no improvement • Toolboxes development – stakeholders want more proactive partnerships; customers want more info/knowledge to empower them on service and product decisions - highlighted in priorities, service recovery, bespoke services, resilience research • Responsible business approach – stakeholder workshops; bespoke services with more choice and added value options; future priorities every hygiene factor in future but more – modern honest company image, community projects, beyond the stopcock. Still to come: • Corporate reporting research findings re: what traits customers expect to see in a responsible business.

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Chapter 3	Headings	Key messages	Evidence base
How this plan is based on what our customers and stakeholders told us	Customers' priorities at the 2014 price review process Customers' priorities today and tomorrow Vulnerable customer priorities Stakeholders' and society's priorities, including the role of our Environmental Focus Group (EFG) What we have learnt during our research for this business plan Engaging with our CCG	• Breadth and depth of engagement; and different techniques used • measuring customer satisfaction driven cultural shift – as well as improving complaints and SIM • moving away from `average customer' to attitudinal segmentation/ satisfaction • customers have strong focus on the `product' still - but increased focus on the service and experience they have • empowering customers to be part of delivery/solution e.g. resilient customer concept • summary of CCG challenges	• Summary of research programme & techniques • Evolved from PR14 and shaped along the way from CCG, stakeholders, customers, research experts • 'Our journey so far' CCG report to show progress on customer-centric journey/culture shift • Attitudinal segmentation developed from learnings on customer satisfaction – not all customers are the same; and traditional segments e.g. income, metered/un-metered etc are a blunt tool for improving our understanding • Service and experience focus – priorities, service recovery, bespoke services, vulnerability research/workshops, freeze thaw research, day to day interactions e.g. 5 out of 5 surveys • Part of solutions – WRMP and resilience research, vulnerability workshops, Advizzo trial results.

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Chapter 4	Headings	Key messages	Evidence base
How this plan delivers the outcomes our customers and stakeholders want	How we listened: our 2020 to 2025 outcomes How we acted: our 2020 to 2025 performance commitments Common performance commitments Bespoke performance commitments Responsible business metrics Delivering beyond 2025	• Large number of outcomes to cover areas customers think are important – gives complete coverage • Stretching performance commitments • Complementary PCs too e.g. PSR (quantitative) and satisfaction (qualitative) • Triangulated research and daily insight to give us strong, coherent and clear narrative around outcomes and PCs • Engagement challenged extensively by CCG • Developing ODIs of the future via responsible business metrics	• Priorities research; PC matrix; 'Our journey so far' CCG report summarising PR14 research and learnings to date; insight database and mapping of findings to 4 x pillars of plan • PC targets – show level of improvement required from current position e.g. interruptions and water quality target while WRMP research pushed us to be more ambitious on PCC and leakage • Balance of qual and quant in the PCs – based on CCG feedback • Triangulation/insight database robust way of showing links between findings and outcomes and PCs • Summary of CCG challenges and actions – number completed, number outstanding by subject area; 381 for PR14, 520 at PR19 (to date)

Chapter 5	Headings	Key messages	Evidence base
How this plan delivers affordable, accessible and protective services for all	Introduction Affordable bills Accessible services Protective services	• Acceptability of bill profile to customers by segment • great strides made on vulnerability journey - shareholder, board and cross-company buy-in • part of greater societal role we need to play • stretching/ambition with five vulnerability PCs • will use partnership toolbox to co-create and co-deliver vulnerability services • not just about affordability – strategies for non-financial support too • mapped our entire customer database – greater granularity of detail about who are customers are • benchmarked vulnerability with others e.g energy sector • major focus for CCG with dedicated sub-group	• Acceptability results + any changes need to tackle issues raised • Social tariff and PSR research • Bill profile survey • ODI research – scale of rewards and penalties and impact on bills; re-investing rewards for vulnerable customer offering • Vulnerability research and engagement - responsive to stakeholder feedback, CCG challenge, Customer Care Team input, co-creation of strategy, learning from day to day engagement, board engagement feedback, shareholder representative on vulnerability sub-group • Responsible business findings; stakeholder workshop findings (priorities and vulnerability) • WTP surveys (main and WRMP); Supercharge; insight database and analysis of conflicts • Toolbox – vulnerability stakeholder workshops and Customer Care Team inputs.

Chapter 6	Headings	Key messages	Evidence base
How this plan delivers environmental, operational and social resilience	Introduction Delivering environmental resilience Delivering operational resilience The resilient customer solution Delivering social resilience	• Moving from 1 in 100 to 1 in 200 year resilience – supported by customers • Leakage reduced by 15% and PCC to 139 l/h/d by 2025 • Using behavioural change toolbox to make customers part of resilience solution • Schemes chosen produce multiple resilience benefits (resilience +) • Wide range of environmental ODIs driving environmental resilience - including one working with other abstractors • Responsible business approach improving social resilience – linked to trust/confidence and improved satisfaction	• WRMP research with HH and NHH customers – pre-draft plan research and during draft WRMP consultation • EFG feedback during preparation of dWRMP; representations on dWRMP • Resilience in the round research; bill profile survey (with separate resilience section); WTP and Supercharge research • EA and NE input to suite of environmental ODIs • Responsible business workshop findings; stakeholder workshop findings (priorities) • Freeze thaw incident research • Retailer and large NHH surveys/interviews

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Chapter 7	Headings	Key messages	Evidence base
What this plan will cost	Impact on customers' bills The cost of our 2020-2025 plan Efficiency Financeability	• Average bill £199 by 2025 (down 4.6% excl. inflation) • Bill profiling supported by customers by segment • Totex £916 million • Costs of stretching targets being met with no additional cost to the plan • Challenging efficiency assumptions based on triangulated efficiency assessments • Financeable with the Totex and targets prescribed in the plan – as long as the final determination is for the entire plan • Cost compared to this five year period	• WTP research (WRMP and main stage) + Supercharge • ODI research – scale of rewards and penalties and impact on bills • Acceptability results + any changes need to tackle issues raised • Cost comparison and efficiency benchmarking • Social tariff research • Bill profile survey results

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Chapter 8	Headings	Key messages	Evidence base
How this plan is fair for all	Whole risk reward package Rewards and penalties Balancing bill impacts between current and future customers Balancing risk	• Balance of risk between customers and company • balance of outperformance metrics • future plans represent a preferred profile of bills and risk • the plan delivers for all customer segments - and is supported by those segments • toolboxes allow course correction during period	• ODI research • Acceptability results + any changes need to tackle issues raised • WTP, WRMP and Resilience in the round research (balancing customers' priorities and preferred levels of service with risks to security of supplies etc)

Chapter 9	Headings	Key messages	Evidence base
How this plan is ambitious and innovative	Our innovation strategy Innovation priority areas Capex and opex innovation How the ambitious plan will need innovation	• Early adopter on some elements – not a leader • innovation on key areas of focus • innovation toolbox provides confidence that the plan is deliverable • also delivering innovation through systems, processes and behaviour change (particularly with customers) • building on best practice including from outside the sector • Comparison of stretch detail in the plan and how it drives the need to innovate	• 'Our journey so far' CCG report to show progress on moving from average to attitudinal segmentation • Future priorities research with NHH and HH customers pushing SEW to be more innovative/diverse in service offering • Bespoke services research • Responsible business workshop – expectation that we will innovate to find new solutions to old problems • EFG feedback • Learnings from Advizzo water usage trial and customer magazine and leakage pilots (re: improving satisfaction)

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Chapter 10	Headings	Key messages	Evidence base
How this plan builds on our current performance	Summary of our performance 2015 to 2020 Our customer outcomes performance, rewards and penalties Our compliance outcomes performance, rewards and penalties Our sustainability outcomes and performance, rewards and penalties Proposed adjustments to 2020 to 2025 price controls	• Performance has been good and constantly improving • what we have learned from the past to include in the new plan – and how we know it works best • satisfaction has driven a change to the way we work and this is why we have evolved it • how we have innovated in the key areas and why this remains a focus of plan	• PPP reports • Annual Reports • Company Monitoring Framework • 'Our journey so far' CCG report to show progress on moving from average to attitudinal segmentation • Developing of behavioural change toolbox e.g. Advizzo project and satisfaction trials

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Chapter 11	Headings	Key messages	Evidence base
Board governance and assurance	Board assurance statement Our assurance strategy Assurance assessment	• Robustness of strategy and process • direction setting • detailed involvement	• External Assurance of plan • Company Monitoring Framework • Board engagement programme

How this plan delivers Ofwat's four key themes

Great customer service	Resilience	Affordable bills	Innovation
Evolving customer satisfaction to attitudinal segments	Leakage reduced to xx ml/d by 2025 – down xx%	Average bill £xx – down xx% in real terms	Clear innovation strategy
Dedicated vulnerability strategy and services	Per capita consumption reduced to xx litres by 2025 – down xx%	Financial assistance extended to further xx eligible customers	Behaviour change, partnership and innovation toolboxes
	AIM/sustainability reductions of -xx ml/d by xx	Cost of capital lowest ever at xx%	Developing specific `responsible business' commitments
	Greater resilience to severe droughts (1 in 200)	Efficiency challenge of xx	Focus on engagement environment
	5 environmental ODIs		
	Resilient customer		

The supporting appendices

Appendix Number	Subject
App 1	Our current performance
App 2	Engagement and responsible business
App 3	Assurance
App 4	Resilience
App 5	Retail
App 6	Water resources
App 7	Outcome delivery incentives and performance commitments
App 8	Financial
App 9	Water quality
App 10	Environment
App 11	Wholesale TOTEX
App 12	Efficiency
App 13	Direct Procurement for Customers
App 14	Developer Services
App 15	Vulnerability
App 16	Innovation
App 17	Risk management and mitigation

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Next steps

Proposed milestones:

- w/c 2nd July - CCG to issue outline report structure and key messages
- w/c 16th July - SEW to issue full draft plan (Word version) + relevant appendices for CCG (e.g. engagement, vulnerability, PCs/ODIs)
- w/c 10th August - CCG to issue highlights report
- w/c 20th August – SEW to issue final plan (designed PDF version)
- w/c 30th August – CCG to issue final report.

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