

Independent Challenge Group – PR24 Report to Dŵr Cymru Welsh Water Board

Company Boards should be accountable for having in place a mechanism for, and listening to, customer challenge, and being 'able to demonstrate how business plans and wider decision-making take account of matters that are important to customers, including those highlighted through the customer challenge process'. Ofwat guidance PR24 and beyond.

This report sets out how the Independent Challenge Group has fulfilled this function for the Dŵr Cymru Welsh Water Board. The report provides an independent overview of the customer engagement and research that has contributed to the PR24 business planning process, identifying the key priorities for customers that need to be reflected in the company business plan. This information has contributed to the strategic steers provided by the Wales PR24 Forum.

In summary the ICG concludes:

- The company has been successful in securing an understanding of the views of its customer base, which have informed the proposed business plan.
- The customer research programme for PR24 has been well structured to provide answers to 4 key questions and phased to contribute into the business planning process.
- There has been a strengthened independent assurance process which has found that the research has complied with Ofwat guidelines and been effective in providing answers to the research questions which have fed into the business plan.
- The company has made progress in increasing opportunities for customer engagement since PR19 and established a customer insight framework as part of the evidence base for the business plan. There is though need for a further step forward in customer engagement to maximise opportunity for coproduction and behaviour change in the delivery of the business plan.
- As was the case in PR19 customers recognise the need for investment and better-informed customers are more willing to accept the level of bill increase proposed in the plan. Customer support is dependent on transparency and clear accountability for delivery.
- Customer research demonstrates high level of acceptability of the business plan, with an 84% positive response. Customers accept that the plan covers what needs to be delivered and that the investment should not be put off, but increases will add pressures to stretched household budgets, with around half the customer base finding proposed bill increases difficult to pay. Hence there needs to be a clear focus on how the company supports customers in challenging financial circumstances.
- There is increased awareness and concern about environmental performance, which needs to be addressed as a priority. While the ICG understands the limitations of affordability, finance ability and deliverability, customers do expect more ambitious targets for leakage and pollution.

- Customers are clear as to the importance of intergenerational fairness and do not want to see urgent investment put off for the future but would prefer a gradual increase in bills set against outcomes to meet 2050 objectives.
- The ICG has expressed concern that current performance levels are below the required glide path to 2050 and that this will impact on investment required to meet performance targets.
- Customers recognise that others must play their part in achieving improved outcomes. The company has a central role in enabling these collaborations, but there are clear responsibilities for Welsh Government, local authorities and other key stakeholders.
- There is high customer expectation of the not-for-profit company, both in the delivery of its core services and in its wider contribution to the wellbeing of Wales

Role of the Independent Challenge Group

Customer Challenge Groups were introduced by Ofwat as part of the 2014 Price Review to provide independent scrutiny. This requirement was extended through to the PR19 Price Review but removed in guidance for the PR24 review. Dwr Cymru Welsh Water Board reconfirmed their commitment to the continuing role of an Independent Challenge Group (ICG) in September 2020 following a review of the function in the PR19 business plan. The Board set out the following functions for the Group:

- (1) provide independent challenge on the quality of the company's customer/citizen/community engagement and the extent to which the results of this engagement are reflected in the company's business planning, decision making and operations.
- (2) bring independent external perspective to the company's involvement of citizens, customers and communities in the coproduction of solutions to business plan priorities
- (3) present independent representations to the Board, Ofwat, customers and the wider community, including responsibility for reviewing the delivery of the Wellbeing Commitments as set out in "Our Commitments to Your Wellbeing".

In fulfilling these functions, the ICG has followed the Ofwat PR24 guidance, which sets out the requirements for customer challenge as:

- **Independence** - The ICG has 12 independently appointed members, with membership being refreshed following PR19 and is supported by an independent secretariat, Cynnal Cymru (a sustainable development charity).
- **Board accountability** - The Chair presents twice yearly reports in person to the Board.
- **Informed** – The ICG receives performance reports from the company and also independent comparative data through Consumer Council for Water (CCW)
- **Transparent** - ICG minutes and associated reports are made available on the ICG website held independently by Cynnal Cymru
- **Representative** – ICG cannot be a fully representative customer group, but its membership is drawn from organisations who have direct engagement with communities, in particular vulnerable groups. The ICG has shared membership with the company's Independent Environment Advisory Group (IEAP) to inform the ICG in respect of environmental challenges that reflect customer priorities.
- **Timely, Comprehensive and Ongoing** - The ICG has received regular performance reports against the company business plan and has undertaken reviews on specific issues arising. Over the period since the completion of the PR19 report the ICG with IEAP have provided ongoing challenge including:

- twice yearly reviews of support for vulnerable customers,
- 100 day reviews of the Water Resilient Communities project,
- customer engagement in the DWMP and WRMP,
- review of actions in response to customer concerns on CSOs,
- the company response to weather events including in depth review of Freeze -Thaw December 2022,
- and commentary on performance against Wellbeing Plan and ESG indicators.

A key function of the ICG has been to provide independent challenge on the quality and extent of customer engagement and the extent to which the results have contributed to the PR24 business plan.

PR 24 Business Planning

The continuity of the operation of the ICG through from the PR19 process enabled early engagement with the planning for PR24. It allowed for the ICG to ensure that the lessons learned from that experience could be applied and that the company built on the extensive customer evidence base gathered in PR19.

The full ICG will have met on 18 occasions from the initial agreement of the research framework in December 2020 through to business plan submission, with members also joining additional assurance sessions. The ICG Chair contributed to 3 DCWW Board meetings and attended the Wales PR24 Forum. In addition, IEAP were regularly updated on business planning and endorsed the Wales Environment Link “Blueprint for Water” submission.

The ICG welcomed improvements in the company’s approach to PR24 which had been key Challenge Group recommendations from PR19:

- An **Insight Framework** as an improved structure for triangulating the different sources of evidence of customer and citizen views that underpin the business planning process.
- The establishment of a **longitudinal panel of customers** that can be returned to on a regular basis to identify if priorities, expectations and views have changed over time. The ICG has participated as an observer in meetings of the panel.
- A **strengthening of the assurance** of the customer engagement process through peer review and commissioning of independent overview of the research process. This has allowed for the ICG to be more strategic with the detail of assurance of the evidence base being undertaken by independent experts.

The ICG recognises that the PR24 planning process has operated in a very different external context with significant factors influencing responses to customer engagement at different stages in the process with:

- The increasing impacts of climate change with extreme weather events including significant drought, floods and freeze thaw events.
- Significantly increased awareness of sewage discharges and impact on river quality
- Negative media coverage of water company operations.
- An economic situation of high inflation and high interest rates
- A cost-of-living crisis.

In addition, there have been significant changes introduced by Ofwat to the PR24 process itself, notably:

- **The application of a more collaborative model in Wales through the PR24 Forum chaired by Welsh Government.**

This has been welcomed as a positive step towards a collaborative model that can meet the requirements of the Welsh Government's Strategic Priorities and Objectives Statement, the ways of working required under the Wellbeing of Future Generations Act and the Team Wales approach needed to deliver the outcomes for customers. The ICG has been pleased to be a formal member of the Forum to ensure customer and citizen views are properly reflected in the Strategic Steers submitted by the Forum.

- **Greater standardisation and centralisation of the customer research.**

The ICG did express initial concern that this centralised approach risked losing the Welsh legislative context and the nature of the Dwr Cymru not for profit model. The ICG agreed a comparatively reduced level of company-initiated customer research as a natural consequence of the centralised model, focusing on meaningful engagement, reducing research costs to the customer and building a broader evidence base beyond commissioned research. While being concerned about a "one size fits all" model the ICG ensured the application of the standardised approach to acceptability and affordability testing.

- **The introduction of standardised open challenge sessions – "Your Water Your Say"**

The ICG felt this provided some value as another opportunity for improved accountability to customers, while recognising limitations of such open sessions. The ICG drew on the issues raised in this event in the compilation of the PR24 customer challenges which were submitted to the Board.

Customer Research and Engagement

Overall, water company research and engagement should follow best practice and lead to a meaningful understanding of what is important to customers and wider stakeholders.

Customer Engagement

The ICG has been clear that there is an important distinction between customer research and engagement. Both have a place, relevance and purpose in understanding customers' needs and expectations. Our PR19 report stated:

"The CCG sees a greater balancing of the formal customer research processes with the evidence from a stronger involved customer base as an important direction of travel." PR19 report

The Challenge Group report on the PR19 plan set out 6 strategic challenges for the company to continue to improve customer engagement. The ICG welcomes the progress against these challenges which is summarised in the Appendix 1 but would stress the importance of continuing to increase the scope and scale of citizen participation and the feedback to improved company performance. The PR24 Insight framework provides an important step forward in drawing from this wider evidence base, but there is scope for greater clarity as to how this has fed into the business plan.

Customer Research

Ofwat PR24 guidance set out key principles for customer research as being useful and contextualised, neutrally designed, fit for purpose, inclusive, continual, shared with others, timely, ethical and independently assured.

The continuity of operation from PR19 allowed the ICG to be directly engaged with the company specific PR24 customer research from the outset. The scope of the research framework was agreed and set out 4 questions critical to business plan design with evidence to be gathered over 3 phases from 2021 - 23. This allowed for the business plan to be shaped over the period with evidence from each stage of the research.

1. What outcomes to customer expect to be delivered over the short and long term?
2. What do customers feel are the priorities over and above statutory requirements?
3. How quickly should these priorities be delivered?
4. What would be acceptable levels of bills for 2025-30 and long term?

The ICG was engaged in the design of each phase of the research and in the analysis of the findings. Phase 1 focused on customer priorities, phase 2 on long term ambitions and phase 3 followed the standardised guidance to test acceptability and affordability.

The company made all research findings accessible via <https://corporate.dwrcymru.com/en/library/pr24-reports>

Seldom-heard customers were actively engaged throughout all three phases, using an integrated approach rather than carrying out a separate piece of research to ensure that they were included in the ongoing conversation. The ICG particularly notes the value of the “community hub” sessions.

The phase 1 research conducted in the immediate aftermath of Covid captured the evidence of customer insecurity, increased concerns about the environment and the impact of major weather events. There was no evidence of increased difficulty in paying the water bill or with the majority accepting the need for increased investment and an associated gradually phased bill increases to deal with the big risks.

Phase 2 research focused on long term delivery plans and reinforced findings in that, despite the growing cost of living concerns, few advocated delaying investments recognising the need to avoid build up for future generations to address. Customers wanted to see ambitious targets for leakage and pollution.

Phase 3 Affordability and Acceptability research detailed the proposed plan to customers for key areas of investment with the associated bill impacts. The qualitative research testing acceptability and affordability reinforced the findings from the work with informed customers on the longitudinal panel with 86% finding the proposed plan acceptable. Customers were presented with the proposed

Bill impact based on their actual bills and under half (46%) indicating that the projected bill would be easy/fairly easy to pay. A high proportion (one third) did not commit to it being affordable or unaffordable.

One point of note from this research was that questions around core services, community and education, which were part of the research for PR19 but were not included in the specific methodology for PR24 were still raised proactively by customers, indicating a strong area of concern.

The associated quantitative research secured a robust customer sample of less informed customers with 84% of household customers accepting the plan, including 80% of those struggling financially but 47% indicated that they would find it difficult to afford.

The ICG noted that the structure of the Affordability and Acceptability research required customers to give their response to the **affordability** of the proposed bill increase prior to going through investment plans. On **acceptability**, customers were shown the bill profile and DCWW's performance in relation to the rest of the industry, along with the proposed targets for the 2030 performance commitments with 84% finding the proposed business plan to be acceptable or completely acceptable.

The ICG believes that the research provides clear direction of travel against each of the key questions:

- Customers are focused on outcomes that address the big risk issues associated with security of supply and environmental impact.
- Leakage and pollution including sewer flooding and river quality are key priorities.
- Customers do not want to see investment delayed but want them to be phased over time to avoid spikes in bills.
- Most informed customers accept the proposed level of bill increase over time, but this will need to be matched with significant support for those less able to cope.

The ICG notes that it is disappointing that as a consequence of the centralised research timeline, the quantitative research on Affordability and Acceptability has been completed in September prior to business plan submission in October. This compares to PR19 when the company also undertook "options testing" research prior to the final quantitative testing.

Assurance of the Customer Research

A key Challenge group recommendation from the PR19 review was that there needed to be greater resource allocated to the independent assurance of the customer research. This partly reflected the sheer scale of the requirements on the Challenge group which were beyond the capacity of the group and the associated capability of a diverse stakeholder group to meet the technical requirements of assuring market research.

The ICG therefore supported the company in putting in place independent assurance to provide complementary assurance of the quality of company-specific customer research and approved the resulting assurance framework. This allowed for the ICG to have a more strategic role while retaining an overview of the assurance process.

The phase 1 assurance was undertaken by Traverse which was then reviewed with the ICG and additional comments included. The phase 2 research undertaken by Blue Marble was peer reviewed

by ICS, with a comprehensive report with detailed recommendations. The ICG believes that this level of detailed assurance reinforces the value of this third-party independent review undertaken by appropriate experts but with a stakeholder group overview.

Traverse also completed an overview assurance of phase 2. Unfortunately, business difficulties meant that Traverse were not able to continue with this role. The ICG were consulted on alternative approach and agreed that Blue Marble could undertake the role for phase 3 with staff who had previously been employed by Traverse to allow for continuity. It was also noted that there were no conflicts as Blue Marble were not undertaking research in phase 3.

Acceptability and Affordability Phase 3 research followed the standardised guidance set by Ofwat and CCW. The ICG monitored the application of this guidance and agreed any variation. The ICG would note that the company adhered closely to this guidance with only minor amendments, which were agreed in advance based on evidence from cognitive testing. ICG members attended two of the phase 3 qualitative research sessions as observers.

The ICG noted that the qualitative phase of the Affordability and Acceptability research used leakage data that was the subject of review which was subsequently corrected and updated for the quantitative phase. The customers in the qualitative phase indicated that leakage was too high even at the lower reported level.

The ICG was consulted directly over the content and structure of the “Your Water Your Say” event and provided subsequent feedback on potential improvements for the follow up session. It was noted that the sessions gave opportunity for specific issues of local concern to be raised, but that wider business planning issues such as customer affordability were not raised by participants.

The ICG endorses the findings of the independent assurance reports submitted alongside the evidence from the customer research. In summary over the 3 phases, the research:

- met the requirements of the Ofwat methodology.
- was successful in providing evidence against each of the 4 questions set in the research framework.
- informed business planning with a clear line of sight between customer evidence and business plan

The Customer Challenges

The PR24 planning process has coincided with the significantly higher levels of customer awareness of the water sector. The ICG attempted to capture this heightened level of customer concern and expectation though collating the key customer challenges raised directly in the “Your Water Your Say” open challenge event and other public commentary. Although far from being comprehensive the challenges were felt by the ICG to reflect the key issues which matter to customers and citizens that needed to be addressed in the by the Board.

The challenges were submitted to the Dwr Cymru Board in June 2023 and a public response provided by the Board in August as set out in Appendix 2. The ICG believes that providing an independent follow up to the open challenge process can allow for more in depth interrogation, improve accountability and transparency and contribute to a more effective public engagement through subsequent “Your Water Your Say” events.

Based on the evidence from the customer insight framework the ICG sets out the following as the key challenges that need to be met if the PR24 Business Plan is to satisfy customer expectations and ensure high levels of customer trust. These challenges are also fully reflected in the Strategic Steers issued by the Wales PR24 Forum.

1. **Reducing leakage and pollution** - Customers are generally more concerned with investment to deal with their big issues and expect that the company sets and meets stretching targets for improving leakage and pollution levels as critical performance commitments. Customers see these two factors as a clear a priority and expect greater ambition.
2. **Reduce the damage from Sewage Overflows** - Customers are clear as to the priority of addressing performance failures that damage the environment, such as the operation of Combined Sewer Overflows which has come under the media spotlight. The ICG fully supports the strategy of focusing on CSOs that cause most harm as put forward through the Wales PR24 Forum. This is also the view of informed customers, but research shows this may not be representative of the wider public view so imperative that there is investment in local engagement, with clear measures of improvements on river and bathing water quality.
3. **Greater accountability** - Customers are expecting clear accountability for how their bills are contributing to improved service. Evidence from the longitudinal panel and phase 3 research demonstrates that most informed customers are accepting of the need for associated bill increase to address improvements in the water infrastructure and deliver environmental benefits. The evidence from informed customers highlights the importance of continuing to improve customer involvement and education as a priority action. This will be essential so that customers understand the reason behind bill increases and how the funds will be used to deliver improved performance.
4. **Meet the 2050 targets** - Customers recognise the importance of intergenerational fairness, and that important investment should not be delayed for future generations. Customer preference is for gradual bill increases phased over the long term but accept case for more urgent investment in short term where required as leaving problems for future generations is not acceptable. The ICG has expressed major concerns however in terms of aspects of current performance against the required glide path to 2050, as the future investment programme assumes they will be met at the end of this AMP.
5. **Increase collaboration** - Customers are also clear that the company has a key responsibility to enable collaborative solutions working with local authorities, farmers, local communities. This requires effective catchment management structures. Increased customer involvement & education will also be key to the collaborative approach required to deliver the improved outcomes required through changes in customer behaviour. The ICG would want to see these approaches fully recognised in the business plan with a necessary step change in scale eg through collaborations to deliver nature based solutions in catchments, continued development of the water resilient communities model.

6. **Support customers in vulnerable circumstances** - The support of customers is very much contingent on maintaining and extending support for customers in vulnerable circumstances, particularly given the context of the cost of living crisis. ICG stresses the importance of ongoing coordinated action on comprehensive and effective affordability support measures. The ICG has worked closely with the company on support for customers in vulnerable customers, including the introduction of “Cymuned” to support the “in-work poor”. This flexibility along with increasing investment through the not-for-profit dividend and maintaining levels of cross subsidy will be essential in the next AMP. The ICG hopes that any move towards a centralised system of support across the industry does not detract from this flexibility.
7. **Meet high expectations** - Evidence demonstrates that knowledge of the not-for-profit model generates higher levels of customer trust, but it also means that customers and citizens have higher expectations of the company’s contribution to the wider economic, social and environmental wellbeing objectives of Wales. The business plan will need to demonstrate how the company will meet these wider expectations through contributing to our national wellbeing goals.

In Conclusion

PR24 is being undertaken in very challenging financial circumstances for customers and set against a context of the increasing scale of climate and nature crisis. The company faces a difficult challenge in producing a business plan that accommodates the financial pressures on customers while making the investments required to meet current and future needs.

As was the case in PR19 there is clear evidence that customers accept the need for investment and associated bill increases. The evidence demonstrates high level of customer acceptability of the plan but that around half the customer base will not find it easy to meet the proposed bill increase. The ability of the company to provide extra help to those in financial need will be critical.

Customers have high expectations and expect greater ambition to deliver on long term leakage and pollution targets, particularly set against current levels of disappointing performance.

The collaborative PR24 process in Wales has represents an important step forward in the planning process with the strategic steers setting clear expectations on business plan delivery. Customers though recognise that others have a key role to play in enabling the company to meet these expectations and reduce costs, so it will be important for this collaboration to yield practical outcomes in the delivery of the plan.

This report sets out the views of the ICG in respect to the effectiveness of the company in engaging with customers in shaping the proposed business plan. It also summarises the customer challenges and their expectations on company performance.

We are though conscious that there needs to be challenges as to whether the process itself is fit for purpose and question how we deliver the scale of investment required from all partners that is sufficient to deliver the long-term objectives that meet the needs of future generations. A joint ICG/IEAP working group has begun to review the PR24 process and will be submitting recommendations to the Board and the PR24 Forum.

Peter Davies - Independent Challenge Group Chair

Mari Arthur – Afallen

Dave Horton – Co-production Wales

Jonathan Cosson – Warm Wales

Nigel Draper – Chair MoneyLine UK

Alun Evans – Citizens Advice

Gail Davies-Walsh – Afonydd Cymru

Rachel Lewis-Davies - NFU

Jonathan Johnson – Consumer Council for Water

Solitaire Pritchard - Pobl

Dimitrios Xenios - Research Associate Cardiff University

Joanna Gulliford - Welsh Government (observer)

Chris Mills - IEAP Chair

Appendix 1

PR19 engagement challenges – Progress Report

At end of the PR 19 review the Challenge Group set the company strategic challenges to further develop customer engagement. The company responded with a series of actions to be taken forward under each challenge. This report summaries the progress made against each of the actions.

1. Engagement with customers demonstrates a progression from listening and understanding customer needs to active participation of customers:

Action identified at PR19	DCWW Progress
Roll out Resilient Community Pilot to one new area per year until 2025.	<ul style="list-style-type: none">• Rolled-out to Rhyl, Rhymney-Bargoed and Newport West. Currently looking for future locations
	<ul style="list-style-type: none">• ICG have been involved in regular impact and activity update sessions (working in 100 day cycles) and workshops with local stakeholders
Further develop our 'Have your say' Online Community and drive membership.	<ul style="list-style-type: none">• Reviewed after PR19 and decided that whilst useful it wasn't good value for money .
	<ul style="list-style-type: none">• A Longitudinal panel (as recommended by the PR19 Customer Challenge Group) was created instead to provide insight from a group of customers over a longer period.
Develop our behavioural change campaigns to include behavioural economics.	<ul style="list-style-type: none">• Initial plans with Cardiff University's CAST department were put on hold due to budget constraints; however, we are now working with Cardiff University to develop our behavioural change framework.
	<ul style="list-style-type: none">• In 2023, we launched a pilot with behavioural change specialist agency Cowry to reduce per capita consumption in the Newport area
	<ul style="list-style-type: none">• Looking at other partnership opportunities such as with Keep Wales Tidy
Look for new engagement tools and channels to increase two-way discussions.	<ul style="list-style-type: none">• The longitudinal panel was created in 2022 as recommended by the PR19 Customer Challenge Group
	<ul style="list-style-type: none">• In June 2022 a Customer Immersion Day was held with the Welsh Water Board, members of the Executive Team, and members of the ICG.
	<ul style="list-style-type: none">• The Water Resilient Communities project, worked with the social enterprise, Grow Social Capital, with the aim of developing deeper, more meaningful relationships in Newport - and future project areas. This piece of work, which involved all workstreams, utilised the Dublin Conversations Toolkit to build a better sense of what makes a Water Resilient Community authentically special, and how we can improve the way that we share our stories with partners through potent narratives.
	<ul style="list-style-type: none">• Other operational improvements have included:

	<ul style="list-style-type: none"> ○ Introduction of video calling to help triage customer issues (such as leaks and flooding) providing quicker support and advice without having to wait for an engineer to visit the property ○ Development and roll-out of “virtual consultation rooms” to increase engagement with customers and stakeholders when preparing for investment projects (e.g. renewal of new water mains, building new pumping stations etc)
Develop an ongoing research and engagement plan with input from the CCG for AMP7; ongoing process of engagement with customers; how is value returned and agreed (e.g. Water Share).	<ul style="list-style-type: none"> ● An Insight framework was developed with the ICG for PR24
	<ul style="list-style-type: none"> ● A monthly tracker survey tracks a series of key customer-focussed metrics (e.g. trust, satisfaction, value for money etc) ● All contacts are surveyed via Rant and Rave
	<ul style="list-style-type: none"> ● Ad-hoc research has been commissioned on key topical subject areas including: <ul style="list-style-type: none"> ○ CSO ○ Drought ○ Freeze Thaw
	<ul style="list-style-type: none"> ● Proactive engagement programme with customers impacted by our investment projects (i.e. renewal of mains pipes etc) including virtual consultations, public meetings etc
	<ul style="list-style-type: none"> ● Water Resilient Communities project was rolled out to Rhyl, Rhymney-Bargoed, and Newport West
	<ul style="list-style-type: none"> ● Annual Vulnerable Customer Conference held with input from ICG to develop Vulnerable Customer Strategy
	<ul style="list-style-type: none"> ● ICG Chair prepared a review of Welsh Water’s response to the impact of the December 2022 freeze-thaw to inform future engagement during incidents
Create a permanent Youth Board.	<ul style="list-style-type: none"> ● No permanent Youth Board was created as we were keen to work with the Youth Parliament of Wales but were told they couldn’t support us.
	<ul style="list-style-type: none"> ● We worked with the Future Generation Leadership Academy and members joined the Longitudinal Panel to provide qualitative insight from future customers.

2. The Company draws on all interactions with customers to inform decision making, giving particular attention to groups who find it more difficult to have their voices heard:

Action identified at PR19	DCWW Progress
Use data and sentiment analysis to inform decisions	<ul style="list-style-type: none"> ● As above.

and how we react during incidents and severe events (e.g. Storm Emma).	
Use data to drive Resilient Community project.	<ul style="list-style-type: none"> • Dashboard created to show data to ward level and to track benefits. Data is drawn from a number of sources <ul style="list-style-type: none"> ○ index for multiple deprivation, ○ contact data for organisations in the area, ○ socio economic data • Benefits tracker is monitored to track improvements and impact

3. An understanding of customer priorities based on the evidence of customer engagement is embedded as a business imperative across all elements of the business:

Action identified at PR19	DCWW Progress
Annual Customer Conference being considered.	<ul style="list-style-type: none"> • Annual Vulnerable Customer Conference held each year
Ambition to achieve ICS Servicemark Distinction by 2020.	<ul style="list-style-type: none"> • ServiceMark accreditation achieved and retained but not to Distinction level
Develop an approach for how customer feedback is disseminated through the business	<ul style="list-style-type: none"> • Customer research and insight has been discussed regularly at Board and Executive Team Meetings • Customer service data (including complaints, contacts etc) are discussed monthly at the Executive Team Meeting • A Customer Service Deliver Group meets monthly consisting of head of service and customer service leads to discuss performance, engagement and research • A Customer Journey Leads Forum meets quarterly to review progress on improving customer journeys • Each business unit holds its regular reviews of customer data and insight relevant to their business unit • The Water Resilient Communities projects meets approx every 100 days to review progress against objectives • Customer feedback from our Rant and Rave and Track my Job service provide feedback for agents and engineers • Developed a Jeopardy Management Tool to provide a single customer view for our Waste and Clean services that brings all contact and service history as well as previous customer feedback data (such as Rant and Rave and Track my job scores)

4. There is a clear focus on affordability of bills, with specific support for those who find it difficult to pay. Customers in vulnerable circumstances are supported through their direct involvement and collaborations with other companies, the public and third sectors:

Action identified at PR19	DCWW Progress
Vulnerable customer strategy development.	<ul style="list-style-type: none"> • There has been regular discussion at ICG to inform the continuous development of our vulnerable customers strategy.
	<ul style="list-style-type: none"> • An Annual Conference has also been held to outline progress on the strategy and engage with stakeholders to develop the strategy further.
Resilient communities roll out.	<ul style="list-style-type: none"> • Rolled out to Rhyl, Rhymney/Bargoed and Newport West as noted above.
Ongoing research programme to tackle affordability topic.	<ul style="list-style-type: none"> • Customer payment data (including debt etc) are reviewed regularly. • Affordability is considered as part of the Vulnerable Customer Strategy and the associated engagement programme, including input from ICG, helped develop our new Cymuned scheme. • We worked with Research Agency Blue Marble throughout the Covid pandemic (as part of syndicate project with a number of other water companies) to understand the impact of the pandemic on customers – this included affordability.
Currently investigating potential financial education programme being developed for schools.	<ul style="list-style-type: none"> • Whilst we discussed this with a potential partner organisation it was decided not take the project forward and to focus on our education programme relating the environment and the water cycle.

5. The Company demonstrates that it drives innovation through working with customers and stakeholders on collaborative projects that offer multiple benefits:

Action identified at PR19	DCWW Progress
Continues focus on innovation (including conference and awards etc).	<ul style="list-style-type: none"> • The Welsh Water Innovation Conference continues annually. • The event was held virtually during the pandemic.
	<ul style="list-style-type: none"> • An innovation report is provided annually to Board and referred to our in Annual Report and Accounts
Learn from international best practice.	<ul style="list-style-type: none"> • We continue to partner with international organisations around the world for best practice as well as looking internationally for new technologies to improve our services

Develop online community.	<ul style="list-style-type: none"> • Not continued. See note above
Develop behavioural change approach, behavioural economics etc.	<ul style="list-style-type: none"> • See note above
Roll out Water Resilient Communities pilot.	<ul style="list-style-type: none"> • See note above
Continue to look for and test innovative approaches (e.g. Chabot, virtual assistants, dial testing etc).	<ul style="list-style-type: none"> • We have continued to pilot and roll-out new innovative services or adapting technology used in other sectors for use in the water sector e.g.: <ul style="list-style-type: none"> ○ Video calling to allow customers' problems to be triaged quickly and efficiently ○ Use of video calling facilities to provide water efficiency audits of customers' properties ○ Development of virtual consultation rooms for public exhibitions and meetings during Covid and continued following the pandemic ○ Development of Virtual Classrooms for the continued provisions of education activity during Covid

6. The principles of the Well-being of Future Generations and Environment (Wales) Acts are applied by the Company, demonstrating the ways of working and contribution to our national wellbeing goals:

Monitor and report against our Welsh Water 2050 strategic responses.	<ul style="list-style-type: none"> • WW2050 was reviewed, updated and published in March 2022 and progress referred to in the Annual Report and Accounts 2022/23 (documents are available on our website)
Follow up on our Biodiversity Action Plan.	<ul style="list-style-type: none"> • A Biodiversity Report is published annually (latest report was published in February 2023 and is available on our website) • The latest Biodiversity Strategy was published in 2022
Develop and open new visitor centre in Cardiff.	<ul style="list-style-type: none"> • The new visitor centre at Lisvane and Llanishen Reservoirs was opened in July 2023 • The refurbished and extended visitor centre at Llys y Fran, together with its new activity centre, opened in June 2022
Continue discussion with partners to progress the Brecon Beacons Mega Catchment concept.	<ul style="list-style-type: none"> • Work on the Brecon Beacons Mega Catchment continues
Review and act upon results of our SMNR trials.	<ul style="list-style-type: none"> • Work continues on four SMNR trials in the following catchments: <ul style="list-style-type: none"> ○ Clwyd ○ Afan ○ Teifi ○ Alyn

Appendix 2 PR24 Challenges

Key challenges from customers

- **Why are DCWW bills some of the highest in England and Wales?**

As the charts below show, whilst the overall bill is second highest, looking at the cost of the bill separately for water and wastewater services points towards the underlying reason for the “high” bill. The water element of the bill is amongst the lowest in the sector, but the wastewater element of the bill is significantly higher. Whilst there was significant investment pre-privatisation in the treatment of sewage discharged to rivers and therefore paid for by taxpayers, the treatment of sewage discharged to the seas was only dealt with post-privatisation and therefore paid for by customers. Companies with the highest proportion of coastal cities, towns and communities have the highest wastewater bills.

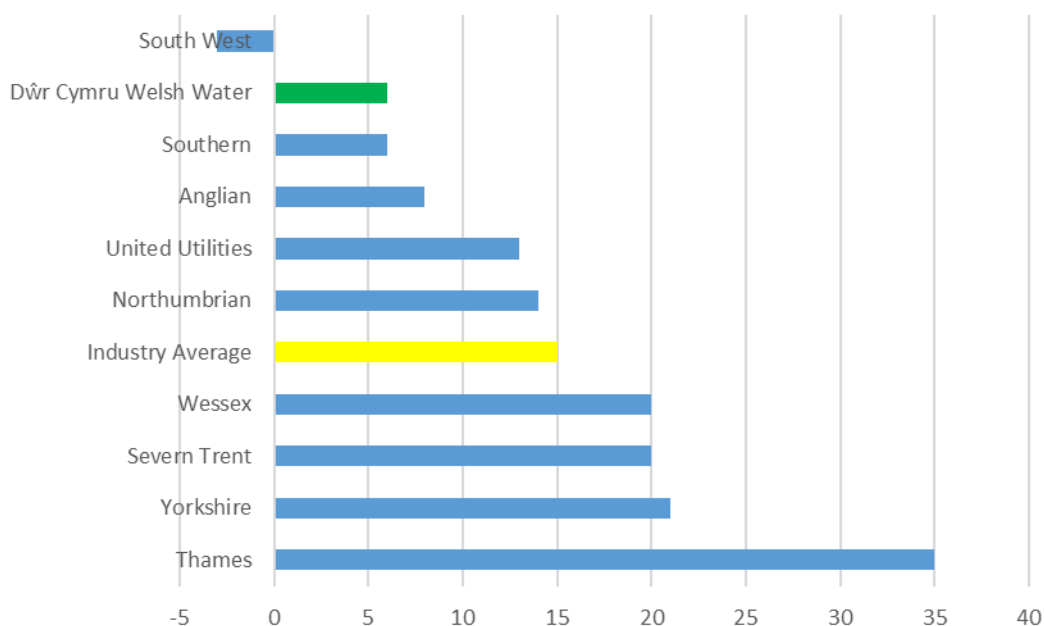
	Total		Water		Waste
South West*	526	Wessex	261	South West	310
Wessex	504	Thames	258	DCWW	306
DCWW	499	Anglian	222	Anglian	270
Anglian	492	South West	216	Southern	253
Thames	456	Severn Trent	213	Yorkshire	248
Yorkshire	446	United Utilities	210	Wessex	243
United Utilities	443	Yorkshire	198	United Utilities	233
Southern	439	Hafren Dyfrdwy	195	Severn Trent	206
Severn Trent	419	DCWW	193	Northumbrian	203
Northumbrian	391	Northumbrian	188	Thames	198
Hafren Dyfrdwy	372	Southern	186	Hafren Dyfrdwy	177
Average	<u>453</u>		<u>213</u>		<u>241</u>

* adding back the £50 rebate from the UK Government

As Wales has 15% of the UK’s coastline (compared to 5% of the population), significantly more investment was required to meet increased bathing water quality standards. All but one designated bathing waters in Wales meet at least “good” water quality standards as a result of the investment over the past 30 years and 80% meet “Excellent” standard.

Whilst, our water bill has been high compared to the rest of the sector since privatisation. comparing price increases across the sector, our bill has increased only 6% in real terms (2022/3 prices, using CPIH) since Glas acquired Welsh Water as a not for profit company in 2001. This compares to increases of up to 35% in other companies. For [over a decade] we kept bill increases below the rate of inflation whilst also significantly increasing our financial support for customers struggling to pay their bills which is sector leading. This is funded in part by financial surpluses that in some companies would be used to pay dividends to shareholders. This contribution is expected to total £60m in the five years to 2025.

Change in average household bill between 2001 and 2023 (in 2022/3 prices using CPIH)



- **What is the real value of the Not-for-Profit status?**

Welsh Water works to the same regulatory and statutory requirements as any other water company in England and Wales. It is a private company – but it is not a mutual or co-operative. It is a company limited by guarantee and owned on behalf of its customers. Where any financial surplus is generated it is not paid out to shareholders, rather the money has been used in a number of different purposes since Glas acquired Welsh Water in 2001.

In the decade to 2009/10, when any financial surplus was returned to customers in the form of a customer rebate – paid a reduction on the customer's bills starting at £9 in 2003/4 and raising to £22 in 2009/10. A tighter Price Review determination for 2010-15 limited the amount value that was generated and returned to customers. From 2015, any financial surpluses available was used to accelerate investment to maintain and improve services for customers to provide additional funding for social tariffs for those customers struggling to pay their bills.

In total, since Glas acquired Welsh Water in 2001, over £570m has been returned to customers in the form of reduced bills, accelerated investment and social tariffs. In some other companies, such surpluses could have been used as dividend for shareholders.

In addition to the £570m, referred to above, Welsh Water has also strived to bolster its financial position by reducing its gearing from 93% in 2001 to 58% in 2023, one of the lowest in the sector. The strong financial position results in sector-leading credit rating which, in turn, allow the company to borrow at lower costs, providing better value for customers. Our stable and prudent financial position allows us to withstand some short term financial challenges that have impacted some other companies.

Finally, whilst not directly attributable to the not-for profit model - as one of the few private large companies headquartered in Wales, we support over 9,000 jobs in Wales, add over £1bn to the

Welsh economy each year, and 58% of our expenditure is retained in Wales – a significant increase compared to 10 years ago. A recent economic impact assessment by Cardiff University concluded that we are an “anchor to the anchor companies in Wales”. These are all of significant importance to Wales and our economy – something that would not be guaranteed through any other ownership model.

- ***Why is performance not better given that profits are not distributed but reinvested?***

We are subject to the same challenges as any other company, regardless of our operational model. We continue to have a large number of aging assets, increasing challenges of climate change and the impact more volatile weather has on our network, and the need to balance the level of investment needed, increasing environmental standards and keeping bills affordable.

Performance, generally, has been strong for many years, however, some aspects of our performance are not as good as we’d like them to be at present. Whilst we remain amongst the best on some metrics - including customer service (C-Mex) and trust, as well as our financial metrics – we have seen some deterioration in our operational performance over the past couple of years. Whilst some metrics have started to rebound – including water quality (CRI) – others will take some time to turn around (including leakage.)

Further details about our performance can be found in our [Annual Report and Accounts](#) as well as our [Annual Performance Report](#) both which are available on our website and updated annually.

- ***Why is the company underperforming on basics of quality of water supply?***

In 2021/22, two key water performance measures failed to meet the targets: Water Supply Interruptions that impacted our customers, and overall Water Quality Compliance ie: water quality.

The number of Water Supply Interruptions increased due to two main reasons:

1. An increase in the number of bursts on our water network in mid and west Wales which is a largely rural area where the pipes cannot be repaired easily or under pressure (which would allow customers to maintain supply) because they are made from asbestos cement (as opposed to plastic or cast iron) and there is limited inter-connectivity in the area.
2. There were 17 significant events – impacting larger numbers of customers – three of which resulted in customers being without water for comparatively long periods due to burst water mains.

Drinking Water Compliance declined mainly due to water quality failures at two of our largest water treatment works:

- Court Farm Water Treatment Works Ponthir, Newport in February 2021
- Felindre Water Treatment Works Swansea in October 2021

2022/23 was also challenging with particularly intense extreme weather events affecting performance. Despite this, we performed well in terms of unplanned outage performance commitment, meeting our targets and made good steps in recovering our drinking water quality which had been a challenge in 2021.

We have also seen improvements in our acceptability of drinking water performance commitment, although we will still be subject to penalty for this measure.

2022 was the driest year since 1976 and July’s severe heatwave saw temperatures in Wales soar to a record high of 37.1°C. This was followed by another heatwave in August, with Natural Resources

Wales declaring Wales in drought and the Welsh Government convening their Drought Liaison Group.

As a consequence of the very dry weather, we introduced a Temporary Use Ban across part of our operating area in Pembrokeshire to protect water resources supplying 60,000 households served by our Llys y Fran reservoir. This was the first time in over 30 years that we have applied restrictions to our customers.

The drought and extreme heat had impacts on a number of our performance commitments:

- Supply Interruptions and Leakage
 - the dry soil increased the number of bursts on our pipes, particularly our cement pipelines in west and mid Wales.
- Acceptability (discolouration and taste) of drinking water
 - significant challenges were caused by high flows in the network and in treating poorer raw water quality in some reservoirs that had dropped to record low levels.

The impact on our supply interruptions performance commitment was then compounded by the ‘freeze/thaw’ event in December. Temperatures in Wales dipped to the lowest levels since 2010 and were below freezing for around a week before rapidly returning to above zero overnight. This significantly impacted our supply interruptions target due to the number of pipe bursts caused by the rapid change in temperature, and also our leakage performance where we experienced widespread bursts across our network and our customers’ private supply pipes. As a result, a small number of customers across Ceredigion, mid-Wales and Herefordshire lost supply for a number of days while our teams worked hard to restore their supply.

We have plans in place to improve our performance on these performance commitments. This includes the Drinking Water Recovery Plan (DWRP) to recover the under-performance from 2022/23 for our water quality compliance score (CRI), with the aim of achieving upper quartile industry performance. The main focus is on installation of bypasses on tanks that have not been cleaned within the last 10 years, and moving all other tanks onto cleaning cycles not exceeding 5 years. We are also undertaking targeted flushing based on a more intensive sampling programme to reduce iron failures, which is a legacy risk from our long lengths of cast iron pipes.

To improve our performance for acceptability of drinking water, we are optimising treatment works to remove more manganese from our soft upland waters; replacing cast iron pipes which can cause discolouration incidents, and cleaning our network through our ‘zonal studies’ programme. Improving our supply interruption performance is a challenge due to the topography of Wales. Customers are often served by a single trunk main with high operating pressure in our rural networks where there is no alternative supply. This can result in complex engineering repairs that take longer to fix than most of our more urban pipe networks, because there is limited opportunity to use alternative supplies to keep customers connected.

To mitigate the impacts of supply interruptions, our 40-strong tanker fleet is one of the sector’s largest. To help improve our response times to interruptions we are making organisational changes to centralise our response to bursts out of hours and to optimise the location of our locally based response teams. This move to a more responsive 24/7 operation aims to reduce the time taken to mobilise our tankers to provide temporary supplies; and for our repair teams to respond; and to allow water to be brought in from other pipelines where possible.

Our longer-term plans are to move to more predictive capability based on our SMART Networks programme, to improve our incident response times even further.

- ***Why does the company have the highest rate of spill discharges?***

Our wastewater network is made up of over 36,000km of sewerage pipes. These pipes carry wastewater from the toilets, sinks, washing machines and dishwashers in our homes, from local businesses and other community facilities, sometimes over several miles to a wastewater treatment works. We have 828 wastewater treatment works across our operational area that receive this wastewater. It is treated through physical and biological processes to a standard, determined by our regulator(s) and returned to the environment.

Some of our sewers date back as far as 100 years and over this time, surface water has been diverted into some of these pipes, combining with the wastewater. Around 60% of our wastewater network is combined sewer (carrying sewage and urban run-off) and during rainfall events these pipes can become overwhelmed.

To prevent any combined sewer flooding back into our homes and businesses, assets called Combined Storm Overflows (CSOs) or Storm Overflows provide permitted relief points within the network, which discharge this combination of wastewater and rainwater into the environment when it rains heavily.

Welsh Water have over 2300 combined storm overflows, of which over 99.5% are monitored by our Event Duration Monitors (EDM). We publish information about these monitors on our website and report to our regulators. We are working hard to reduce the operation of these assets and increase our resilience to ever changing environmental challenges such as urban creep and climate change.

- ***Why do those discharges from combined sewer overflows also take place in dry spells?***

The way each Storm Overflow operates is dependent on the surrounding catchment and how long the rainwater takes to flow off the surface into the sewers and to make its way through the network. As with rivers, the impact of heavy rain may affect parts of the catchment days after the rain has stopped. A 'dry' spill can occur because of how long it takes for the rain to 'drain' through the system or could be caused by a blockage in our sewer network.

- ***Will the company into account the economic impact of spills eg in prime tourist areas when deciding priorities?***

We have developed a “multi-capital accounting” approach for our business planning and will continue to do in future. This approach uses six “capitals” to inform decision-making, including social and natural impact. It should be noted however, that whilst some media and stakeholder criticism has related to coastal waters, over 95% of designated bathing waters already achieve good or excellent (over 80%) standard. Similarly, whilst much needs to be done to improve riverwater quality in Wales, it is already considerably better than in England (40% vs 14% achieving ‘good’ status) and that the biggest factor having an impact on river water quality in Wales is rural land use.

- ***Are my bills paying to solve the problems caused by others?***

All customers are charged using the same approach – with the main differentiators being business and domestic customers, metered and non-metered customers. Customers struggling to pay their bills may also be eligible for financial support through our social tariffs etc.

- ***What actions are being required of others to address the environmental problems?***

All stakeholders, including customers, could do more to help prevent environmental problems, especially relating to river water quality as noted below:

GOVERNMENT

- ban wet wipes;
- maintain policy of focussing on improving river water quality in the round;
- consider a phosphorus Credit Scheme for Wales to enable sustainable development.

LOCAL GOVERNMENT

- promote and deliver sustainable urban drainage scheme such as Greener Grangetown in Cardiff and RainScape in Llanelli;
- work with Welsh Water to introduce more wetlands to reduce nutrients through our nature-based solutions collaboration scheme;
- work with Welsh Water to remove surface water from the waste water network;
- resource and empower Nutrient Management Boards to oversee river improvements and govern collaboration opportunities;
- consider limiting the use of artificial grass in gardens and property developments.

REGULATORS

- support and introduce regulations to enable “catchment permitting” and then incentivise its introduction;
- incentivise cross-sector collaboration to improve river water quality;
- work with companies and organisations to allow sufficient funding to meet the ambition set by Welsh Government.

WATER COMPANIES

- build evidence base to inform solutions and business cases;
- work with regulators to identify funding opportunities;
- work with partners to develop innovative solutions to reduce impact of treatment works on rivers;
- develop clear investment plans for 2025-30 (and beyond) to ensure that CSOs are not responsible for any failure to achieve Good ecological water quality status by 2030;
- run customer behaviour campaigns to reduce wet wipe usage; we manage over 20,000 blockages a year costing several millions to remove, nearly 25% are attributed to wet wipes alone;
- work with other stakeholders to achieve common goals;
- launch Citizen Science position statement and support scheme.

CUSTOMERS

- do not use non-flushable wet wipes that can cause blockages and environmental damage;
- do not use artificial grass and maintain as much green space on their properties as possible to reduce the amount of surface water entering the combined sewer network.

DEVELOPERS

- promote and deliver sustainable urban drainage schemes such as Greener Grangetown in Cardiff and RainScape in Llanelli;
- work with local planning authorities to introduce wetlands to reduce the risk of additional nutrients.

- ***How is the company going to deliver on the target of a large reduction in consumer demand – shouldn't it focus on sorting leaks in its own system?***

Reducing leakage and per capita consumption are both key priorities for us. Following an internal review of our performance data, we concluded that elements of our calculations for these key measures for the years 2020-2022 did not comply with regulatory requirements.

Total leakage for 2021/22 was 240.3 ml/d compared to 157.4 ml/d previously reported.

Restating per capita consumption data to reflect the change results in a reduction from 174.7 litres/day to 154.8 litres/day.

As this shows that leakage has been running at a much higher level than was previously recognised the company has allocated an additional £54m to tackling leakage over the next two years to bring the level down as quickly as possible. In total Welsh Water will be spending £284m on this between 2020 and the end of this AMP in 2025.

We continue to run customer behaviour change campaigns to encourage customers to reduce their consumption too.

- ***If performance is lagging in key areas why are there still executive bonuses? Should terms of such remunerations be reviewed and be transparent to customers?***

Details of Executive Remuneration is published in full each year in the company's Annual Report and Accounts which are published on the company's website. This includes a breakdown of both long-term and annual variable pay schemes. The remuneration of the executive directors is also subject to a vote of the Glas Members at the Annual General Meeting. It should be noted that in 2022/3, both Executive Directors requested to forgo the variable pay (often referred to as "bonus) elements of their remuneration packages. These elements are performance related.

- ***Why are we now having to dramatically scale up investment now when these issues have been present in the system for last 20 years and conditions are now more challenging (ie interest rates; cost of living)?***

Our investment plans are guided by and are agreed with by our regulators. The regulators approve what investment can be made and how much customers can be charged.

- ***How is the company supporting those most vulnerable to the significant increase in bills?***

We provide a significant discount to eligible customers through our social tariff, HelpU. Bills are capped at £291 for 2023/24 compared to an average household bill of £499. Our intention for AMP8, subject to regulatory approval, is to maintain the same level of support for customers and keeping any increase to our social tariff inline with inflation, to minimise the impact on the most vulnerable even further. Over 140,000 currently receive financial support from Welsh Water.

Customer who are struggling to pay their water bill should contact the company to see what support is available for them. The company recently rolled out its Cymuned scheme to give eligible in-work customers payment breaks of up to three months where payment are written off the period in order to help customers through difficult periods.

- ***How do we know that these investments in the environment will deliver the outcomes we want when regulator lacks capacity?***

We are confident that our plans will bring the benefits that we all want to see. However, capacity of the regulators is a matter for Government and the regulators themselves.

- ***How is the company contributing more widely to the wellbeing of Wales?***

The company plays a significant role to Welsh society – from public and environmental health, to supporting biodiversity and strengthening the Welsh economy. The company publishes details of its impact in the Environment, Social and Governance section of the Annual Report and Accounts which is available on the website ([Annual Report and Accounts 2022/23](#)). A more detailed report on its economic impact is also available on the company's website ([Economic Impact Report](#)).

- ***How is the company going to ensure that Wales' water resource, as a key national asset, is managed for the benefit of future generations, specifically in relation to the demand for water in SE England and meeting economic opportunities in Wales?***

A Water Resource Management Plan is created every 5 years. WRMPs are statutory documents that all water companies must produce at least once every five years, and which play a crucial role in securing the public water supply for the region. Water resources planning is about trying to ensure there is enough water supplied to homes and businesses while protecting the natural environment. At the heart of this is our understanding of how much water we are able to take from rivers, reservoirs and boreholes and supply to customers, not only in 'normal years' when we expect good supplies of rainfall across our supply area but also in periods of drought. Our forecast of water resource availability takes account of environmental factors and climate change that reduce the amount of water that can be sustainably taken from our water sources.

We need to balance how much we are able to supply against the current and future demand for water using the best data available to us. Where the supply demand balance flags a potential shortfall, to resolve it we identify options that either reduce demand or increase supplies. However, the decision on which solution is best should look at wider objectives such as maintaining good drinking water quality, meeting Government policy direction or customer's wider preferences such as environmental impact. The investment required is then fed through into our company business plan to seek the necessary funding.

Dŵr Cymru recognises the serious water resource challenges faced by many regions of the UK from climate change and population growth, and will explore ways in which it could contribute to possible solutions, provided that:

- there is no compromise to the security of water supply to its customers both today and in the future;
- there are no adverse impacts on the environment and communities in our area;
- any water provided by Dŵr Cymru generates appropriate economic value for our customers and for Wales