New Energy and Water Public Interest Network

New-Pin – Workshop 2

FINAL PAPER

What does trust and confidence mean for the different stakeholders in the energy and water sectors?

What can be done to build and maintain this?

Written by: Sharon Darcy with support from Judith Ward and Gill Owen.
This paper has been a collaborative effort. Sustainability First would like to thank all those New-Pin network members and others who spoke to us on this topic and contributed case studies. Responsibility for the paper sits with Sustainability First.

About the New Energy and Water Public Interest Network (New-Pin)

Background
New-Pin brings together stakeholders active in the energy & water sectors to help secure greater focus in company, investor, regulatory & policy decisions on **long-run public interest issues.** It aims to:

- **Build understanding between the energy and water sectors and their stakeholders**. New-Pin explores areas of similarity and difference, leverages learning and identifies practical steps all actors can take that could better serve long-term public interest issues;
- **Strengthen stakeholder engagement.** New-Pin seeks to increase public participation in decisions by water & energy companies, investors, regulators and policy makers through developing lasting capacity and thought-leadership among 'public interest' advocates; and
- **Stimulate a more 'inclusive' perspective on governance.** The Network is exploring what governance in the public interest looks like for energy and energy companies.

New-Pin was established by the charity Sustainability First in 2015. The New-Pin Network is made up of consumer, environmental, citizen, academic and investor interests, a small group of energy and water companies, regulators and government departments.

Sustainability First arranges and facilitates carefully structured New-Pin workshops to discuss relevant long- term public interest issues. The process is iterative and is evolving as New-Pin becomes more established. Network members decide which topic to focus on at each workshop. Prior to the workshops, Sustainability First holds bilateral discussions with members and other interested parties to discuss what they think are the key public interest issues in that topic area and to identify appropriate case study material. Following a literature review, this information is then used to draw up a draft paper for consideration at the workshop. After the session, the paper is revised to take on board comments. All final workshop papers are placed in the public domain.

Current and proposed New-Pin papers
- Towards a definition of the long-term public interest, August 2015
- Long-term affordability: who should pay for our infrastructure resilience and renewal and the move to low carbon? October 2015
- Trust and confidence: what does this mean for the different stakeholders in the energy and water sectors and what can be done to build and maintain this? March 2016
- Resilience: are Twentieth Century standards appropriate for the challenges of the Twenty First? June 2016
- Stakeholder engagement and capacity building, Early discussion paper, July 2016
- Regulation and innovation: what's the problem that innovation is trying to solve and how do regulators let go without letting companies off the hook? October 2016
- Stakeholder engagement and capacity building, February 2017
- Competition, unbundling, none traditional business models and the public interest agenda, June 2017
- Big infrastructure or local or devolved approaches: who makes the decisions and balances responsibilities? November 2017
- Governance in the public interest: lessons learnt and next steps, March 2018

The New-Pin Network
Current New-Pin public interest advocate members include: Citizens Advice, The Consumer Council for Water, Green Alliance, The Centre for Sustainable Energy, Water Wise, The Local Government Association, ShareAction and The iGov Programme at Exeter University. Company members include, from the energy sector; Electricity North West, Northern PowerGrid, RWE NPower, Scottish and Southern Energy Power Distribution and Western Power Distribution; from the water sector; Affinity Water, Anglian Water and Southern Water; and PA Consulting. Regulatory members include: The Environment Agency, Ofgem, Ofwat and the Water Industry Commission for Scotland. Government representatives are: DECC, DEFRA and the Scottish Government. Other individuals with a relevant interest are from time to time also invited to Network meetings.

What does trust and confidence mean for the different stakeholders in the energy and water sectors?

What can be done to build and maintain this?

Table of Contents

Executive summary

Trust is a relational concept. It is hard won and easily lost and not something that can be dictated or 'reset' at the behest of a single group or actor. Trust is the belief in the ability (competence), benevolence (motives and interests) and integrity (honesty) of a person or organization.

It is important that the energy and water services are worthy of public trust as they are essential for public, environmental and economic health. Trust in these sectors, which are characterized by monopolistic and non-monopolistic elements and a continuous requirement for supply, has to be earned, built up and maintained over time between customers, companies (including their supply chains), their employees, regulators, government and investors. There are strong mutual dependencies at work here. If trust breaks down between any of these different stakeholders, confidence in the whole 'system' may suffer leading to negative spirals of distrust. The social license to operate of utility companies and the legitimacy of their regulatory frameworks may be questioned, and pressure for more radical political interventions can mount.

To build trust in their energy and water companies, consumers generally want quality and resilient services and Value for Money (VFM). People understand that problems with services, such as unplanned disruptions, for example from storms, can sometimes happen. How companies and others respond to these events is key. When things go wrong, actions often speak louder than words. Ensuring that the rhetoric is matched with reality on the ground is vital if confidence is to be maintained.

If the basics of service delivery aren't right, a company has poor crisis management and consumers don't think they are getting good value; they are more likely to become interested in wider factors shaping their services. In the electricity supply market, low or declining standards of service and rising prices in 2013 caused levels of trust in energy retailers to hit new lows. The complexity of the competitive market with its disaggregated value chain meant it was difficult to link underlying costs with rising consumer bills and company profits. Consumers didn't know whether the prices they were being charged were fair and found the proliferation of offers and the inaccuracy of some bills meant it was difficult for them to make informed choices to move to better deals. The number of interfaces in the disaggregated system made the task of building trusted relationships – and tackling important system wide problems – more challenging.

Although some water companies had problems with a lack of trust in the mid-1990s, more recently both the energy networks and water companies have been able to avoid many of the reputational hits suffered by energy retailers. Although there have been some concerns around their costs and profits, these have been nothing compared to the attention focused on these issues in the 'Big 6' energy retailers. When dissatisfaction does occur in water, it has primarily been driven by problems with quality and sewerage.[1] The focus for both the energy networks and water companies is therefore more on maintaining trust than on 'trust repair' or a need to re-build confidence.

[1] *Water matters,* CCW, 2014

Trust in all energy and water service providers can, however, also be influenced by questions around ownership and stewardship. If companies don't get the basics of service delivery 'right first time', people may ask whether companies and their investors really are focused on their long-term interests and are not just pursuing short-term returns. The interactions between companies, regulators and government can be important here. Increasing regulatory and policy risk, perhaps in the form of unexpected or ad hoc policy interventions, slow or weak enforcement activity or ill-considered changes to regulatory direction, can actually increase instability and reduce confidence for both investors and for customers – putting additional pressure on companies. In a democratic society it is only right that governments should be able to change policy. However, how this is signaled, and avoiding retrospective change, is vital if confidence is to be maintained.

There are mixed views on the impact that the regulatory mechanisms designed to address concerns over competition and costs have on trust (eg a reference to the competition authorities and / or the process for regulatory appeals). Many consider that these are necessary checks and balances in the system and may lead to reforms of the system that improve confidence. However, others think that they can make relationships between companies and regulators more adversarial and less trusted, including from a wider customer perspective, and could lead to pressures for a more 'revolutionary' approach.

The media can play a key role in shaping trust. With a focus on negative stories, particularly at the national level, the press can accentuate downward spirals of trust. Companies, especially when they have local networks, can seek to address this by working with regional media where they may have better relationships and through social media that they can use for more proactive, timely and tailored communications. However, the speedy response required by social media presents its own risks to trust: mistakes can be made and the information conveyed may not always be accurate.

Building and maintaining trust in energy and water is a constant process and the relationships on which it is based are complex and dynamic. There are no silver bullets and it is difficult to point to any single metric to drive trust, beyond those basic customer satisfaction and VFM measures that any 'good' organisation adopts as a matter of course. Instead, it may be more valuable to identify the types of behaviours, processes and practical steps that can build trust. These are not new. They include transparency, proactive communications, engagement, strong leadership, a value driven culture and a motivation based demonstrably on long-term outcomes. Some behaviours, transparency for example, may prove double-edged swords. Meaningful implementation will therefore also involve a strong results-driven focus. Each of these different steps is necessary, but on its own perhaps not sufficient, to build trust. To maintain confidence and secure a social license to operate into the future, it is important to approach these steps in the round – within a company and across a sector. Given the complexities and interdependencies in the sectors, ensuring a stronger collective narrative about what energy and water companies do – backed up by real case studies demonstrating the best practice that exists – needs sustained attention.

The task of building and maintaining trust in both the energy and water sectors has never been more important. If consumers and the public are going to become ‘part of the solution and not part of the problem’ and fully engage in energy and water efficiency programmes, they need to have confidence in providers and the overall energy and water systems. All actors need to think through what trusted relationships will be needed in a ‘smart’ future.

1. Overview

1.1 Methodology

This paper draws on an extensive **literature review and 16 interviews** with a wide range of New-Pin network members and others. These included three energy companies, three water companies, three regulators, one Government Department, four consumer and citizen groups, one large investor and one business focused think-tank. Most of the interviews covered open questions such as: what factors had shaped trust and confidence in the sectors in the last five years; what could be done differently to build trust; what they thought the key factors would be shaping trust and confidence in the next ten years; what trust and confidence looked like from different perspectives; and whether they thought there were any gaps in what they or the sectors were doing to build trust. Some interviews primarily focused on specific case studies or stakeholder perspectives.

The paper also reflects the discussion that took place on this subject at a New-Pin **workshop on 24th February 2016**[2] and comments subsequently received on the draft paper from Network members. **Responsibility for this paper rests with Sustainability First. It may not necessarily represent the specific views of those interviewed or those present at the workshop.**

Companies, regulators and government are clearly already doing many things to build and maintain trust in the sectors. For example, Ofwat's Strategy is focused around trust and confidence. This paper brings together case studies and examples of best practice into one place so that stakeholders can think further about the steps necessary to do this in a more holistic way, in the process hopefully building a whole that is greater than the sum of its parts. It is thus intended to provide a strategic overview of the big issues impacting on trust and confidence in water and energy sectors.

1.2 Outline

Section 2 defines what trust and confidence is at a high, generic level.

Section 3 goes on to ask what trust and confidence means to the different stakeholders in the sectors. It explores what this looks like from the perspective of; consumers and the public, companies and employees, investors, government and regulators. It asks what sort of outcomes these different stakeholders want if their trust in the 'system' is to be built and maintained. As trust is relational, any significant negative sentiment between these groups can have a knock-on impact elsewhere, and particularly on consumer and public trust. To build understanding, it is therefore important to see the issue through these various lenses.

Section 4 of the paper explores the key issues that shape trust in energy and water. These issues were identified as a result of our background research for the paper and our bi-lateral discussions:

[2] The workshop slides are available on the Sustainability First website.

1. **Unplanned service disruptions**: what impact do unplanned service disruptions have on trust?
2. **Ownership, long-term stewardship and returns:** what effect does ownership have on confidence? (Whether services are provided by public or by private entities). How do perceptions of long-run stewardship influence trust?
3. **Competition, choice, prices & profits in retail markets:** how far do prices and profits impact on trust and does competition increase or reduce it?
4. **Relationships between companies, government and regulators:** What impact do relationships between companies and government, regulatory and competition regimes (investigations and appeals) have on trust?

Section 5 of the paper is central. Drawing heavily on the literature review and discussions at the workshop, it examines the practical steps that all actors can take to build and maintain trust and confidence in their sectors. This section recognizes that particularly when there are differences between stakeholders in terms of the desired outcomes they want to achieve, having the right processes in place can be important to maximise trust.

The paper **concludes** by exploring whether trust can be measured and by asking whether attempting to define metrics for trust may have any unintended consequences. The importance of looking at the different steps needed for building trust in the round is then noted.

1.3 Scope

The paper is focused on building and maintaining trust and confidence in energy retail and regulated energy services (networks) and in regulated water services. It is primarily an assessment of trust in the sectors in GB.

The paper does not assess in detail how energy and water are different to other sectors and how this may impact on trust. This issue was explored to some extent in Sustainability First's previous New-Pin paper '*Towards a definition of the long-term public interest*' (August 2015).

2. Definitions

In the most common definition of trust, we judge another party's trustworthiness along three dimensions: what they do and their **ability** (competence), why they do it and their **benevolence** (their motives and interests and reliability in delivering these) and how they do it and their **integrity** (their honesty and fair treatment). If the overall judgment is positive, this increases our willingness to take a risk in our dealings with that entity – to trust them.[3]

The focus on trust in public and company policy, and attempts to measure attitudes towards it, are a relatively new development. Indeed, the well-known 'Edelman Annual Trust Barometer' survey is only16 years old.

For some, trust is seen as little more than a marketing term or a 'political reference point.' It is certainly an amorphous concept and is often used as a label for something else – either to denote a generally 'good' company / service or more frequently in a negative way for any critique of a company / sector or malaise in society. Indeed, it can be easier to define and identify what breaks trust (dissonance / contradiction / disconnection / inauthenticity) than what builds trust (consistency, simplicity, honesty and proactivity).[4] This sort of rhetoric can, however, also be seen as 'management speak,' difficult to match with the reality of company and regulatory behaviour 'on the ground'.

Trust is deeply important to us as human beings as it is one of the foundation stones for most relationships. It enables meaningful choices, giving people the confidence to face the unknown and give consent to others, including those individuals and institutions outside their own personal networks, to reach an agreement. Some people consider that trusted relationships can help people reduce the perceived complexity of the world by 'bracketing out' many possible future events.[5] In this way, trust can also reduce the need for a legalistic approach to relationships.

Whereas **trust and confidence are frequently similar qualities, they do not always go hand in hand**. Trust tends to be more interpersonal and requires a belief in the other individual or body (in their benevolence and integrity) and hence a willingness to make yourself vulnerable to them. Confidence tends to more frequently be based on an assessment of ability. It may also be dependent on the context (you may have confidence in the person who reads your meter but not the whole company back at HQ) and require evidence of proof (such as certificates of competence or positive audit assurance). **Although these differences do sometimes exist, they are not clear-cut. In this paper, we therefore largely use the terms interchangeably**.

---

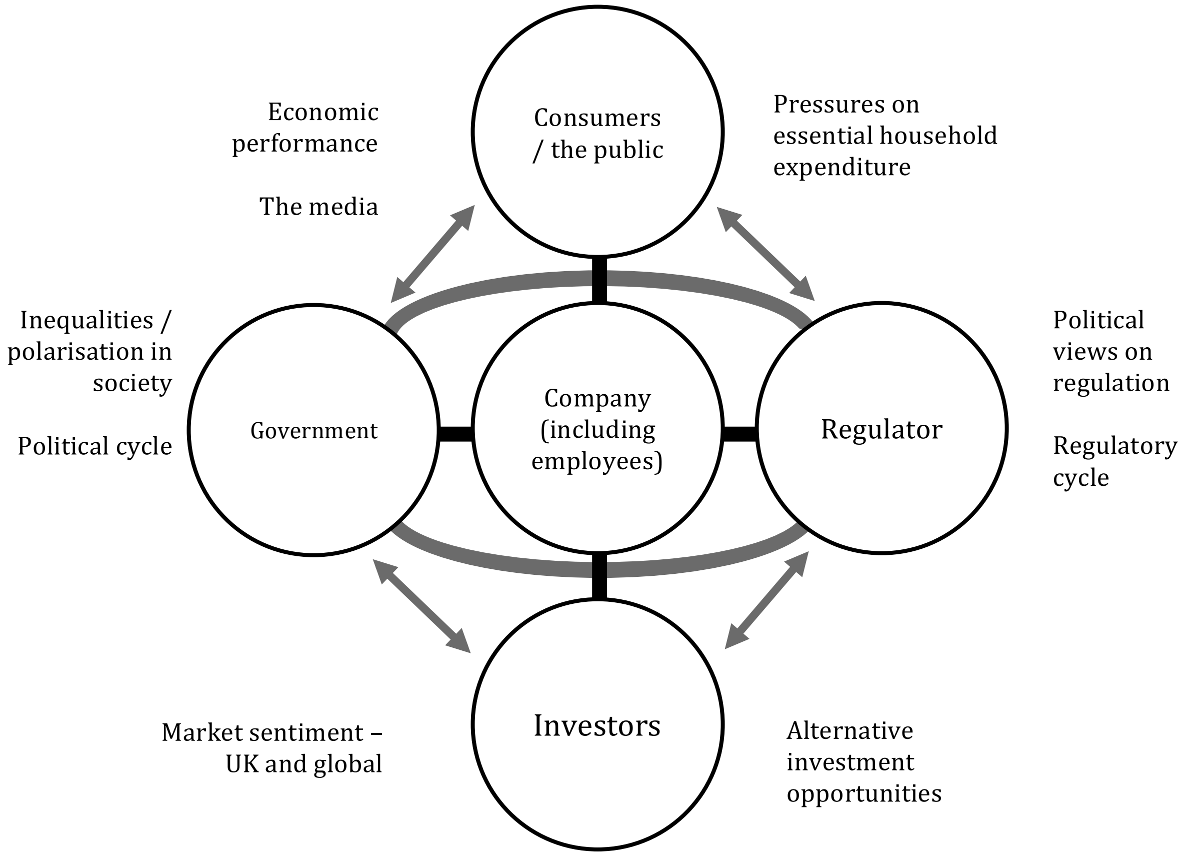
[3] *The Recovery of Trust: Case studies of organisational failures and trust repair*, Graham Dietz And Nicole Glimpse, Institute of Business Ethics, February 2012
[4] *Consumer engagement and trust in the energy market – Retail Market Review Reforms*, Ofgem Consumer First Panel, October 2014
[5] *Modernity and self identity*, Anthony Giddens, 1991

3. Trust and confidence from different perspectives

Trust is a **relational concept**. In the energy and water sectors, it is built on a complex web of relationships, as illustrated in Diagram 1. These interactions are explored later in this section. Trust in the sectors can also be influenced by external factors such as international market sentiment or pressures from other areas of the economy. In our diagram, such wider factors are depicted outside of the main circles, to illustrate that these can be areas over which companies or other stakeholders may have less influence. All of these relationships, and wider sentiments, can in turn be influenced by media coverage.

The complex web of relationships illustrated here may also be viewed through a different and simpler lens: those who are actively involved in the energy and water sectors (as well as companies and regulators, this could also include consumer groups and experts such as academics); and those who are not actively involved and whose sole relationship with service providers may be as service users and bill payers.

Diagram 1 The key relationships that trust in the energy and water sectors is currently built on



Source: Sustainability First

Most stakeholders in the energy and water sectors want: a **continuous / resilient service**, both today and tomorrow; **predictability / stability** – in terms of service delivery and of prices, and for institutional investors, appropriate returns; and **fair treatment** from other stakeholders.

However, not all stakeholders want or expect exactly the same things. In this section we examine what trust and confidence means to a variety of different stakeholders and what outcomes they may want in order to build trust. Where appropriate, we briefly assess what current levels of trust are and comment on the role of different stakeholder groups in delivering trust.

3.1 Consumers and the public

It is important that the energy and water sectors are trustworthy for consumers and the public. Each provides an essential service, vital for public and environmental health and well-being and a strong economy. The need for confidence in these sectors is also driven by the fact that they have either no or limited substitutes[6], have strong monopolistic elements and are needed 'continuously' by the population. The absence of market pressures, or effective regulation, can mean that the needs of consumers can sometimes be disregarded by service providers. If consumers don't have trust in their energy and water companies, it can also lead to personal anxiety.

Declining confidence can lead to weak market signals, making it even more difficult for competition to work in these heavily monopolistic sectors. Low levels of trust in an energy or a water provider may also make it harder to encourage consumers to change their behaviour to use resources more efficiently.

The **primary trust drivers** for consumers and the public in both sectors are the desire for:

- **Quality services** - The Institute of Customer Service has identified that there is a strong relationship between customer service and trust;[7]
- **Resilient services** – To ensure the long-term resilience that is important for consumers and the public, effective stewardship of assets and resources (particularly in water) is necessary. This is explored further in section 4.2; and
- **VFM** – Given the trade-offs that exist between price and quality, this can sometimes be subjective or even contentious.

Getting these primary drivers of consumer trust '**right first time'** is important to avoid wider problems with trust.

The level of trust required among consumers and the public from companies, however, may vary from issue to issue. For example, people may be more likely to want to absolutely trust companies on safety and quality issues in the immediate-term, but be more relaxed about other aspects of service provision (such as some aspects of customer service). Different customer segments may also have differing levels of trust requirements. For example, domestic consumers, customers in vulnerable

[6] For example, following flooding in Gloucester in 2007, the absence of the sewerage service caused the biggest public backlash is this lack of trust or lack of service?.

[7] Jo Causon from The Institute of Customer Service speaking at Ofwat Trust Conference, October 2015

circumstances or SMEs may want more protection to ensure that they can be confident in their services whereas large customers may be less concerned with this as potentially they may be able to 'self-insure' and have more resources to deal with any problems themselves. People living off the gas grid may have different drivers of trust in the energy sectors given that they are likely to have very different experiences in terms of choice and price.

Trust amongst the wider public, as **citizens**, may be driven by still other factors, including the desire for a **democratic voice** in services that have significant social and environmental impacts. [8] For some, there are issues of societal trust in how the energy and water systems as a whole are governed and how questions about their future direction are framed by Government, regulators, the media and others.

Recent problems with trust have been a far bigger issue in energy (particularly with energy retailers) than in water. This dates back, following retail competition, to cumulative examples of poor service, energy mis-selling, real-terms rising prices (especially around 2012/13) and higher bills, recent price volatility and the under-lying difficulty of working out whether energy prices are 'fair' given disagregated value chains and the complexity of the competitive energy retail market (see section 4.3). Some of these points have combined to make affordability a far more significant issue in energy than in water, with resulting impacts on confidence in the sector.[9]

Trust in water was a bigger problem in the mid-1990s than today. For example, during that time Yorkshire Water had significant problems with leakage and drought. In more recent times, some of those we interviewed thought that problems with trust in the sector were largely driven by quality and safety issues and the resulting potential impacts on health and well-being. They thought that problems in the sector were mostly 'rare events'. Unlike in energy, where people living in a rural area at the end of a line will know that they may be more likely to experience power cuts and be prepared (with candles etc.), in water some incidents such as a cryptosporidium outbreak could happen anywhere and without warning. Unlike in energy where customers look to Ofgem to protect their interests, in water, there are multiple regulators – covering economic, environmental and quality issues – and in whom customers need confidence. This point is explored further in section 3.5.

In recent times, levels of trust in both energy and water reached a low around 2013 /14 but have since recovered somewhat. A 2014 survey for Ofgem 2014 found a 43% level of trust for energy suppliers, comparable to mobile phone providers (41%) and ahead of insurance companies (36%) but behind banks (52%) and water suppliers (53%). [10] There is a national dimension here. Energy consumers in Scotland and Wales are more likely to express trust with current suppliers. [11] In water, there is a significant range between companies and regions - with Northumbrian having the highest levels at 8.34 out of 10 and South West Water the lowest at 7.16 out of 10.[12]

---

[8] For a wider discussion of the unique features of the two sectors and what the public interest may mean, see Sustainability First '*Towards a definition of the long-term public interest*,' August 2015

[9] For a wider discussion of this issue, see '*Long-term affordability'* Sustainability First, October 2015

[10] *RMR Baseline consumer survey,* Ofgem, July 2014

[11] *EMI provisional findings report,* CMA 7th July 2015

[12] *Customer Matters*, CCW, 2014

Trust in **electricity and gas services** in the UK (as measured as part of the European Commission's consumer markets scoreboard which includes trust; comparability; problems and complaints; and expectations) is some way below the average for all UK service markets and appears to be below that in selected comparator countries, apart from Spain. **For water**, the UK figure is above that for Spain and Ireland but below selected other states. However, it is very close to the average for all UK service markets. International comparisons along these lines need to be treated with a degree of caution, however, given the differences in financing and market models between member states (particularly on the water side).

Table 1: European comparisons for trust in electricity, gas, water, mobile telephony and banking

Country	Average all service markets %	Electricity services %	Gas services %	Water supply %	Mobile Tel. %	Banks %
UK	75.2	69.3	70.5	74.8	71.3	70.8
France	78.6	79.2	77.6	80.1	77.0	77.0
Spain	69.7	58.5	69.4	67.6	57.3	55.6
Ireland	74.1	75.1	74.6	68.9	71.2	63.1
Germany	80.3	81.4	77.4	82.0	78.5	80.5
Denmark	76.1	75.4	77.0	78.2	67.9	72.9
Belgium	75.8	75.6	75.7	77.0	70.7	74.9

Source: Data taken from European Commission Consumer Markets Scoreboard, June 2014

3.2 Investors

Trust is important for investors in order to create a positive and stable environment for returns, thus attracting capital into the sectors to fund investments – for both existing assets and new innovative ways of doing business. If investors want to be trusted by consumers and the public, they need to be able to demonstrate that they are responsible owners (see section 4.2). Explicit consumer concerns on poor service quality are likely to become of interest to investors where poor performance starts to impact returns or sector confidence more widely.

In order to achieve stability, investors seek to factor-in **regulatory and political risk** to their assessments of sectors and companies. Predictable, stable long-term policy and regulatory frameworks, with clearly articulated goals and visibility on trajectories for future investment are key as are absence of ad hoc, or worse still, retrospective, interventions. For investors, strong managements judged capable of managing these wider risks are important and something that investors can influence.

The level of returns sought will depend on the type of investor. Institutional investors are governed by the objectives of their fund. Some, such as pension funds, frequently have a long-term perspective, including some who invest in-perpetuity. Their interests may differ from equity investors in a publicly quoted company. And, the interests of both of these may potentially differ again from private equity investors (although there are clearly also differences within this 'group'). At the core of these interests lies an investor view of the desired risk-reward relationship of their investment: perhaps shorter-term, with a focus on capital growth or potentially higher reward from new but riskier opportunities (eg smarter markets, flood protection services); or a lower-risk business generating comparably modest rewards / appropriate dividends on a long-term predictable basis (i.e. networks)[13]. Changes in policy around business rates in Mayoral Authorities and the development of crowd funding opportunities, may pave the way for the entrance of new types of investor in the sectors that may again have different objectives.

As capital flows are clearly global and rarely recognize national boundaries, levels of investor confidence in the sectors are influenced by international market sentiment about the sectors more broadly as well as UK specific factors. For example, actions by Governments in Spain and Italy around grand-fathering (the need to stand by historic policy commitments) in the renewables sector created some nervousness across global utility investors.

In the UK, recent political policy announcements and proposals - such as the October 2013 Labour proposed price freeze on energy bills and unexpected government interventions in 2015 to stay within the Treasury spending cap for the energy Levy Control Framework - have had a negative impact on investor confidence. Evidence to the ECCC November 2015 Inquiry into the latter included the view: '*These announcements… have led to increased policy uncertainty and consequently a perception of increased political risk in the UK energy sector. As noted by EY's Renewable Energy Country Attractiveness Index, government policy changes have led to a decline in investor confidence in the sector leading the UK to fall to 11th place from 8th place, its lowest level since the Index began 12 years ago.*'[14]

A confident forward-view therefore sits at the heart of investors' relationships with and confidence in the utility sector. How any change is signaled is key. These issues are explored in more detail in sections 3.4 and 4.2.

3.3 Companies and employees

Trust is important for companies and employees to secure the business's future, both financially (through attracting investment) and in particular for these sectors, through maintaining the social license to operate and confidence in the operation of the system and its ability to reform itself. To be trusted by consumers, it is important that companies understand the individual needs of their customers so that as far as possible what is a mass service doesn't feel like that at the level of the individual user.

If there is limited confidence in a company, there may well be knock-on impacts for employee morale – in particular in job satisfaction and company-pride in having a well-run company (eg with high Net Promoter Scores). Traditionally, energy and water sector employees have taken great pride in their industries and in the essential nature of the services they maintain, often working 24/7, 365 days a year in all weathers and supporting other networks in emergencies. Although employer / employee relationships are clearly driven by many things (including pay and conditions), if companies can manage their consumer facing challenges in a sensitive

---

13 Interestingly, we learned that some investment advisors may themselves be measured against relatively short-term objectives. Such objectives may align poorly with the long-term nature of the funds on which they advise.

14 *Investment Association*, Written evidence to ECCC Inquiry into Investor confidence in the UK Energy Sector, November 2015

way, they can sometimes 'unlock' higher levels of trust across the workforce. Good leaders, through the clear articulation of what they expect and how, can be instrumental in doing this (see section 5). However, if basic services are seen as 'unfair' and not representing VFM, as may have been the case in the past with the Big 6 energy retailers, issues such as corporation tax, excessive executive pay or fines for mis-selling, can have a totemic and emotive impact, acting as 'aggravating' factors and eroding trust. Low levels of confidence amongst employees may also potentially make retention harder. With longer supply chains and increased outsourcing, the task of maintaining trust across all of these different actors is a challenge.

Trust between employers and employees can empower staff, giving them greater freedom and opening up the way to increased innovation.[15] Engaged staff are more likely to be able to manage policy and regulatory risk, through openness in their approaches to stakeholder engagement and by being clear on metrics and outcomes. Clarity on the basic values which underpin the ethos of a company or an organisation also allows staff to take personal initiative in helping deliver company-wide goals. **Employee satisfaction can thus help drive consumer satisfaction**.

Working with sector peers to develop a strong joint narrative and collaborative approaches on common issues can also help build confidence *across* the sectors. This is particularly important at the local level for water companies and DNOs who are key and enduring players in the communities in which they work.

3.4 Government

Whilst there may be political differences as to how 'hands-on' government should be in the energy and water sectors, there is a fairly broad agreement that government needs to create and oversee, at least at a high level, a stable framework and policy environment in which to maintain trust and confidence. This in turn creates a stable environment to attract investment and enable companies to plan for the long-term, thus enabling VFM services that are secure, resilient and sustainable both for today and tomorrow. BIS's 2011 Principles for Economic Regulation are still relevant here, as they include the principle of **predictability**, '*The framework for economic regulation should provide a stable and objective environment enabling all those affected to anticipate the context for future decisions and to make long term investment decisions with confidence.'* [16]

To be trusted, policy frameworks need to clearly articulate their interests, goals and motivations and provide a long-run and strategic overview of the direction the sectors need to move in, and the general pace at which they need to go, in order to tackle the big challenges of adapting to climate change, the transition to a low carbon world, dealing with population growth and enabling a strong economy. Government and the competition authorities need to demonstrate how they actively think well beyond current performance and short-term goals if companies and their investors are to be incentivised to act as long-term stewards.

---

[15] *The Freedom Report*, quoted in Tomorrow's Company, Embedding Purpose roundtable, Sept 2015
[16] *Principles of Economic Regulation,* BIS, April 2011

Both the Climate Change Act and the National Infrastructure Commission are good examples of where government has taken a longer-term view. A key challenge of such positive initiatives is sustaining cross-party commitments to them into future election periods (particularly if this requires additional legislation). Ensuring that successive governments are committed to articulating this long-term view and maintain the consensus, to prevent the launch of multiple new initiatives, is also important for confidence.[17]

Recognizing and addressing the implications that **long-run policy may have in terms of short and long-term affordability** is important to build confidence in decisions. **Distributional issues** can become very political and can erode trust.

Ensuring that policies take into account any synergies and inter-dependencies that may exist between different sectors. BIS's Principle of **coherence** comes into play here: '*Regulatory frameworks should form a logical part of the Government's broader policy context, consistent with established priorities; and….should enable cross-sector delivery of policy goals*.' Both government and regulators, whether these be environmental or economic or working in energy, water or other sectors, need to ensure their interests and incentives can as far as possible align if they are to build trust with companies and consumers. Ensuring coherence between government departments is also clearly important. In preparation of this paper, it was put to us by some that the recent initiative from HM Treasury to explore promoting competition in water for householders seemed to lack coordination with DEFRA's current policy programme. Inconsistent messages can make it difficult for other stakeholders to know how to act. Government must ultimately hold the ring in ensuring consistency and take responsibility for ensuring that policies are not made in departmental silos.

Governments can and should of course be allowed to shape and change policy – and energy policy in particular has been very political. How any changes are **signaled** - so that they do not appear to be ad-hoc, ill considered or needless interference in the detail - and then knocked through into implementation / transition - is key to ensuring stakeholder confidence in policy making. Adequate notice of change is important: to enable an evidence based impact assessment; and to allow proposals to stand up to democratic scrutiny (be this at a local, national or European level).[18] Government also needs to ensure that change, where proposed, is well and accurately communicated via the media.

At the end of the day, however, there are divergent views about how governments should deal with some of the very complex and knotty strategic issues that impact on the energy and water sectors and the uncertainties these bring. There are also clearly political dimensions to this such as the issue of fairness between and within generations and different geographies, the balance between equality and efficiency and differing views on the respective roles of markets and the state. Although companies, investors and consumers may want stability, given that uncertainty and ideological differences do exist, questions remain as to how reasonable a desire for

---

[17] An interesting current US example of a wish to establish a bi-partisan long-term view to endorse a 'national strategic agenda' is a group called 'No Labels'. Their aim is described as being to 'revive America and re-build Washington's credibility among voters and global investors'. (*'Pragmatism may yet prevail in America'*. Gillian Tett, Financial Times, 11 March 2016).

[18] See *Let's get it right: a suggested framework for low carbon interventions*, Sustainability First, 2015

complete predictability might be in the real world. Judgments clearly have to be made about how to deal with uncertainty and difference. How government involves stakeholders in discussions about this (for example, how it draws on public values and frames risks and contingencies in its policy formulation) is key to ensuring that confidence in the wider 'system' isn't shaken.[19]

3.5 Economic regulators

Trust in the regulatory process itself is important if there is to be a stable environment for investment and service delivery. In order to be trusted by government, the public, and companies, the regulators need to be able to demonstrate that they are fulfilling their **statutory duties** in terms of protecting and empowering current and future consumers and ensuring sustainable and resilient services. Ensuring that efficient companies can finance their functions and promoting competition (and potentially innovation)[20], are means to achieving these ends. Focusing on creating markets as an end in itself, as some of those interviewed thought had been the case in the past in the energy sector, can bring the different regulatory duties into conflict. Indeed, there can be tensions between even the basic regulatory consumer protection duties, in terms of balancing the interests of today with those of tomorrow.

Regulators are in some ways cast by statute in the role of proxy consumers. However, to deliver their statutory goals they must also aim to create **win-win outcomes** that sufficiently **balance** their statutory duties and the interests of consumers, companies and investors within these. This delicate balancing act is necessary for a healthy and constructive tension to be achieved and for all stakeholders to thrive. The balance can potentially be disrupted by company actions, by unexpected or ill-considered political interventions, and / or by changes in consumer expectations.

BIS's Principles for Economic Regulation include the principle of focus that '*Economic regulators should have clearly defined, articulated and **prioritised** statutory responsibilities focussed on outcomes rather than specified inputs or tools*.' Ofgem and Ofwat[21] each receive statutory guidance from their respective Secretary of States with the aim of giving clarity to the government / regulatory relationship and the boundaries around it, particularly on social and environmental matters.

It is worth noting, however, that in its provisional findings in its Energy Market Investigation, the CMA has noted the need to communicate better on trade-offs within policies and the importance of a mechanism for DECC to give Ofgem formal directions.[22] This theme has been picked up elsewhere, with Roger Barnard for example commenting that the '*Political nature of energy policy needs to reassert itself*' and that Ofgem '*….needs a renewed mandate that properly aligns regulatory objectives with national policy objectives*.'[23]

---

[19] For example - *Public values for energy futures*, Butler, Denski, Parkhill, Pidgeon and Spence, 2015
[20] Promoting innovation is one of the duties of the Payments System Regulator.
[21] For example, see *Defra's strategic policy statement to Ofwat*, Defra, May 2013. Ofgem is required to report in its forward programme each year how it complies with its Strategy and Policy Statement duties under the Energy Act 2013.
[22] CMA, *Energy Market Investigation*, op cit
[23] *Anniversary time – a silver prize for Ofgem but no cigar*, Roger Barnard, Cornwall Energy – Energy Spectrum, November 2015

The **independence** of economic regulators (from government, companies, investor groups) is crucial here. Regulators must act independently and avoid capture; ensure 'fair access' to decision-making (in particular for those with less voice or capacity); and demonstrate evidenced-based impartial decisions to make the case that they can be trusted in their competence and judgements in fulfilling their remits. Defining what independence means and looks like in practice is important to ensure that this issue isn't treated subjectively by different governments or eroded by increased scrutiny or reporting requirements.

Being **accountable** for the fulfilment of their statutory duties is important if regulators are to retain their legitimacy. Indeed, accountability is one of the Principles of Economic Regulation highlighted by BIS: '*Independent regulation needs to take place within a framework of duties and policies set by a democratically accountable Parliament and Government*.' This is particularly important for issues that may have a distributional impact. Trust may be eroded if government are seen as 'out-sourcing' public policy in such sensitive areas, leading to a potential 'democratic deficit'. However, to maintain trust in the system, given the expertise of regulatory bodies, it is important that regulators and their boards also have the moral courage to tell government if the trade-offs that they are being required to make involve value judgements that would be better made by government itself.

For water, given the complex regulatory landscape, where Ofwat and WICS work closely with the Drinking Water Inspectorate on quality issues and the Environment Agency / the Scottish Environment Protection Agency on environmental standards, ensuring clear roles and responsibilities, and aligned incentives, for all actors can be difficult. For example, how do environmental fines[24] impact on the perceptions of economic regulators of company performance and overall public confidence in the sector?

The gradual move in both energy and water from compliance regulation and micro-managed parent-child relationships to '**principles' regulation** and a focus on more 'adult to adult' relationships and outcomes is expected to help build confidence between regulators and companies – providing it is clear: how the principles translate into practical decision making; and whether there is an effective 'big stick' if things go wrong in terms of back-stop enforcement powers. It is important in a principles based system that there are clear and transparent judicial governance processes to avoid the excessive politicisation of decisions. This, along with being alert to the customer experience, consumer behaviour and decision making processes and the outcomes consumers want on the one hand and being alive to real time commercial pressures on the other, should help achieve a shift towards more effective incentives and ex-ante regulation. **Information** is key here, enabling regulators to move from a 'one size fits all approach' and to make better informed, more proportionate and targeted interventions.[25]

---

[24] For example, in 2014 water companies were responsible for almost a quarter of the total serious water pollution incidents of activities with permits in England and Wales, *Pollution incidents*, Environment Agency, July 2015. Scottish Water has also been named as one of Scotland's biggest polluters (Herald Scotland, 15 February 2015).

[25] *The evolution of the regulatory model in water*, Cathryn Ross, Beesley Lecture, October 2015

Flexibility is important if regulators are going to be able to adapt to the changing delivery landscape and to help facilitate innovation. This point chimes with the BIS Principle for Economic Regulation of adaptability: '*The framework of economic regulation needs capacity to evolve to respond to changing circumstances*.' Unless regulatory mechanisms are able to evolve (for example by giving consumers more control by opening up markets or by adapting their approaches when markets are unable to deliver meaningful choices), trust will suffer.

Finally, for regulators to gain the confidence of other stakeholders, it is also important that they practise what they preach – and look to their own processes and procedures to ensure that these are efficient and innovative.

4 Key issues shaping trust and confidence in energy and water

Relationships between stakeholders are clearly dynamic and are driven by many factors. It is widely recognised that trust is hard won and easily lost. Levels of trust between one group and another (eg between consumers and companies) can spill over and have an impact on levels of trust with other groups (eg government and regulators). As with any other relationship, trust with and between organisations can sometimes 'go wrong'. People and organisations do make mistakes and things happen. **Trying to get the basics (quality services, resilient services and VFM) right first time is important**. However, it is worth noting that whilst certain events might trigger problems with trust, it is normally an **organisation's response** to these that will determine whether it has a positive or negative impact on stakeholder confidence**.** Problems with trust rarely come out of the blue and are seldom 'random.'

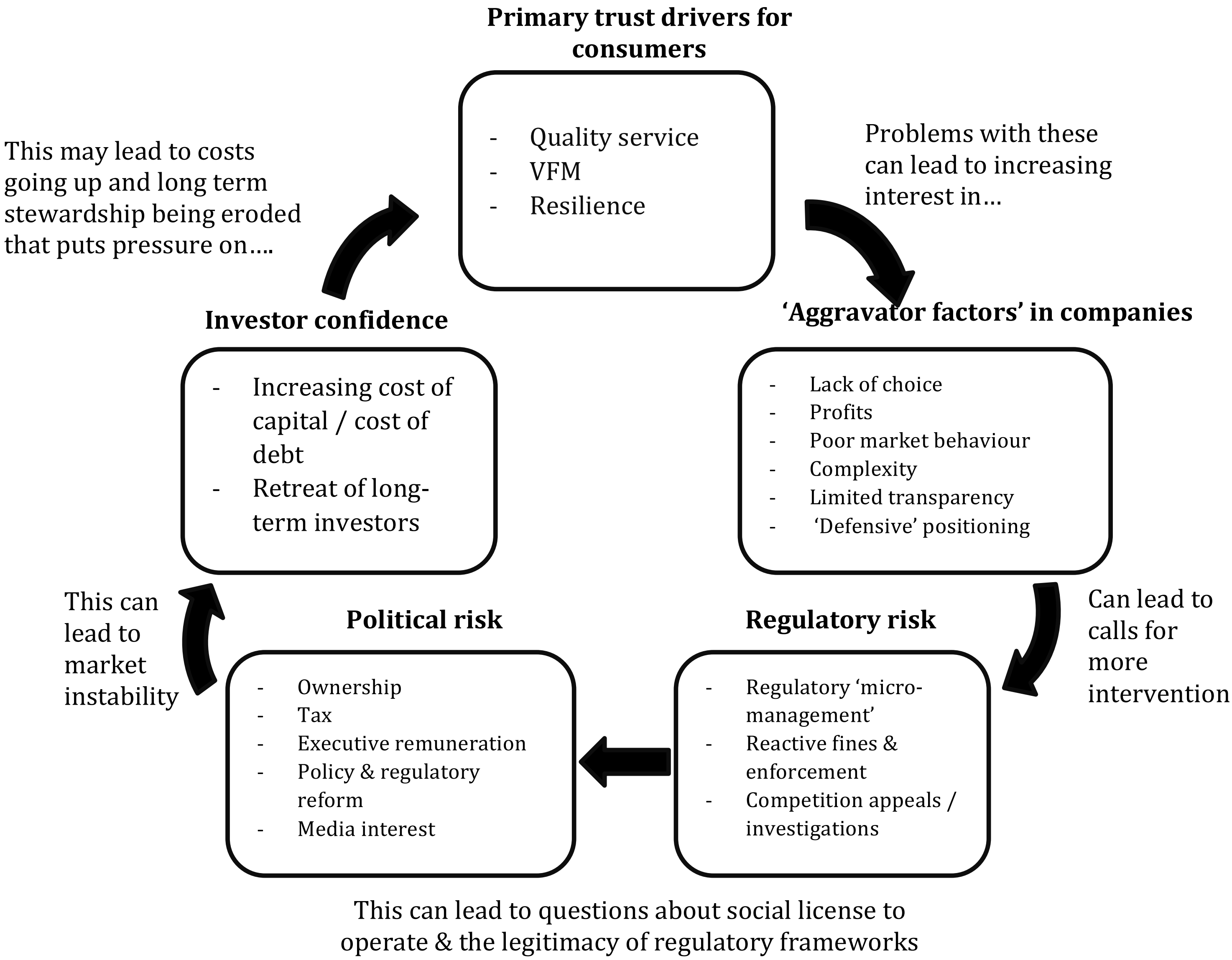
In this section we use practical case studies to explore some of the key issues that during the course of our research we were told help to shape trust in the sectors. The potential for '**downward spirals' of trust** is illustrated in **Diagram 2**. However, what became clear in our discussions was that most of these issues can both erode but also build trust and confidence. **How they are handled is key**.

The media can play a key role here. Problems can be exacerbated by negative coverage – frequently at the national level when the local dimensions of a story may be lost, leading to perceptions of services that are different to the reality of service delivery on the ground in a given locality. The sometimes strong London and South East perspective from the national media can also cause confusion. Network companies often find it easier to build relationships with regional media, and these, along with using trusted partners or 'messengers' from local authorities and community groups, can help get more accurate messages across that can help build confidence. Social media can also enable companies to halt negative trust spirals. This point is explored further in section 5.1.

This section examines four key topics which we were told in discussion can significantly shape perceptions of trust and confidence for the water and energy sectors:

- Unplanned service disruption
- Ownership, long-run stewardship and returns
- Competition, choice and prices in retail markets
- Relationships between companies, government and regulators.

Diagram 2 Potential downward spiral of trust for consumers and the public in energy and water



Source: Sustainability First

4.1 Unplanned service disruption

Unplanned service disruptions are clearly important and potentially frustrating for all stakeholders. As in other sectors, customers increasingly expect high-standard 24/7, 365 day services from their energy and water companies, and interruptions run the risk of negative perception. Disruptions may be on a national scale or may be regional / local. They may be readily contained – or not. They can be caused by: storm damage; quality and safety incidents (such as cryptosporidium outbreaks - although relatively rare events, these can leave a lasting impression on the public); leakage / mains bursts in water (although leakage levels were a far more significant issue in the past, they can still reduce consumer trust in their water supplier if they are seen as a sign of not caring for precious resource); customer service problems resulting from new IT systems or billing platforms; and cyber attacks which could become a far bigger issue in smart markets.

When such disruptions are not handled well, it can lead to a significant backlash. This occurred after the Christmas storms in December 2013 when the ECC Select Committee carried out a review of the resulting power disruption. This inquiry identified problems in some companies with poor communication, lack of clarity about who to call about problems, lack of urgency by companies and the regulator in introducing an emergency '999' style number, limited support for vulnerable customers and questions over compensation levels. Distribution companies were called in to see the Secretary of State and all had to provide data. Since that time, the companies have done a great deal to raise awareness and improve processes.

Case study: **Multi-agency partnership working following flooding**

In July 2014 a severe storm led to the flooding of over 1,000 homes in Canvey Island and discontent among local residents. Anglian Water, recognising that the worst possible approach would be for the company to say it wasn't their problem or to ignore the frustrations of people faced by having to deal with multiple-agencies, took the lead in setting up a multi-agency flood response group and communications partnership group. This involved the two local County Councils, The Environment Agency, Essex Highways and the Lead Flood Authority. A dedicated website was used as a central point to share information, and partners worked more closely sharing job information so that customers didn't have to ring multiple organisations to report issues. A hydraulic model of all the draining networks was created with investment and data from Anglian Water. Newsletters, social media and videos were also used to explain who was responsible for what in terms of the drainage network, and how the hydraulic model would help alleviate flooding. On top of providing significant additional resources to fix issues identified, the company has since led an action plan and bid for additional central government funding to tackle the long-term drainage challenges the island faces. Relations with the local MP are now good and there has been a large reduction in customer complaints with comments made that the drainage network has improved.

Although disruptions may be infrequent, the public are likely to consider that managing such incidents is a core part of an energy or water company's business and as a result may therefore have high expectations around how they handle them. Indeed, **dealing with incidents effectively** is an opportunity to interact with customers and can actually build trust with the affected communities rather than alienate them. The following steps were identified as helping to do this:

- **Good crisis management** – speedy response, partnership working, a no surprises approach and proactively taking the lead where necessary, admitting any failures, acknowledging the problem, making things safe, putting them right and saying sorry.
- **Clear responsibilities** – customers need to know who to contact if something happens and this needs to be easy.

- **Open, proactive and sensitive communications** – delivering accurate and honest messages to key stakeholders as and where and when required (eg on hoardings around street works). Showing that you are aware of the situation was seen as an important first step to building confidence. People want to hear the bad news from the company first. Being realistic about reconnection times was viewed as important to demonstrate both ability and integrity. Human stories, such as explaining how staff have worked non- stop over Christmas to fix a problem, were also viewed as important for companies to build trust. The role of social media in this area is explored in section 5.1.
- **Using the right messengers** – face to face interactions are powerful, right down to the CEO of a water company to 'manning the bowsers' when there has been a significant incident.
- **Learning the lessons from the incident** – both internally and with peers and other interested stakeholders.
- **Holding those responsible to account** – with a focus on improving future services rather than blame.

4.2 Ownership, long-run stewardship and returns

In the energy and water sectors, the extent to which ownership, and whether a company is in the public or private sector, makes any difference to its trustworthiness is an issue that continues to attract some debate. Ownership can clearly impact on the need to make returns (and subsequent VFM and efficiency), the long-term stewardship of company resources and assets and company ethos. It can also have an effect on the accountability and transparency of the organisation in question, with public bodies, unlike private companies, being subject to Freedom of Information legislation. It is interesting to note that some political parties have proposed extending this legislation to include water and energy companies.[26] It is also worth pointing out that although a public body may be required to provide information under this legislation, the information desired may not necessarily be readily available. It is important to note that listed companies are also required to be transparent. In general, from our discussions, it would appear that the picture on whether ownership per se 'matters' with respect to approaches either to long-termism and / or transparency is not so clear-cut. There are also some differences between the sectors.

Water

In England and Wales, ownership would appear to be less of a concern in water. Personal experience with their company is the main factor in influencing customer satisfaction with water supply rather than the fact it's a privately or publicly owned company. Interestingly, there are no differences in customer trust levels between the water companies in England and Wales, despite the different ownership model of Dwr Cymru (which has a mutual structure).[27]

Scottish Water is still publicly owned. Here, household water bills are £39 p.a. below the average in England and Wales and the UK Customer Satisfaction Index put the

[26] For example, *Lib Dems plan FoI rules for private companies*, FT, August 2014
[27] CCW op cit

company as the most trusted utility in the UK in January 2015.[28] How much of this is down to the fact that the company need not pay a dividend to shareholders or, rather, the company's strong stewardship ethos is difficult to determine. Some of those interviewed thought that public ownership of water in Scotland seems to have its greatest impact in terms of enabling greater clarity of roles between Government and the regulators. The fact that the Scottish Government publicly sets the principles for charging, including the need for stable prices, and the company's investment objectives, may make it more trusted by some. Under this arrangement, it is easier for people to know who is responsible when there is a problem, and also gives comfort that there is potentially greater democratic accountability. The negotiated settlement approach to regulatory price setting for household water charges in Scotland could further add to stability and help avoid perceptions of excessive profit. The introduction of competition for business customers, who can now choose between 23 providers, may also have helped build confidence that the sector is increasingly responsive to customers' needs.

Of course, public ownership does not in itself confer trust on a company. Nor does it necessarily ensure freedom from controversy. For example, the chief executive of Scottish Water is the highest paid civil servant by the Scottish Government. Recognition that Scottish Water is one of the largest public actors in Scotland, coupled with a good performance, however, may in turn help shape public attitudes. The fact that the costs of household water services are recovered through Council Tax charges rather than separate water bills can also make questions of trust in the sector more complex. Not least, this potentially raises expectations about what the company should be doing for customers in vulnerable circumstances.

Energy

In energy, there has been some political discussion of renationalization. In October 2013, just after Labour announced its price freeze, a YouGov survey found that 68% of the 1,736 people questioned thought that energy companies should be run by the public sector and only 21% by the private sector – with this view having majority support regardless of party affiliation.[29] However, there are also some quite sizeable differences in customer trust levels between companies. As a very rough proxy, the recent Which? energy supplier comparison tables for customer satisfaction in January 2016 based on responses from 8,902 customers had a range of customer scores from 82 to 41% - in which a mutual company, Co-operative Energy, scores just 45%.

This could be taken to indicate that ownership per se can be a red herring and that in practice other factors may well be driving trust. A YouGov poll of 1,707 adults in March 2015 found that although 47% of respondents thought that 'utilities' should be in the public sector and 16% that they should be in the private sector, a significant 30% said that it didn't matter, providing that standards of service were maintained. Interestingly, conservative voters were fairly split on the issue with approximately a third supporting each of these options.[30] Australia may also offer some insight here. Different states have a different mix of public and private energy providers: the main

---

[28] http://www.scottishwater.co.uk
[29] https://yougov.co.uk/results/
[30] https://yougov.co.uk/results/

difference in terms of trust would seem to relate more to how each state approaches regulation of their utilities, rather than to utility ownership as such. Of course, international comparisons need a degree of caution, as different countries may take different approaches to allocating costs between providers and the state, with subsequent knock-on for customer perceptions of VFM.

Energy and water

Clearly not all owners and private investors are the same. As we have explored in Section 3.2, different types of private investor / owner may have different approaches to the returns they seek or to the period over which they seek to invest. **It seems that the underlying drivers associated with different investor-models, and whether these enable good service delivery and positive consumer outcomes, may in practice have a more significant impact on trust than whether a company is publicly, privately or community-owned.** If an investor in an energy or water company appears largely focused on driving up short-run returns, reinforced by the incentives they adopt for senior pay, then they are less likely to command regulatory or public confidence (the relationship between costs and prices in explored in Section 4.3). Alternatively, where investors demonstrate a good grasp of both current performance and a clear vision for the company's continued long term presence in the community in which it operates, and how it will steward resources and assets over the long-term to achieve this, the public may be more inclined to trust and respect that investment model. As long-term investors increasingly focus on climate change risks, some of those interviewed thought that interest in the impact of such risks may well spread from fossil fuel companies to utilities. Pressure from investors to get companies to disclose what they are doing in this area, to disrupt unsustainable business models and to divest resources from unsustainable practices may have an impact on trust between some savers, investors and companies.

Corporate Social Responsibility (CSR) reporting is a well recognised starting point for assessing whether a company has an interest in long-run stewardship and transparency. Energy and water companies will be doing much in the fields of understanding and responding to the needs of their current and future customers and meeting their environmental obligations. This will be reported in their CSR reports and elsewhere in their Annual Reports and company communications. However, it is important that this activity becomes embedded in key decisions and reports, and not siloed. It can be counterproductive where big statements in a CSR report, for example, are not driven through into day-to-day company actions.

Ensuring that decisions by institutional investors reflect their fiduciary role and take account of the **Environment, Social and Governance** (ESG) factors that sit at the heart of the UN's Principles for Responsible Investment[31] is a step forward in the right direction. ShareAction's annual survey of asset managers performance reports on ESG factors (such as the asset managers ability to provide examples of how they integrate environmental and social considerations into stock selections) and performance against the Financial Reporting Council's Stewardship Code (for example, measuring the research and monitoring into investee companies and

[31] See http://www.unpri.org/about-pri/the-six-principles/

engagement with them) is a useful mechanism in this regard.[32] If institutional investors 'investment beliefs' chime with the interests of their fund members it can also be a good indication of active stewardship.

Looking to the future, in order to build confidence in the stewardship commitments of companies and investors, some of those interviewed thought that it may be necessary to redefine current concepts of success and look to identify what works well on the 'triple bottom line' (an accounting framework that records social and environmental as well as financial performance). The Prince's Trust Accounting for Sustainability Project is a good example of this.[33] 'Integrated reporting' standards are also developing to enable investors and other stakeholders to assess a company's values and strategy over the short, medium and long-terms. Although the old adage is important that 'it is what is measured that counts', and increased reporting on these wider aspects of company activity can increase accountability in some respects (at least to shareholders and investors), clearly unless this information also drives company behaviour, it may be seen as little more than a box ticking or rhetorical exercise - rather than a way to build trust. It should also be remembered that both energy and water companies have multiple existing environmental obligations. Understanding how these obligations feed through into any new reporting and accounting frameworks would seem important.

Perceptions of stewardship may also be influenced by other factors such as whether companies and investors are engaging in '**fair play**.'[34] In 2015, the top issues of concern in terms of business ethics generally were corporate tax avoidance (34%) followed by executive pay (25%).[35] Many investors are increasingly taking a more holistic view of the world that takes such factors into account.

Whether **boards** reflect the strategic direction or skills and experience to promote stewardship and a longer-term focus, is a wider question. As regulatory models change, for example to encourage greater stakeholder engagement, some at the workshop felt that there could be a growing mismatch between regulatory requirements and expectation among some investors – and that this was a gap which may yet need to be reconciled.

4.3 Competition, choice and prices in retail markets

In the energy sector, competition has both built and eroded trust. On the one hand, competition can be seen as potentially 'keeping companies honest.' On the other, it can be seen as driving short-termism and a possible 'race to the bottom'.

In the competitive energy market, consumers can switch suppliers to get better deals and hence help put a downward pressure on costs. There are new entrants to choose from, often offering strong commitments on customer service. Smart metering should also pave the way for more accurate bills, greater innovation and increased consumer confidence.

---

32 *Responsible Investment Performance of UK Asset Managers*, ShareAction, 2015
33 http ://www.accountingforsustainability.org
34 *Trust Barometer*, Edelman, 2015
35 *Attitudes of the British Public to Business Ethics, IBE, December 2015*

In contrast, **poor market behaviour** sowed the seeds of distrust in energy retailers. Against a backdrop of rising prices and the proliferation of complex offers that made it difficult for people to exercise meaningful choice, in 2010 Ofgem launched its Retail Market Review to try and simplify the market and empower and protect consumers. However, as wholesale and retail prices continued to rise in 2013 /14, without any corresponding increase in standards of service (and in many cases a deterioration) or innovation (in what many saw as an homogenous service), lack of confidence in the market deepened. Questions arose about the dominance of 'the big 6' suppliers. As the Secretary of State noted in 2014, '*A limited choice of suppliers in the domestic energy market helped fuel distrust and left consumers feeling less inclined to switch. We've all heard people say, fair or not, what's the point in switching supplier, they are all the same.*'[36] Future price uncertainty also deterred some from switching.

Inaccurate billing and poor customer service has added to the difficulties that consumers face when making choices in the energy market. Billing is by far the largest category of complaint made to the Energy Ombudsman (86% of total complaints in 2015),[37] making it difficult to verify charges and leading to a further lack of trust. Perhaps unsurprisingly, research for IPSOS MORI found that '*lack of engagement tends to result in greater trust – disengaged consumers are giving the industry the 'benefit of the doubt.*''[38]

In energy, only a minority of costs are associated with retail activities and yet nearly all customer interactions are via retailers. As one network member pointed out, suppliers have therefore to be the conduits of both good and bad news.

The **complex, disaggregated value chain** in energy has also made it difficult for consumers, regulators and government to assess whether prices accurately reflect movements in underlying costs. Concerns expressed around bills going up like a rocket but down like a feather, out of sync with wholesale prices, has fuelled distrust of suppliers and led to questions about profits. This was one of the factors that led to the current CMA Energy Market Investigation, the provisional findings of which included the observation that segmentation of the energy value chain doesn't necessarily match business lines, leading to potential inconsistency in information and accounting treatments. There is a **lack of common ground on costs** between key parties that can reduce public confidence. These findings also concluded that many of the tools and approaches that have been developed to try and build trust in the markets, such as price comparison web sites and third party intermediaries, may in certain circumstances actually erode trust. [39]

Customer service in the market has continued to be patchy, further reducing confidence. Although some new entrants such as Utility Warehouse have scored well on the Institute of Customer Services Customer Satisfaction Index, in a recent Which?

---

[36] Amber Rudd, Secretary of State for Energy and Climate Change, Energy UK Conference, Oct 2014
[37] *Ombudsman services, energy sector report*, 2014/15
[38] *Trust in the energy sector and billing*, Citizens Advice, 2015
https://www.citizensadvice.orguk/Global/Migrated_Documents/corporate/attachment-2---summary-of-energy-trust-pollingpdf
[39] *EMI provisional findings report*, CMA 7th July 2015. Recent concerns around Age UK's deal with EON in early 2016 are also a potential example of this point.

survey, none of the 'big 6' energy suppliers were judged as providing a 5-star service, although some of the smaller companies were also towards the bottom of the table. Complaints to the energy ombudsman in 2014/15 also showed a five-fold increase on 2012/13 levels. [40] Concerns have been raised by some that companies prioritise sales rather than deal with complaints and sort out customer service problems.

The extent to which **smart metering and smart energy services** will contribute to helping to tackle the trust deficit in the market is the subject of much debate. Trust will be vital in smart markets if customers are going to be confident enough in the market to let people into their homes to install smart devices and to share their data. Early signs from the smart meter roll-out are positive with a survey for Smart Energy GB finding a 33% net difference of those that don't trust any energy supplier, compared to a net difference of 17% not trusting 'my' energy supplier.[41] Some consumers may feel empowered by the more accessible and accurate bills and information that smart meters give them. However, much will depend on how the roll-out is handled on the ground. Much time and effort has gone into this. As the smart meter roll-out gathers pace, the question of trust for energy suppliers may well be demonstrated in customer uptake rates - leading to a knock-on question of whether incumbent suppliers can and should be used as future 'vehicles of public policy.'

Smart technologies, digital communications and big data – whilst opening the door for new innovations - also represent potential risks for future trust. These include: will data be sold or automated devices in the home be hacked? How will existing regulators protect consumers in an increasingly convergent smart world where decision-making is much quicker than in traditional utilities? How will service providers cope with an increasingly fragmented customer base and how will consumers be protected from new entrants and unregulated businesses? What impact will DIY self-serve approaches have on those that remain passive and don't switch?

The disaggregation of the value chain in competitive markets can give a better view on costs and help drive out efficiencies – thus helping to improve the primary drivers of customer trust. However, it presents some challenges. Firstly, it presents the problem of how you then deal with aggregate challenges to the system and manage the relationships necessary to address these in such a way as to maintain trust – particularly for long-run issues. Secondly, disaggregation can lead to the **unwinding of cross subsidies that can have distributional impacts**. Unless these are understood and addressed through other means, these can have the potential to erode trust. This could be a particular challenge in water if competition were to be introduced for household customers: the costs associated with the ban on disconnections and the ban on the fitting of pre-payment meters could simply lead to a re-allocation of bad debts to those that do not switch.

[40] *Best and worst energy companies*, Which? 2014
[41] *Consumer attitudes to the energy market and smart meters*, Smart Energy GB, 2014

Case study: inconsistent customer service in energy retail market

Caseworkers from the Centre for Sustainable Energy (CSE) have recently had very different experiences – from the same Big 6 energy retailer. Calling the 'Company X' priority line to sort out the tariffs of a vulnerable client, one case worker was given incorrect advice about Economy 7, told to check tariff options on line (despite repeatedly saying this wasn't an option for their client) and was finally told that all the necessary changes to the account couldn't take place that day. To top it off, after the case had supposedly been resolved, the client received a bill that was higher than that agreed with the caseworker – as a result of a computer error. In stark contrast, another caseworker had a very positive experience for their client, an asylum seeker with high bills. Company X helped the caseworker set up a Letter of Authority for them so that they could act on the client's behalf and the case was handled speedily with the one Company X member of staff taking responsibility for the whole process. Inconsistent treatment like this can indicate a lack of robust processes and the absence of a strong company culture both of which can erode trust.

4.4 Relationships between companies, government & regulators

Given the unique characteristics of the energy and water sectors, ensuring that differences can be openly and vigorously debated without eroding confidence is important. This can be difficult as social and environmental externalities make these sectors (particularly energy) inherently 'political' and mean that the media has an on-going interest in covering them – especially if there is a possible 'bad news' angle. At the same time, the sectors have sometimes found it difficult to find a strong collective voice and narrative to explain the full breadth of what they do. It can be difficult for trade bodies to speak up on this, without being seen as self-serving.

The different responsibilities and approaches of devolved governments and the increasing interest in and scope for regional and local solutions, can make the relationships that are needed in the sectors even more complex.

The development of innovative **Non-Traditional Business Models and the arrival of new entrants, particularly perhaps when they have a** focus on local services or strong community roots, where trust may be easier to build, looks like a promising development. Such models may enable innovation and greater efficiency and security through demand reduction or demand side response, improved customer service and potentially greater data privacy.

Non-Traditional Businesses could, however, also lead to new challenges in terms of making offers more complex (particularly if they are accompanied by the development of bundled services such as the inclusion of automated devices or control systems). The potential increase in complexity in ownership and delivery structures that regulators and incumbents may have to 'master' may be challenging, ranging from global supply chains and outsourced activities to local, community based services where 'authenticity' is important.[42] There may be more stakeholders with whom to build relationships and a 'one size fits all' approach may no longer be

[42] *Firm Commitment*, Colin Mayer, 2013

appropriate. Seeking to get the basics of service delivery right first time in any new arrangements, or at least managing expectations in this area, would seem important if trust is not be eroded.

When there are problems with relationships with regulators, it is important that these are tackled. One example of where this has fallen short could be **enforcement activity** in the retail energy sector. Up until 2012, there was political and consumer concern that this was too slow, fines were too low – often appearing 'negotiated' – and that energy retailers were on a race to the bottom. Some questioned whether regulators should have been more visible as 'policemen protecting the public interest' doing more to prevent mis-selling from becoming the norm. At the workshop, concerns were raised that slow enforcement action could lead to 'a few bad apples ruining the barrel.' DECC's recent consultation on whether Ofgem should have more powers to investigate possible non-compliance with license conditions and protect consumers would seem to indicate an acknowledgement of this issue and a desire to see it addressed.[43]

Getting the right balance between regulators and companies working behind the scenes to get change - and visibly being seen to be independent, protecting consumers and not being captured by companies - can be difficult. A toothless regulator is unlikely to command public confidence but likewise a snarling guard-dog is unlikely to create an environment where collaboration with and openness from companies is possible.

At the workshop it was felt that the ability to publicly hold regulators to account, such as through Select Committee / Public Accounts Committee hearings, was important to ensure that relationships between regulators and companies did not get too 'cosy.' However, it was recognised that a balance needed to be struck to create the right environment for constructive relations going forward.

Competition investigations and appeals

When differences do exist around industry interactions, it would seem important for all concerned, and for the proper governance of justice, that there should be recourse to mechanisms to explore, review and even appeal decisions. Such mechanisms ensure that trust isn't 'blind' and enables it to be verified if there are differences of opinion. In preparing this paper, we discussed how far competition applications to appeal can increase or decrease the efficiency of and confidence in the regulatory system.

Some take the view that it is only 'the lawyers and consultants that will benefit' from such interventions. They argue that competition investigations and appeals put everything on hold: they delay investments and damage public confidence in the sector. Litigious adversarial relationships (as in the US, where rates cases are now routine) do little to build wider public trust or encourage people to form the new partnerships essential for innovation. From this perspective, colleagues questioned whether such appeals would make companies and regulators re-think the burden of

[43] *Strengthening enforcement in gas and electricity markets*, DECC, December 2015

proof necessary for their decisions - and increasingly err towards taking a more formal and detailed approach to their work.

By contrast, others told us how investigations and appeals ‘blow away the cobwebs’ and consider that they can help clear the air, improve transparency and build consumer trust. Appeals, unlike competition investigations, are relatively quick and not necessarily a distraction. In the workshop, it was noted that this issue was not ‘black and white’ and that as part of a mature system of checks and balances, it was strongly felt by some that appeals could not harm professional relationships between companies and regulators and were in fact essential to stop things getting ‘too cosy’. Instead, it was thought that appeals could help demonstrate ‘what good-practice looks like’, encouraging regulators to make well evidenced and justified decisions, in a framework that companies have had the opportunity to engage with. Whilst it was accepted that companies need to earn the trust of regulators, it was felt that sometimes it was important to verify this.

There are statutory differences between energy and water appeals of a price control: in energy, appeals can be focused on a narrow specific topic and also extend to third parties such as consumer bodies or other companies; in water, appeals relate to the entire price control decision. One counter-argument to focused appeals put to us was that they may be a ‘low risk strategy’ with companies being able to cherry pick easy issues with a high likelihood of winning. Several people commented that this was the case in Australia where a review led by George Yarrow found that focused appeals were viewed as having become ‘unworkable’ and had removed any incentive to compromise, look for a middle ground and build confidence in the system. However, the recent Northern PowerGrid appeal of the ED1 price control, where the company won only on one of the three grounds appealed, could be taken as evidence that cherry picking is not a given. Finally, it is worth noting that not all sides (especially third parties, in particular consumer bodies) have equal resources or rights to appeal decisions and that this point shouldn’t be allowed to skew the process.

This section raises some big issues that will need further consideration by government, regulators and companies, and others will need to take forward.

5. Practical steps that can help build and maintain trust

Drawing on interviews with New-Pin members and others and the discussions at the workshop, and using case studies, in this section we summarise the different steps and approaches that companies, regulators and government can take to help build and maintain trust. Getting these **process steps** right is crucial to maintain trust, particularly when there are differences in views between stakeholders as to what outcomes they want to see. Most of the steps outlined in this section are relevant to most actors. However, some have a specific focus for a particular group. For example, the need for clear messaging on long-term outcomes raises specific issues for government. Most actors in the water and energy sectors are already doing many of these things. The steps fall into four broad areas:

- Openness and clear and proactive communications;
- Stakeholder engagement;
- Clarity of motivation and long-term outcomes; and
- Leadership, culture and values.

These areas are largely within the immediate influence – so '**controllable**' – of different stakeholder groups. Although this means that they can be implemented by a single stakeholder acting independently, their impact would clearly be greater if they were adopted generally. Indeed, there is a surprising degree of commonality between the steps and behaviors that may help building trust with a company with those that may also build trust with government and regulators. Similarly, many of the steps are inter-dependent and mutually reinforcing. Each step may be necessary to build and maintain trust, but on its own may be insufficient.

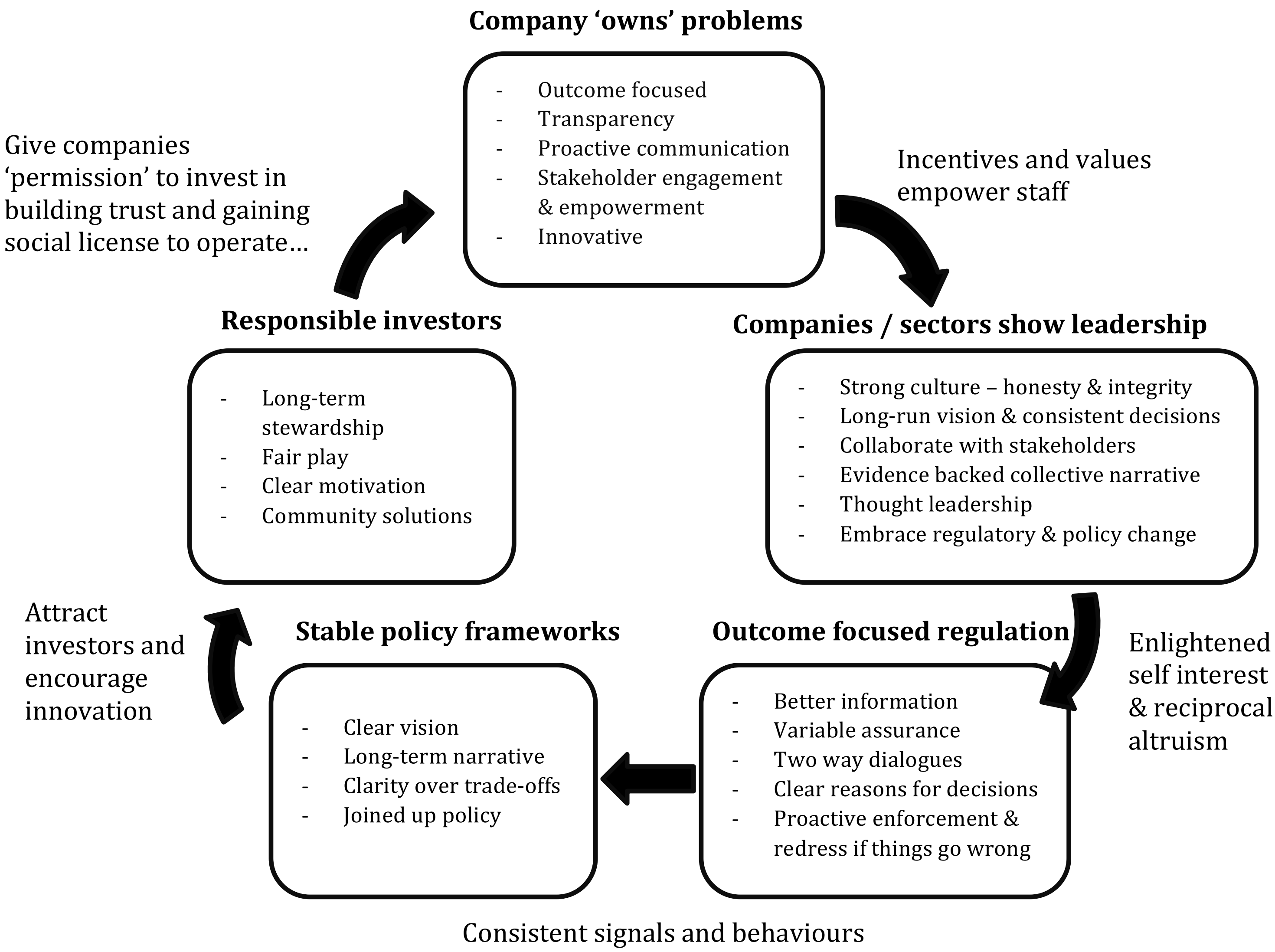
There is clearly potential for enlightened self-interest here. As David Willets has noted, '*We need to give institutions the space to emerge and to function and to create their own networks of reciprocity. Governments can be like those first world war generals, disrupting in the inner life of an institution and stopping cooperation.*'[44] As Mark Carney has likewise observed, '*We need new ways of measuring more people-related things - behaviours - and relationships between organisations (extended enterprise risk) along with responsibilities to the broader system.*'[45]

Many of the steps explored in this section are also 'double edged swords.' They can build trust if approached in a certain way but can also undermine trust. We therefore explore the risks and opportunities associated with each of the four steps above and try to map out a possible 'balanced way forward' that stakeholders could follow to address the issue in-the-round.

Diagram 3 illustrates how taking the different steps together can lead to **positive spirals** in terms of building and maintaining confidence.

[44] *The Pinch*, The Pinch, David Willetts, 2010
[45] Conference on inclusive capitalism, Mark Carney, 2014

Diagram 3 Potential upward spiral of trust for consumers and the public in energy and water



Source: Sustainability First

5.1 Openness and clear and proactive communications

Opportunities

Enables all stakeholders to make informed decisions, gives confidence information is accurate and reliable, indicates that nothing is being hidden and that organisation is honest in its dealings. Transparency enables people to learn from mistakes and near misses, helping to ensure that future services are improved. Greater openness needs to extend beyond marketing and branding if stakeholders are to see information as credible. Providing adequate data, particularly on issues such as quality performance, is important to give confidence that it is based on a rigorous assessment of the facts. For example, in Michigan, water utilities have found that talking about contaminants in quality reports can actually lead to increases in satisfaction in the reports '*there is no penalty for reporting bad news*.'[46]

Social media can provide all actors with a valuable avenue for more proactive, timely and tailored communications. Indeed, people tend to trust 'friends and family' more perhaps than some in authority.

Risks

It's not a level playing field. If companies are required to share too much information, they may lose their differentiation / competitive advantage in negotiations and may be blamed for problems – rather than these being used as learning experiences. If regulators have to share too much, they could give away valuable market intelligence to competitor firms. Too much information can also be confusing and can give the impression problems are bigger than they are[47], potentially leading to decision-making paralysis. Full transparency can slow decision-making and make it difficult to create 'safe spaces' for stakeholders to develop thinking. There is sometimes a thin dividing line in practice between communication that is meaningful (giving stakeholders the information that they need to do something) - and communication that is largely rhetoric or formulaic reporting.

Although social media can present real opportunities, there are also risks. The speed of response needed can sometimes make it difficult for more considered decision-making, potentially leading to inaccurate messaging. For example, during a recent flooding event, one energy network company had an excellent response from social media. However, following the event an inaccurate account was promoted via social media about compensation. This led to a major misunderstanding among customers – with wrongly-informed expectations and potential frustration. In addition, there can also be issues with the validity of on-line reviews and endorsements.[48]

Balanced way forward

All actors

- A common language is needed, especially on costs. This is a precursor to an honest conversation with customers and the public on issues such as affordability.
- Where there is less than full disclosure, the importance increases of explaining the process followed, why certain judgements have been made and who has made them.
- Clarity on any trade-offs made – and who the decision maker is.
- Information to be accessible for the intended audience. Digital communications increasingly allow 'bespoke' formats for different audiences at relatively low-cost.
- 'Rhetoric audits' - to compare what organisations claim they do and think - with what they *actually* do on the ground in practice.

[46] *Three lessons every utility can learn from Flint, Michigan*. Peter Yolles, Watersmart, January 2016
[47] For example, see Baroness O'Neill's Reith Lecture on Trust http://www.bbc.co.uk/radio4/reith2002/
[48] *Online reviews and endorsements*, CMA, June 2015

- As default, an open mind-set, rather than defensive and a willingness to admit mistakes.

Companies

- Personal communications and face-to-face contact are powerful, especially in a crisis. Using trusted partners, such as community groups and NGOs, can be helpful.
- Need to treat all customer contact, regardless of the channel, with the same respect but it is important to ensure messages are 'valid' and accurate (especially via social media).
- Presumption in favour of openness - for both performance and cost data - to make clear the linkages between prices, profits and outcomes.
- Information needs to be consistent, in a format capable of interrogation when required, and evidenced based.
- Proactively sharing performance data to justify any gains and to demonstrate how have managed risks.
- Companies and trade bodies to explore benefits of doing more to build understanding and explain the **'**collective sector-wide narrative', de-mystifying what the sectors do (eg long-term stewardship of national infrastructure, facilitate essential services, enable innovation). Real case studies drawing on the best practice that exists can help to make this a credible narrative.

Case study – What's HS2 got to do with it?

In September 2014, Anglian Water issued a boil water notice to 180 homes in Upper Boddington in Northamptonshire. Anglian Water found that the views of customers in the area were being coloured by a cryptosporidium incident back in 2008 which had impacted a quarter of a million homes (and was still the number one news item when people searched the internet for 'boil water & Northamptonshire') and the fact that the community was also a target for HS2. They quickly realized that communications needed to factor in this local discontent.

Using Facebook's 'promoted post' tool, they targeted anyone connected geographically with Upper Boddington. Information was carefully timed to coincide with written information and card warnings. As well as tracking Facebook traffic they also deployed incident support managers in the village to reassure customers and got senior company scientists and engineers to attend Parish Council meetings to explain what they were doing to avoid a repeat incident. These senior direct points of contact helped increase customer trust in the area. Given the increasing importance of social media in such situations, Anglian now has seven people employed in a Digital Customer Service team, in addition to a Social Media Manager.

5.2 Stakeholder engagement

Opportunities

Enables decision makers to get a better understanding of what different stakeholders want and to generate feedback so that they can find out whether what they do meets their needs and matches expectations. This is particularly important given that the general public are paying for the services in question, choice is limited and some consider that there is a 'democratic deficit' in the sectors given their essential nature. Good engagement can enable a more inclusive approach to decision making, helping to ensure that social license to operate and regulatory legitimacy are maintained.

Risks

If stakeholder engagement does not feed through into the decision making process, or if the priorities of the organisation are clearly out of line with its stakeholders, engagement may be seen as tokenism, raising hopes that are not fulfilled and potentially backfire. This can lead to reactive 'soap box' campaigning that may be focused on grabbing the headlines rather than seeking the best outcomes for the public – short and long-term. Similarly, if stakeholder engagement is not adequately resourced, there can be a mismatch of expectations where stakeholders do not have the capacity to make or sustain the required in-put. If engagement is carried out behind closed doors, it can be seen as susceptible to lobbying and potentially even abuse of corporate power. When carried out too late in the decision making process, it may not be able to frame the basic questions or take account of public values. If it is seen as a rubber stamp in this way, confidence may be eroded.

Engagement that is focused on the 'average' consumer, and fails to recognise the diversity of stakeholder views and needs (particularly those in vulnerable circumstances or those that do not have an effective 'voice' – such as future users or the environment), can give a skewed and potentially false legitimacy to the decision making process. Indeed, there can be inherent contradictions between the interests of different consumer segments and unless these are recognised and dealt with transparently and by the most appropriate decision maker, engagement can become problematic.

Balanced way forward

All actors

- Clarity on who stakeholders are (and how 'consumers' fit in with other definitions of stakeholders) and why stakeholder engagement is taking place on a particular topic is an important first step to getting it right. Being open and honest about the motivations for engagement is important to build trust.
- There are numerous engagement mechanisms. It matters to choose the right one for the job in hand. Digital technologies and social media are opening the way for new, and potentially more democratic, ways of engaging. It is

important that engagement is a ‘two-way’ conversation to avoid ‘broadcasting’.
- Effective stakeholder engagement needs to be timely, adequately resourced and embedded at the right point in the decision making process.
- As far as possible, stakeholder engagement needs to be an ‘inclusive’ process. Those engaged need to be ‘legitimate’ representatives of different stakeholder groups and, to avoid ‘group-think’, to represent their full diversity. This includes not only diversity by race and gender but also diversity by life stage (particularly ensuring that the views of younger ‘future’ consumers are taken into account) and ways of thinking (cognitive diversity).
- Resourcing for engaging stakeholders and public interest groups is a major issue. The question needs addressing of how public interest groups can be adequately resourced so that there is a level playing field and no mismatch of expectations in terms of what they can contribute. Capacity building can help achieve a ‘win-win.’ Without addressing this point, issues around diversity are unlikely to be tackled.
- If individuals are paid to engage they may lose their independence. Checks and balances (such as set terms, public reporting and rotation) are needed to address this risk.
- Involved stakeholders need feedback. They need to know what impact their contribution is making and understand why their in-put has (or has not) been taken on board. This is important to company credibility and also for long-run relationship building.
- Develop balanced scorecards to monitor the impact of stakeholder engagement.

Regulators and government
- Much focus on stakeholder engagement is on companies engaging with their customers and rightly ‘owning’ this relationship. However, for some issues it is also important for regulators and government to engage with customers – and in some cases the wider public. Getting the ‘right’ approach to engagement on complex issues such as trade-offs between equity and efficiency, evaluating high impact low probability events,[49] costs and financing mechanisms etc is difficult and needs to be thought through in an *open*, reasoned and systematic way.

Companies
- Formal reporting routes, such as into a responsible individual at Board-level and through the Annual Report and Accounts or other regular reporting mechanisms, can help ensure that the views of stakeholders are demonstrably factored into decision-making.

The wider issue of stakeholder engagement will be considered as part of future New-Pin work later in 2016.

[49] *Customer involvement: frontier or smokescreen*? C.Waddams, Network Industry Quarterly, 2014

Case study – From the lion's den to collaboration

When Northumbrian Water began to experience increasing levels of sewer flooding in 2005, company representatives attending public meetings felt as if they were walking into a lion's den. Problems seemingly outside their control and escalating requests for data left them struggling to understand what was happening. By focusing on really understanding on what was important to customers who had experienced flooding, making their processes more agile (such as investing in a new data base so that they could more easily track what was going on) and personal (building one to one relationships with customers with named contacts), and proactive (keeping customers informed as alleviation schemes progressed) and improving communication (reducing jargon and setting up community portals to enable interactions, including with supply partners) they were able to get a grip on the situation. Their timescale between first flood and implementing a final solution sped up and they put stop gap measures in place such as flood doors and providing letters for consumers to send to insurance companies.

The company started to look at the bigger picture and build relationships with stakeholders such as the Local Authorities that it would need to work with if they were to be persuaded to adopt catchment scale integrated solutions, allowing areas like golf courses to flood to reduce the risk to properties. By agreeing on the issue and building understanding of how unpleasant sewer flooding can be, they were able to look for collaborative solutions – leaving discussions about money to the end. This approach has meant that when public events now take place they are more structured and Northumbrian has good relationships to draw on. All company staff, and many members of the supply chain, attend 'our way' training programmes to nurture a service orientated mind-set, get them to see things from the customer point of view, take ownership and responsibility for customers' problems and concerns, and to instill the importance of welcoming feedback.

5.3 Purpose, motivation & messaging on long-term outcomes

Opportunities

This is important if the organisation is going to develop a narrative explaining to both internal and external stakeholders (including the supply chain) what it wants to achieve and to enable it to then develop the plans, processes and competencies needed to deliver on these objectives. It is particularly important to explain how those that will ultimately pay for services will benefit from long-term plans.[50] Inconsistent plans, and a reactive rather than proactive approach to problems that relies on others to address challenges (whether this be the regulator or peers), can undermine credibility. Incompatible / ambiguous goals or an over-riding focus on short-term outcomes can make trust in an organisation harder.

[50] *A step in the right direction*, CCW, August 2015

Risks

A long-term vision is clearly important to build trust but an organisation also needs to be able to flex and respond to events and deal with current pressures and complexity. Stakeholders may lose confidence in the system if they do not feel that their interests today are being protected or if an organisation is not responsive to their immediate / short term needs.

Balanced way forward

All actors

- A demonstrably outward looking approach: long-term vision to be informed by regular horizon-scanning, stress tested scenario analysis etc. Visible board-level review of progress on long-term strategic plans. Any differences between the versions of the future on the part of government, regulators and companies need to be carefully explored so that all sides understand their different perspectives / different time-lines and mutual dependencies.
- Articulation of desired medium and long-term outcomes can help all stakeholders assess whether the incentives in the different parts of the value chain are sufficiently aligned.
- Know what skills are lacking to take the organisation forward and prepare for the future.
- Develop a shared view of expectations around appropriate planning horizons.
- Ask are you 'war-gaming' the right things.
- Be honest about uncertainty and what you don't know.
- Ensure processes are in place to better understand in whose interests decisions are being made.

Government and regulators

- Clear and stable policy and regulatory frameworks play a significant role in helping to address uncertainty and clarify future direction-of-travel. This is a cross-sector message, founded on a wish to ensure long-run cost-efficiency. Hard-evidence and best-practice examples can help to reinforce and sustain this message.
- Putting into practice well-understood steps to support long-term predictability: signaling change well in advance; early consultation on major change; sufficient analysis to support the case for change; clarity on and what factors will influence a final decision.

Regulators

- Identify the expected behaviours of modern energy and water companies.

Government

- Take a wider 'systems view' of change as this broader perspective can alter the business case of different policies.

5.4 Clarity on leadership and articulating culture and values

Opportunities

Strong leadership, clear accountability and responsibilities - backed by strong values - can help build trust and credibility with stakeholders. A strong organisational ethos can move a company beyond rhetoric. It can help ensure that employees 'do the right thing' and not just follow the letter of the law, help them feel empowered to respond to events, and behave in a consistent way across the organisation. Strong values can enable faster decisions across complex, interconnected businesses. This is particularly important when an organisation is facing uncertainty, where to enable companies to adapt and respond, regulators will also need to move from a compliance-based culture to a risk and principle-based one. Good leaders take an interest in the wider sector in which they work, take responsibility in a crisis, and work proactively with peers to provide thought-leadership on issues of collective interest. They will innovate and share good and bad practice, including any lessons from failures, to deliver more efficient and improved services. They will also see a need to help build strong and enduring policy and regulatory relationships and frameworks.

Risks

Culture can be an amorphous concept and it can be difficult to define good leadership and whether / how far values really are helping to shape behaviour. Extreme pay differentials of executives and others can also be divisive. The lasting impact on confidence in an organisation will therefore depend on the extent to which a good leader is able to embed their approach and values for the long-term.

Balanced way forward[51]

All actors

- Report / review main performance measures for organisaiton values / ethos.
- Proxy measures such as staff surveys, turnover and retention rates etc. used to assess leadership.
- Recruitment, induction and training reflect values.
- Publicly available code of conduct on values linked to performance incentives and appraisals. All staff judged on demonstration of conduct / ethos as well as outcomes.
- To embed values, particularly after memory of a crisis fades, periodic board review of: codes of conduct; procedures on conflicts of interest; whistleblowing and speak-up policies; and 'do the right thing' initiatives.
- Values & ethos demonstrated by organisation leadership: build a strong narrative, rolled-out, reinforced and sustained across the organization.
- Cultural audits: to compare 'expected' behaviours with those exhibited day-to-day; identify company-wide areas for further development.
- Companies, regulators and government move beyond blame to openly discuss the kinds of behaviours they expect of each other.
- Open use of incidents, crises and 'near misses' to establish watershed to drive change. Shared experience with other stakeholders to maximise impact.
- Have a 'golden thread' from the top of the organisation to the bottom enabling all staff to see the link between ethos and individual activities.
- Be realistic about what you can achieve to build credibility and trust in the leadership team.

---

[51] The recent *Ethical Standards for Providers of Public Services: Guidance* produced by the Committee on Standards in Public Life (December 2015) provides some useful pointers in this area, particularly for companies.

- Don’t assume leaders / organisations have a monopoly of common sense. Partnership working is important.

Companies

- Ensure that discussions around company ethos feature in board agendas and strategic planning sessions – for both regulated and non-regulated businesses.
- Help staff ‘connect the dots’ of the customer journey across the organisation and reinforce this through internal communications.
- Robust, company-led redress mechanisms. e.g. when performance doesn't match expectations, stakeholders proactively recompensed.

Case study – Living the values

In 2008, Severn Trent was fined for deliberately mis-reporting information to Ofwat with respect to its leakage data and for reporting from its Customer Service Department. It was one of three companies that had been involved in similar practices, with misleading data being submitted to the regulator, which had also been reviewed by external company reporters. Following an internal review, Severn Trent looked at their leadership, values, governance structures and employee training. Ethical workshops were held to encourage the right culture and the management team led from the front, holding each other to account. Things like health and safety policies have been used as a lens / quick test of whether the right culture is still in place over time and the Code of Conduct has been radically refreshed to ensure it continues to resonate. Severn Trent subsequently introduced twenty key performance indicators to build alignment through the company around its performance. To build confidence in the company following the incident, Severn Trent has also proactively engaged in thought leadership, producing a series of ‘Changing Course’ reports on the challenges facing the sector

6. Conclusion

6.1 Metrics: Should trust be measured and if so how?

Taking the steps outlined in this paper may not be a legal requirement but could turn out to be the 'right thing' for companies, regulators and others to do to build trust and greater respect.

An important question is whether in following these steps, regulated companies in particular may therefore be some way towards developing the behaviours necessary to produce a 'fast track' or 'enhanced' business plan for a price control or an energy retail company that is seen as seeking to fulfill its 'fairness' license condition.

More broadly, trying to identify a set of indicators beyond the behaviours and processes outlined in section 5 to measure trust is a challenge. There could be unintended consequences in developing and then following headline metrics for trust or confidence. The act of measurement itself, by focusing on individual activities rather than outcomes, can distort wider performance and encourage atomization. An individual organisation could score highly on every metric, but still not inspire confidence or vice-verse. And measuring trust in one body can detract from the fact that trust is a relational concept.

If trust is to be measured, a balanced common sense approach drawing on a combination of factors and 'basket of outcomes' *that are already being measured* (such as VFM over the short, medium and long term, customer satisfaction, SIM scores in water and CML and time to site in electricity distribution along with R&D spend), would seem appropriate. Having said this, current work by the BSI to develop trust indicators and trust tests to help those carrying out procurement (initially on behalf of the public sector), will be worth monitoring to see how useful these are in practice.[52]

6.2 Looking at trust and confidence in the round

A holistic approach would seem to be important if trust and confidence are to be maximised. It is worth noting that with the move to more principles based regulation; there is clearly a need to link the high-level principles that could drive trust and confidence with the behaviours, activities and relationships that that we have explored in section 5 and the possible measures that could be used to judge their effectiveness. Trying to identify whether there is a 'golden thread' linking these different things may help. For all actors, taking a coherent approach to the issue and one that is able to endure beyond the changes in individuals and personnel that can often have a significant impact on trust and confidence – could potentially be useful.

[52] Following work by Tomorrow's Company for *Tomorrow's Business Forums*, 2015