

Southern Water Bathing Water Enhancement Programme

Customer Advisory Panel
View to the Board – April 2017



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Introduction

The Customer Advisory Panel (the CAP) can confirm that it is confident about the quality of the customer and stakeholder engagement that has been undertaken as part of this programme.

The CAP also confirms that it is satisfied that the seven Bathing Waters identified meet the Ofwat agreed criteria.

Executive summary

During this process Southern Water (the Company) developed an exceptional understanding of the ecology of the twenty-one Bathing Waters in the programme and of the local issues and potential solutions for each of them.

The Company has also developed strong working relationships with the strategic stakeholders who hold the key to Bathing Water quality improvements. The CAP wants to see this good partnership working with customers and stakeholders further developed by the Company. This will further strengthen the relationships and deliver additional quality improvements beyond the seven Bathing Waters now agreed.

The CAP has also had preliminary discussions with the Executive about the approach that is taken to any potential 'windfall' that results from this programme, as a result of the forecast costs being less than the approved Ofwat funding. We accept that even the current evidence-based estimates of costs for the programme have cost-risk around them. We are therefore content to postpone a final discussion. But we are requesting a timeline for this next stage. We are very keen to see a commitment to utilising any available windfall to further investigations and on-going partnership working to build on the good work of the last two years.

Background

During PR14, the Company's proposals for its Bathing Waters Enhancement Programme found support amongst customers, the CCG (the CAP's predecessor), and stakeholders, including WWF UK.

Owat were however reluctant to agree that customers should pay when the costs, risks and benefits were not yet clear, because appropriate investigations had not been carried out.

In the Final Determination, Ofwat agreed to the funding, subject to an in-period process for making decisions based on the necessary investigations to allocate costs and identify risks and benefits.

Owat required that the CAP be involved in this process, as an extra level of assurance. As a consequence, the CAP has a specific duty with regard to the AMP6 Bathing Waters Enhancement Programme in its Terms of Reference, as follows:

- 1 *Provide advice and challenge to Southern Water on the engagement programme design; and,*
- 2 *Give its view to the Southern Water Board on how well the Bathing Waters identified meet the Ofwat agreed selection criteria set out the Business Plan.*

This Report provides the Board with the CAP's final view on whether the Bathing Waters identified for enhancement meet the Ofwat agreed selection criteria.

Engagement programme

The CAP has monitored this process since its formation in early 2015; following the journey from the initial twenty-one Bathing Waters (identified in 2013), through to the final seven now selected.

In the first phase of the quantitative research, the CAP challenged the research approach; in particular the focus on engaging with 'users'. The CAP called for the Company to include all the following in the research and engagement:

- *Local community members who had an economic interest in Bathing Waters such as B&B owners;*
- *Those benefitting from the amenity value of the Bathing Waters (eg windsurfers or sailors);*
- *Visitors to Bathing Waters from outside the immediate area, which would require some weekend research work to be done (as well as weekdays).*

The CAP also therefore emphasised the importance of segmentation throughout the research and reporting and of the value of qualitative, as well as quantitative evidence. Qualitative research provided more opportunity for customers to give their views about specific, local proposals, reflecting the different economic and amenity value of Bathing Waters in different parts of the Southern region. The peer review commissioned by the Company, supports this use of more qualitative techniques.

Some customers were concerned that some Bathing Waters were not short-listed because they were deemed too 'complex' and/or too expensive to address. The CAP echoed this concern and has therefore challenged the final selection strongly to ensure this isn't the case.

Customers reacted positively to the fact that the current 54 Bathing Waters already rated as excellent, had to be maintained as such and that they couldn't be included in the final seven. The CAP agreed with customers on this issue and we are therefore concerned that as things stand, not all of the 54 have been maintained at excellent. We have explored this with the Company in our monitoring role and will continue to challenge the Company in the delivery of this business plan commitment.

Overall, the CAP concludes that there is good evidence of customer support for this work.

Alongside the customer research there was considerable stakeholder engagement, often with the involvement of technical experts, who were able to answer questions to support informed views. This stakeholder engagement is particularly important because often the issues identified relate primarily to matters outside the Company's direct control and responsibility. This means that improvements will require partnership working. Involvement in the process so far, has exposed the issues to multiple stakeholders and built their support for taking action themselves.

Improved and enhanced partnership working was a theme of the CCG challenge during and after PR14, so the CAP welcomes the Company's sustained focus in this area.

An important element of engagement is providing feedback to those involved and to local communities, both where new investment is being made and in the CAPs view, where improved understanding delivered by the investigations could result in additional change through partnership working. The CAP has therefore encouraged the Company to be clear that there will be work in addition to the seven Bathing Waters identified and further phases of this programme in the future.

Applying the criteria

The criteria specified in the final determination were:

- *Effectiveness (is there certainty of source and therefore of solution)*
- *Cost (could interventions be delivered within the programme's budget)*
- *Time (could interventions be delivered within the programme's timescale)*
- *Benefit to users (what factors/issues matter to customers in relation to bathing waters)*
- *Proximity (whether intervention would benefit adjacent bathing waters)*
- *Deliverability (capability and willingness of third parties to resolve issues)*

While the peer review and the CAP's oversight provide assurance around the customer and stakeholder engagement, the technical research and third party assurance commissioned by the Company, provide confidence around the value attached to

the other criteria. Notwithstanding, the CAP was keen to ensure that the more complex and potentially, more expensive cases were not simply ruled out in order to allow the programme to be delivered more easily and more cheaply. This was particularly important in the light of the fact that the anticipated cost for the programme has come in above the 'deadband' and just above 'windfall' territory.

In advance of producing this Report, the CAP therefore discussed this point at some length. The CAP accepts the third party assurance that the scoring mechanism was satisfactorily applied. It noted that the seven Bathing Waters selected were within the nine highest scoring locations. The highest scoring bathing water was excluded from the final selection as it now consistently meets the excellent classification with sufficient headroom. The eighth highest bathing water was also excluded from the final selection as it tended to the excellent standard and there would be a very high cost (£8m) associated with applying further resilience, which does not appear to be justified in benefit terms. The CAP therefore accepts that the seven Bathing Waters selected are a good fit with the criteria.

Out-performance

The CAP has noted that the proposed programme costs are some £7m lower¹ than the original estimates. The possibility of out-performance was noted by the CAP. Whilst the CAP is advised that this is partly due to the model of economic regulation, where the risk lies with the Company (so rewards also come with the risk), the CAP asked about the potential for doing more than seven Bathing Waters in this programme.

The Company pointed out that these costs are still an estimate and final costs had yet to be confirmed. The CAP and the Company therefore agreed to return to the discussion on final costings and the use of any potential windfall, once the Company has more detail of final costings and in the context of future plans for the Bathing Waters Enhancement Programme, when it will re-consider the Bathing Waters which did not make the final cut in this phase.

¹ As advised to the CAP by the Company at the CAP meeting of 4 April 2017

Going forward

The CAP has asked the Company to develop an action plan that includes two things:

- *Partnership working with others, particularly local authorities, on some of the twenty-one, where action taken by others offers the best promise of quality improvement. In this context the CAP has suggested that there may be merit in themed work across the region to bring together stakeholders trying to address common issues at different Bathing Waters; and*
- *How to progress the other Bathing Waters to excellent status, where current investigations have proved inconclusive about causes.*

Conclusion

The CAP is satisfied that the customer and stakeholder engagement for this programme has been fit for purpose and shown support for action. It is also satisfied that the seven Bathing Waters that have been selected are in line with the criteria as required by Ofwat.

The CAP is keen to see this work built on including:

- *Feedback to those involved in this work and to local communities about the findings so far and next steps, which should include –*
 - *Partnership working with those best able to achieve improvements in quality at some sites; and*
 - *A Plan for further development of this programme to address the issues identified in the investigations and meet the expectations of local communities.*