

## 3 Addressing affordability and vulnerability



### 3.1 Key messages

- **Our stretching plan delivers our largest ever bill reduction - average bills fall by £45 in real terms:** Bill reductions will help lift 250,000 customers out of water poverty, with another 66,500 helped through targeted financial support
- **A 34% increase in the value of financial support United Utilities provides:** Worth £71m in AMP7, financially supporting up to 152,000 customers each year
- **Industry leading Priority Services scheme, instigated in AMP6 and extended in AMP7:** Pioneering cross sectoral data sharing for the utilities sector and support for people resident in business properties
- **Implementing new 'Payment Breaks' and 'Lowest Bill Guarantee' schemes to help customers avoid debt:** New co-designed innovations, building on externally benchmarked best in class collection practices
- **Stretching performance commitments on delivering affordability and serving customers in vulnerable circumstances:** Moving the industry frontier with fivefold increase in the number of customers supported through Priority Services between 2015 and 2025
- **Delivering regional partnership working to co-create new support for customers struggling to pay:** Demonstrable track record, co-creation with others through initiatives such as the North West Affordability Summit
- **Creation of Independent Affordability & Vulnerability Panel with annual reporting on our progress:** Being transparent about the work we do and holding ourselves to account

### 3.2 Overview

United Utilities provides a substantial level of support for assisting customers in vulnerable circumstances, including those with affordability challenges. This section describes our track record and how we aim to improve further through AMP7.

As a provider of a vital public service, United Utilities has a responsibility to assist customers in vulnerable situations and we are striving to deliver continuous improvements to these services. We do this through effective customer engagement; working with partner organisations to engage the hardest to reach in our communities and empowering customers by giving them the tools to get the services they want and need.

We recognise that United Utilities' average household bill is above the average for England and Wales<sup>1</sup>. At the same time levels of deprivation and general financial stress are amongst the highest in England. For this business plan we have taken an industry leading<sup>2</sup> approach to ensuring as many homes in the North West as possible will find future bills affordable, whilst developing more effective and wide ranging support for those that need extra financial help.

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<sup>1</sup> In 2018/19 United Utilities average combined household bill is £435/Hh compared to a national average combined bill of £405/Hh

<sup>2</sup> T6008 - Bad debt management maturity assessment: Deloitte

## Affordability

1. Within our business plan we have adopted a standard definition of water poverty as 'Spending 3% or more of household income after housing costs on water and sewerage bills.'

We are proposing UU's largest ever bill reduction of £45 by 2025. We forecast this reduction, plus growing household incomes will support 250,000 customers moving out of water poverty by 2025, when combined with modest improvement in household incomes.

During AMP7 we will substantially increase the level of tariff discounts provided to customers that remain in water poverty. By 2025 we will provide financial support sufficient to lift an additional 66,500 customers out of water poverty<sup>1</sup>, over and above the 250,000 helped through falling bills. We back up this commitment with stretching bespoke Performance Commitment that requires us to ensure support is targeted at those most in need.

In January 2018 we ran the industry's first ever affordability summit, held in the North West, bringing together a wide range of regional stakeholders and helping to co-design a host of new affordability support services. We will continue to use such initiatives to identify and deliver new opportunities for support.

We are introducing a new "Lowest Bill Guarantee" to boost confidence amongst customer segments that a water meter can work for them to reduce their water bill.

We are also offering a new "Payment Break" scheme to support customers in managing short-term financial shocks, such as changes to benefits payments.

We are trialing an online water usage report, which gives metered customers detailed information on their water usage, giving them the opportunity to reduce usage and putting them in control of their bills.

UU will provide £71m of support to over 152,000 customers a year through financial assistance schemes including discounted tariffs, UU Trust Fund grants, and "Payment Match+" arrears allowance scheme.

We recognise that new in-period ODIs and other in-period revenue mechanisms have the potential to introduce volatility into future bill changes, which can be challenging for households and businesses on a tight budget. We will therefore actively manage bills to mitigate large year on year changes.



We have undertaken a robust exercise to understand and assure long-term bill impact of our plans, and have an appropriate level of confidence that our plans should not impose affordability challenges on future generations.

We have consulted on affordability impacts and mitigation plans with the customer challenge group for the North West "YourVoice", and made changes to our proposals based on their representations.

## Vulnerability

During AMP6 we have developed a multi award winning Priority Services offering. This service provides industry leading levels of support to the North West's most vulnerable customers including those facing transient vulnerability. We also provide support for people resident in business properties such as care homes.

The revised Priority Services offer includes proactive communications and couriered bottled water delivery for registered customers in the event of supply interruption and enhanced accessibility tools on the UU website, with adaptations for partially sighted and blind customers as well as support for over 100 languages.



We have formed an Independent Affordability and Vulnerability Panel, made up of NGOs and other groups that work day to day with people in vulnerable circumstances. The group is acting as a voice for those customers who have traditionally found it difficult to raise concerns with utility service providers. This panel is playing a key role in ensuring that we deliver leading support services during AMP6 and into AMP7.

Our plan continues to develop our industry leading support for vulnerable customers, committing us to extending our Priority Services offering to over 105,000 customers, and improving the quality and scale of the support we provide.

We propose a Performance Commitment and ODI to incentivise active identification and registration of those customers in need of support. Assurance on the quality of our Priority Services offering will be independently certified by the British Standards Institution.

We are leading the first major direct sharing of Priority Services registers between a water company and an energy company, reporting on progress to the UK Regulators Network. We will roll-out data sharing activities more widely in AMP7 and hope to provide a blueprint for others to follow.

We have discussed vulnerability support plans with the customer challenge group for the North West "YourVoice", and made changes to our proposals based on their representations.

Throughout this chapter we highlight our efforts to provide affordability support and to help customers in vulnerable circumstances, and explain proposals for future improvement. The chapter is structured as follows:

Section 3.3 sets out our understanding of the affordability and vulnerability landscape in the North West. Section 3.4 describes our assessment of how affordability will be improved by proposed bill changes in AMP7, AMP8 and beyond; Section 3.5 explains how wider stakeholder engagement is continuing to improve the affordability and vulnerability support we offer. Section 3.6 describes the affordability services we offer for financially challenged customers, and our plans for future improvement. Section 3.7 describes our existing support for customers in vulnerable circumstances, and our plans for future improvement.

A series of supplementary documents support this chapter. Key among these is supplementary document S2001 – “The affordability and vulnerability challenge: Operational response”, that provides information on our affordability and vulnerability capabilities and more comprehensive supporting information in areas such as the operating environment for affordability and vulnerability in the North West.

### 3.3 Understanding affordability & vulnerability in the North West

Understanding customers is crucial to helping us design appropriate services and support. In chapter 2 we set out what we have done to understand customers’ needs and expectations. In this section we look specifically at the factors driving vulnerability and affordability challenges. The degree of socio-economic challenges in the North West means the need for priority services to support customers is greater than many other areas in England and Wales. This is why we place particular emphasis on delivering effective customer assistance schemes.



#### 3.3.1 Scale of the challenge

The North West of England is one of the toughest operating environments for a utility retailer, due to the levels of extreme deprivation. Like others in the water industry, we are being challenged to improve the scale and effectiveness of the support we offer against a background of rising household costs, economic uncertainty and a decrease in the

<sup>3</sup> Jenkins R et al. Debt, income and mental disorder in the general population. *Psychological Medicine* 2008; 38: 1485-1493.

<sup>4</sup> BIS “2011 skills for life survey: a survey of literacy, numeracy and ICT levels in England”, Dec 2012

<sup>5</sup> Resolution Foundation “Living Standards 2016” <https://www.resolutionfoundation.org/app/uploads/2016/02/Audit-2016.pdf>

<sup>6</sup> Alzheimer’s Society, <https://www.alzheimers.org.uk/about-us/news-and-media/facts-media>

<sup>7</sup> 41% of the one per cent most deprived LSOAs in England are in the North West region. United Utilities analysis of Indices of Multiple Deprivation 2015 <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015>

<sup>8</sup> ONS National Statistics, “Households below average income: an analysis of the income distribution 1994/95 to 2015/16”

<sup>9</sup> UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)

<sup>10</sup> ONS “Disability in England and Wales: 2011 and comparison with 2001”

percentage of people of working age<sup>11</sup>. How we respond to this challenge will be crucial to securing and maintaining customers' trust and confidence in the sector in the years ahead.

As set-out in in section 2 of supplementary document S2001, the North West has the largest population of economically deprived households in the country<sup>12</sup>. According to data compiled by Public Health England, the North West is below national averages for several other key indicators of deprivation, spanning not just financial, but also educational, physical and mental health indicators<sup>13</sup>.

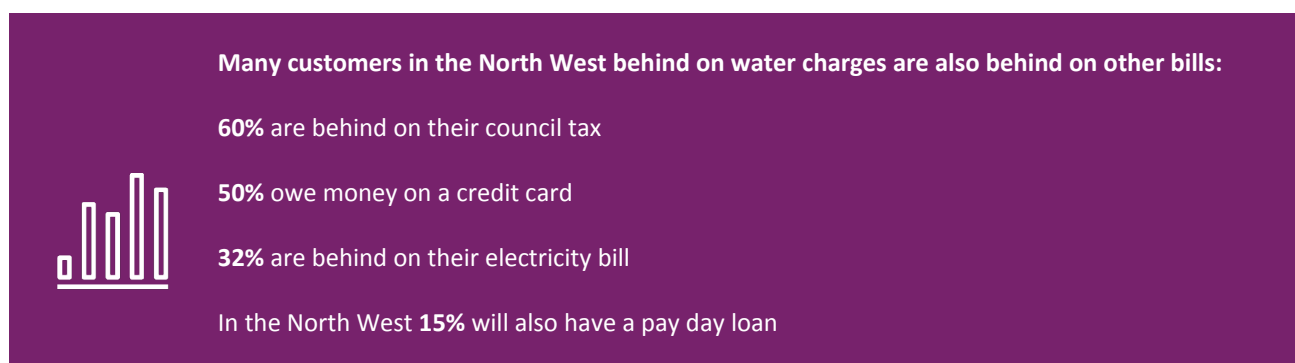
Building on government assessments of deprivation we have identified that United Utilities has some of the highest level of deprivation in England in our region. 41% of the most deprived neighbourhoods are in our region, despite United Utilities only serving 14% of households in England.

**Table 3.1: Percentage of most deprived LSOAs (neighbourhoods) by service area and decile**

	1% most deprived	5% most deprived	10% most deprived	20% most deprived
United Utilities	41%	32%	27%	21%

Source: United Utilities analysis of Indices of Multiple Deprivation 2015 <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015>

There is a strong relationship<sup>14</sup> between moving into water arrears and customers falling behind on other household bills.



Source: Supplementary document T2001 Insight Report (StepChange)

In addition our own analysis of household demographics in the North West suggests that many homes are eligible for Priority Service registration. Based on ONS, RNIB, Department of Health and Social Care, and Mental Health Foundation estimates of support needs in North West England we believe a substantial proportion of households may be in need of additional support. However, as of March 2018 only 52,000 customers are currently registered, suggesting a substantial gap between those that could apply and those that have done so.

This means we must do more to identify and engage with customers in vulnerable circumstances. We acknowledge that some customers will choose not to register for vulnerability support, but the scale of the gap between eligibility and live registrations suggests there is more that we could be doing. We are commencing a significantly enhanced engagement programme that will run through AMP7 as set out in section 3.7.

### 3.3.2 Understanding our customers – segmentation

Key to understanding how deprivation and other factors affect individual customers is the ability to segment the customer base in a granular and dynamic way. As customers' needs and expectations change we are increasingly seeking to understand how different groups of customers can best be engaged.

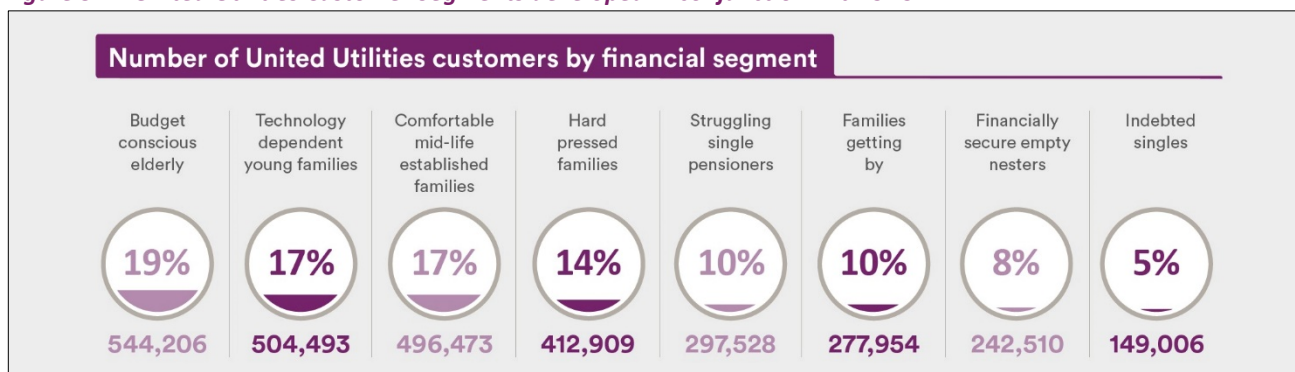
<sup>11</sup> Office for National Statistics 2011

<sup>12</sup> United Utilities analysis of Indices of Multiple Deprivation 2015, as published by MHCLG

<sup>13</sup> Public Health England, Public Health Profiles Fingertips <https://fingertips.phe.org.uk/>

<sup>14</sup> T2001 - Debt charity client insights report: StepChange

Figure 3.1: United Utilities Customer Segments developed in conjunction with CACI



For example, as part of developing and promoting new affordability and vulnerability propositions we have undertaken a large-scale segmentation analysis to understand the makeup of relevant customer groups. Working with customer data and marketing experts CACI we have created a set of eight key customer segments, with further sub segments focussed on customers in most need of support. We have now developed the capability to match each household in the region to these segments, and have included this segmentation within our billing system, enabling easy use of the information. This is an enhancement on previous segmentation models employed at United Utilities, which were typically targeted at the postcode level and not individual customer level.

For each segment we have created a customer “pen portrait”. This provides an overview of the key attributes and behavioural preferences of each group when considering affordability and vulnerability support, as well as helping to understand propensity to engage in other key digital retail offerings. More information on pen portraits can be found in S2001, section 4.2.4. By loading this segmentation analysis into our processes and systems we are able to swiftly and repeatedly undertake targeted campaigns and behavioural trials to a) improve the customer experience and b) reduce bad debt and cost to serve. For example this assessment has revealed that customers in the ‘Budget Conscious Elderly’ segment are 50% more likely to need access to Priority Services than the average North West household.

This new segmentation underpins many of the new bad debt and customer experience improvements initiatives we have identified for delivery in the remainder of AMP6 and AMP7, for example in chapter 7, section 7.8 we describe the extensive role that customer segmentation plays in targeting pre-emptive debt interventions .

### 3.4 Affordability – assessing our proposed bill impacts

We have sought to understand the impact our business plan proposals have on customer affordability and value for money, both in AMP7 and over the longer term. In structuring our assessment of impacts on affordability we have focussed on three key customer segments. These are:

- The ‘average’ customer
- Low to middle income households with indications of financial stress<sup>15</sup>
- Customers where there is evidence that water bills are unaffordable

We have also considered customer views on whether our overall business plan proposals offer value for money. We recognise that United Utilities’ average household bill is above the average for England and Wales<sup>16</sup>, in part due to historic environmental improvement investment requirements. At the same time levels of deprivation and general financial stress are amongst the highest in England.<sup>17</sup> We want to ensure that affordability of future bills is secured for as many customers as possible. However, we also recognise that there are always likely to be some customers that will

<sup>15</sup> For the purposes of designing support and assistance schemes we have used the Resolution Foundation definition for “low to middle income” as households with income less than the national median, but greater than the lowest 10%, who receive less than one-fifth of their income from means tested benefits. <https://www.resolutionfoundation.org/app/uploads/2016/09/Hanging-On.pdf>

<sup>16</sup> In 2018/19 United Utilities average combined household bill is £435/Hh compared to a national average combined bill of £405/Hh

<sup>17</sup> More information in section 2 of S2001 – “The affordability and vulnerability challenge: Operational response”.

find day to day household expenses - including water charges - difficult to afford. We have therefore also developed more effective and wide ranging support for those customers that need extra financial help.

Our business plan commits us to increasing the level of affordability support for those that find paying their water bill a challenge and we back this commitment with an innovative and stretching performance commitment linked to the number of customers lifted out of water poverty<sup>18</sup> as a result of United Utilities action.

We have consulted with both 'YourVoice' (CCG) and the Independent Affordability and Vulnerability Panel about the affordability impacts of our plans for both average customers and financially stressed customers. Their views have helped inform our proposals, and have directly led to a number of changes to our future plans. For example feedback from the Independent Affordability and Vulnerability Panel has led to an increased focus on preventative action to help stop customers falling into debt.

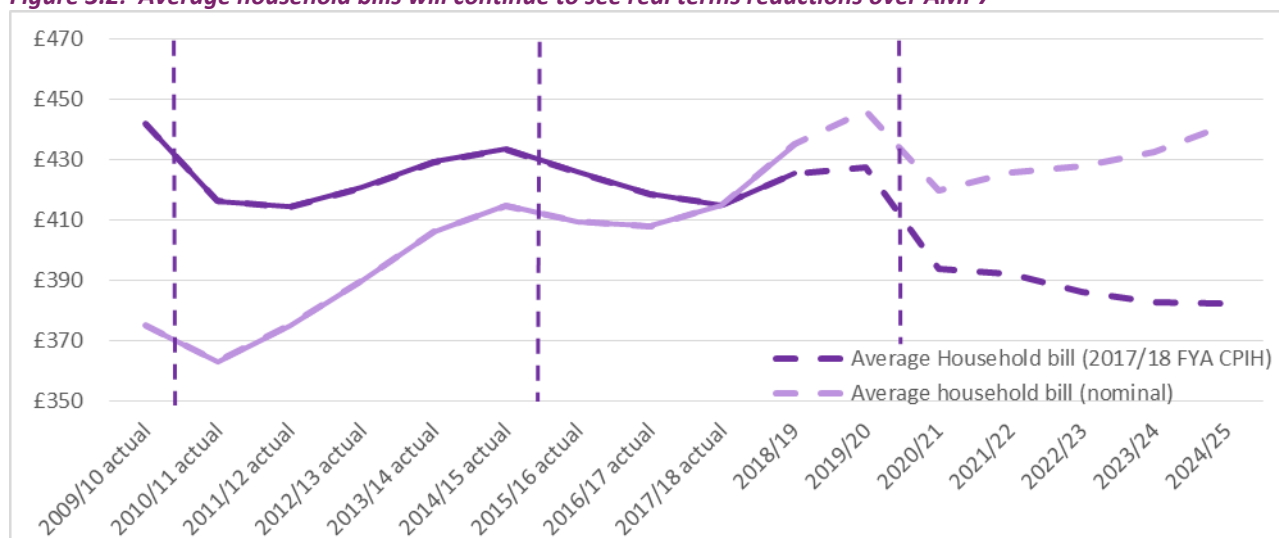
### 3.4.1 Demonstrating bills are affordable during 2020-25

Assessing the likely affordability of future customer bills for household and business customers is an important factor in understanding the overall acceptability of our AMP7 Business plan proposals. Over AMP6 the average household bill has in some years seen above inflation increases but has fallen in CPIH real terms overall.

In AMP7 we forecast these bill reductions will continue. As set out in chapter 9, section 9.5, and in business plan data table App7, our business plan anticipates a real terms reduction in average household bills of £45 (10.5%)<sup>19</sup>, which implies a forecast £5 reduction in nominal terms, based on CPIH forecasts.

Bill changes are presented including the impact of the Manchester and Pennines Resilience (M&PR) project and before potential in period adjustments for ODIs or revenue correction mechanisms.

**Figure 3.2: Average household bills will continue to see real terms reductions over AMP7**



<sup>18</sup> Defined as 3% of annual household income, after housing costs, on water and wastewater services. This is aligned to the UK water poverty benchmark, as set out in 'Water Poverty in England and Wales', Fitch and Price, Centre for Utility Consumer Law, 2002.

<sup>19</sup> Bill changes are presented including the impact of Manchester and Pennines Resilience project and before potential in period adjustments for ODIs or revenue correction mechanisms.

**Table 3.2: Average household bills 2019/20 to 2024/25**

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	AMP7 change
Average Household bill before M&PR (2017/18 FYA CPIH)	427.1	393.9	392.0	386.2	382.7	381.8	-45.3
Impact of M&PR						0.5	+0.5
Average Household bill (2017/18 FYA CPIH)	427.1	393.9	392.0	386.2	382.7	382.3	-44.8
Average Household bill (nominal)	446.0	419.6	425.8	427.9	432.6	440.8	-5.2

These bill proposals represent United Utilities' largest five year average household bill reduction since privatisation. Our strong focus on cost efficiency and innovation, and the lower financing costs we are anticipating for AMP7 have contributed to delivering these proposed bill reductions. The change in bills is driven by several factors<sup>20</sup>. Factors which increase bills are:

- new environmental obligations and other service enhancements (+£12)
- completion of first phase of Manchester & Pennines Resilience project (+£0.5)

Factors which reduce bills are:

- embracing Ofwat's AMP7 WACC guidance, including the resulting impact on tax (-£21)<sup>21</sup>
- lower base costs to maintain services, including reduced recovery of pension deficit payments:
  - Wholesale (-£13)<sup>22</sup>
  - Residential retail (-£8)<sup>23</sup>
- lower PAYG advancement (compared with AMP6) to maintain financeability (-£3)
- increases in customer numbers (-£9)<sup>24</sup>
- other items including AMP6 reconciliation, PR14 CIS adjustment, and revenue re-profiling (-£3)

Collectively our proposed cost reduction in AMP7 delivers a substantial bill reduction for customers. When viewed alongside proposed service level improvements these reductions can be viewed as offering customers value for money.

**Figure 3.3: Bill movements between 2019/20 and 2024/25**

<sup>20</sup> We have also presented bill movements as specified in C0006 - Presentation pro forma, and have provided a populated version of C0009 - Bill Waterfall Model. In this document we have presented bill movements in the way we consider provides most clarity.

<sup>21</sup> For details on how we have applied reduced cost of capital assumptions see chapter 9, section 9.4.2

<sup>22</sup> We propose substantial wholesale totex efficiencies in chapter 7, section 7.3

<sup>23</sup> We propose substantial residential retail cost efficiencies in chapter 7, section 7.8.2

<sup>24</sup> Forecasts for household connections are presented in business plan data tables WS3, WWS3 and R1

As set out in Chapter 6, section 6.5 we forecast that the new Manchester and Pennines Resilience project (expected to be procured as a Direct Procurement for Customers scheme) will become operational in a number of phases. We expect the bill impact of the first phase to add £0.52 to bills from 2024/25, increasing to a further £7.21 from 2029/30. It is proposed that this additional revenue will be collected by United Utilities through general charges and passed to the CAP. We tested customer views on a range of solutions, and found overall support for our proposed solution<sup>25</sup>.

### 3.4.2 Testing acceptability and affordability of bills

Based on surveys with customers in December 2017<sup>26</sup> 82% of customers believe current bills are affordable, with 18% stating they find paying bills challenging<sup>27</sup>. This is consistent with analysis that indicates around 18% of households in the North West are in water poverty.

We presented proposed AMP7 bill impacts to household customers, alongside a description of proposed service improvements. The substantial majority of customers have told us that they believe service and bill proposals are acceptable<sup>28</sup>.

82% of customers found our overall proposals to be acceptable<sup>29</sup>. This is a six percentage point increase from equivalent AMP6 acceptability results, and a substantial indication of customer support. Most customers value our commitment to constant improvement and feel the annualised bill impact is manageable, which drives high levels of overall acceptability. When asked only about proposed service improvements 86% of customers supported proposals, indicating that customers view our business plan proposals as offering value for money in the round.

Views on whether the proposed plan offered value for money demonstrated similarly high levels of support. 75% of customers believe the plan offers value for money. This falls slightly to 70% for households with incomes less than £20,000/yr, but nevertheless indicates strong support.

When asked to only consider proposed changes in bills, 77% of customers believe our proposed AMP7 bills will be acceptable, with only 13% saying they found bill proposals unacceptable, with the remainder being undecided. However concerns around bill acceptability rise to 39% amongst those customers that describe themselves as financially at risk<sup>30</sup> indicating that affordability concerns remain for some customers.

Overall these results show that a substantial majority of customers believe United Utilities proposals offer an affordable and value for money bill. The combination of falling bills and rising service levels proves a compelling proposition for many customers. However lower income customers did show lower levels of acceptability than other customer groups. This supports the view that it is important to ensure that low income households receive additional affordability support to help them with their bills.

We show in business plan data table App4 – ‘Customer metrics’ line 2 how we believe customers’ perceptions of affordability will improve across AMP7, reflecting the combined impact of falling real terms bills and the forecast increase in household incomes. On the same table we report levels of overall acceptability, which we anticipate will not move over AMP7, as overall perceptions of value for money should remain relatively stable over the period.

Notably metered customers showed the highest level of support for plans, including bill impacts, potentially reflecting the lower average metered customer bill and metered customers’ greater ability to control their own usage and charges.

<sup>25</sup> T1047 - Manchester and Pennines resilience research

<sup>26</sup> T1028 - Acceptability testing: Stage 1

<sup>27</sup> Defined as customers that stated that they sometimes / usually / always struggle to pay for water and sewerage services

<sup>28</sup> T1029 - Acceptability testing: Stage 2

<sup>29</sup> ‘Plan A’ proposals tested average nominal household bills of £451, £10 greater than final business plan proposals. This is as a result of including the full bill impact of the Manchester and Pennines Resilience project in AMP7 bills. In practice it is proposed that full bill impacts for M&PR will not be realised until 2029/30. We also tested a “plan B” which contained £20 lesser bill reductions and less ambitious service improvements. Plan B received overall customer acceptability of 76% (compared with 82% for our main plan). This has enabled us to triangulate customer acceptability of our final submitted plan, and we have concluded that our plan commands acceptability of at least 81.6%.

<sup>30</sup> Financially at risk = I sometimes / usually / always struggle to pay for my water and sewerage services (18% of total HH sample)



Business customers expressed similar views to residential customers on plan acceptability. Overall levels of acceptance amongst business customers was consistently over 75%. Reported levels of bill acceptability were slightly higher than for residential customers. Conversely acceptance of planned improvements appears to have been a few percentage points lower, indicating that business customers may value higher levels of service in some areas, and they may be slightly less price sensitive than the average household. Overall these results support the view that business customers believe United Utilities' proposals offer an affordable and value for money bill.

Our acceptability testing research included the long term bill impact of our proposed Manchester & Pennines Resilience project<sup>31</sup>, rather than merely the c.£0.52 bill impact expected in AMP7. Therefore our assessment of customer acceptability of our plan was not unduly flattered by representing only the AMP7 impact on bills of Manchester & Pennines Resilience and omitting long term anticipated bill impact. We believe this provides appropriate legitimacy of customer acceptability of our plan.

Acceptability testing of the United Utilities plan excluded the potential impact on AMP7 bills of in period ODIs. We have separately asked customers about in period bill impacts from our proposed ODIs, with results showing that customers endorse our performance commitments, ODIs, and the potential bill impacts that might result from them. In total 63% of customers endorsed our proposed ODIs and associated potential bill impacts.

### 3.4.3 Impact of falling bills and changes in household income on levels of water poverty

Understanding the scale of the affordability challenge in the North West of England is crucial when attempting to develop interventions. It is important to consider how water and wastewater charges and bill movements affect customers on low incomes. Measures of water poverty can be a useful quantitative way of observing affordability pressures for the lowest income households and how they should change over time.

We have used a United Utilities calibrated version of water bill projection models developed by NERA for Defra<sup>32</sup> to assess current and future levels of water poverty. Based on forecasts of household incomes and bills we have identified that in 2017 some 18% of households in the North West are likely to have been classified as living in water poverty. This compares to around 15% water poverty in England and Wales as a whole, indicating that levels of water poverty are 20% worse in the North West than the national average.

We also observe substantial variance in levels of water poverty across household make-up and economic circumstances. For example we estimate that in 2015/16 the households in the lowest 20% income bracket would have faced a water bill that was on average £130 more than water poverty thresholds indicate they could easily afford<sup>33</sup>. Low income single person households faced an even tougher situation, with a water bill that was on average £215 more than water poverty thresholds indicate is affordable.

When considering the spread of water poverty across family type we observe that between 80% and 90% of households in the lowest income decile are in water poverty. The most serious levels of water poverty occur in households with children. There is also notable levels of water poverty in households that may be described as low to middle income.

**Table 3.3: Water poverty exposure at 3% level in the United Utilities region (2017)**

Percentage of properties within each customer group who are likely to be in water poverty 2017				
Income decile (England and Wales)	1 <sup>st</sup> decile (low income)	2 <sup>nd</sup> decile	3 <sup>rd</sup> decile	4 <sup>th</sup> to 10 <sup>th</sup> decile
Lone adults	86%	50%	35%	0%
Households of pensionable age	81%	47%	27%	0%
Single parent families	90%	88%	27%	0%
Non-single parent families	92%	90%	37%	0%
No children, at least one working age adult	88%	68%	43%	0%
All households	86%	60%	32%	0%

Source: UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)

<sup>31</sup> For acceptability testing purposes a high scenario bill impact of £11/Hh was included in tested bill descriptions. This is greater than the central forecast bill impact of £7.21 by 2029/30

<sup>32</sup> UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)

<sup>33</sup> Developed using HBAI data for average annual UK household income quintiles for 2013-16 and average household bills

This indicates that affordability challenges are widespread, affecting a substantial proportion of customers in the North West, across a wide range of different household types. We have sought to understand how reductions in household bills over AMP7 will help to alleviate levels of water poverty, and have considered the impact changes in household disposable income (after housing costs) will have.

Working with Experian we have developed a coherent economic forecast for household incomes in the North West. This exercise built on notional macroeconomic forecasts, combined with region specific variables and assumptions in order to assess likely future local economic conditions. As part of these long-term forecasts Experian have generated a central set of household income projections. These have been developed after removing housing costs to facilitate comparison with water poverty metrics.

**Table 3.4: Household incomes in North West England are forecast to grow in nominal and real terms over AMP7**

	2020/21	2021/22	2022/23	2023/24	2024/25
Household income after housing costs (nominal cumulative growth)	+2.6%	+5.8%	+9.5%	+13.9%	+18.2%
Household income after housing costs (real cumulative growth, CPI based)	+1.1%	+2.5%	+4.0%	+6.1%	+7.9%

Source: Experian

These forecasts suggest that continuing regional economic growth will help deliver growing household incomes in the North West. This growth is forecast to outstrip both inflation and nominal bill changes for the period 2020/21 to 2024/25. If the forecast proves accurate real incomes (after housing costs) will be 8% higher than in 2019/20, whilst average water charges will be 10.5% lower. Including the impact of inflation, household incomes are expected to grow by 18%, while bills will fall by around 1%. The impact of the proposed reduction in household bills combined with these anticipated increases in household income result in materially reduced levels of water poverty in the North West.

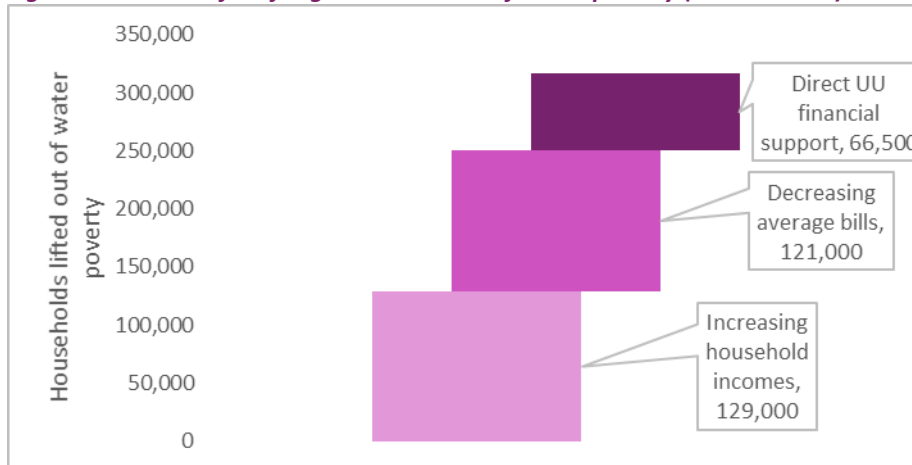
**Table 3.5: Change in water poverty exposure at 3% level in the United Utilities region (2025)**

Change in percentage of properties within each customer group who are likely to be in water poverty by 2025 <sup>34</sup>				
Income decile (England and Wales)	1 <sup>st</sup> decile	2 <sup>nd</sup> decile	3 <sup>rd</sup> decile	4 <sup>th</sup> to 10 <sup>th</sup> decile
Lone adults	-27%	-30%	-29%	0%
Households of pensionable age	-31%	-31%	-24%	0%
Single parent families	-20%	-26%	-27%	0%
Non-single parent families	-13%	-28%	-35%	0%
No children, at least one working age adult	-13%	-55%	-43%	0%
All households	-22%	-43%	-34%	0%

Source: UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)

Between now and the end of 2025 we believe the proposed bill reductions and forecast increases in household incomes will result in c.250,000 households being lifted out of water poverty. This reduction in levels of water poverty leads us to believe that an increased number of households are likely to find water and sewerage bills affordable as we move through AMP7.

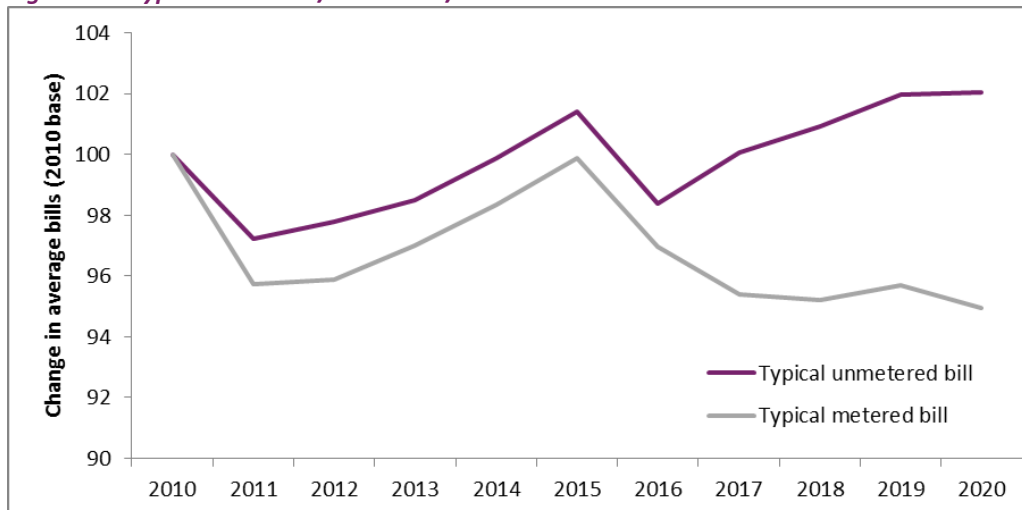
<sup>34</sup> UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra -July 2017)

**Figure 3.4: Drivers for lifting customers out of water poverty (2017 to 2025)**

Source: UU calibrated version of NERA Water Bills Projection Model (Upgraded on behalf of Defra - July 2017)

This represents a substantial improvement in levels of water poverty, but we recognise that in future the challenge for some household types will be greater than for others. For example we anticipate that water poverty levels for households with children will not fall as quickly as the average, whilst water poverty amongst pensioners and lone adults will drop substantially, reflecting the more entrenched nature of water poverty amongst households with children. Of the 280,000 households (c.9% of connected properties) still potentially in water poverty by 2025 we believe that low income households with children are the most exposed groups. Our plans for targeted financial support (see section 3.6) focuses on the additional help we will make available to customers with persistent affordability challenges.

In considering how we target and structure support we have also considered how bills may move for different customer groups. For example typical bills for unmeasured customers are already higher than the general average, and are likely to see a smaller reduction than metered customers are over AMP7.

**Figure 3.5: Typical bills 2009/10 to 2019/20**

This smaller reduction in unmeasured charges is a result of changing characteristics of unmeasured customers over time. As high Rateable Value properties with low consumption take up the Free Meter Option to save money the average consumption of remaining unmeasured properties naturally increases. As a result the remaining unmeasured properties experience an increase in unmeasured tariffs and bills in order to maintain overall levels of cost recovery. This suggests that our intention to promote metering as an affordability solution for some customers will remain viable as the gap between metered and unmeasured charges widens. Equally we can see that the need to maintain access to unmeasured discount tariffs will remain, particularly for large low income families, for whom a meter rarely reduces bills.

For business customers we foresee that movements in wholesale charges for business customers will move in line with average charges for residential customers. Analysis of typical Small and Medium sized Enterprises (SME) bills suggest that these customers are likely to see very similar reductions in wholesale charges as those experienced by residential

customers. Some large consumers that have a large proportion of charges associated with surface water or trade effluent charges may see different bill movements from the average, but overall the majority of business customers should experience falling real terms bills.

#### 3.4.4 Adjusting PAYG rates - bill stability

We propose to accelerate £102m of additional revenue into AMP7 using PAYG adjustments to support notional company financeability. In chapter 9, sections 9.5.5 and 9.6.2 we consider the nature of the financeability challenge, options for resolution, and set out why a PAYG adjustment in AMP7 is the best mechanism for resolving this time limited issue. As a result AMP7 bills are an average of around £5/yr higher than they otherwise would have been, with future bills experiencing a balancing reduction – on an NPV neutral basis.

We conducted qualitative research with customers<sup>35</sup> on future bill profiles and intergenerational changes in bills across AMP periods. A majority of customers supported bill profiles which were more stable over time, in preference to larger bill reductions in AMP7 followed by further increases to future bills in the longer term. This re-affirmed the results of similar customer research we undertook at PR14. These customer views support our proposals to manage financeability of the notional company via advancement of PAYG. We expect that there will be upward pressure on bills in AMP8 due to completion of the Manchester & Pennines Resilience scheme as well as further transition to CPIH and forecast increases to WACC components<sup>36</sup>, therefore advancing PAYG will help to smooth bills between AMP7 and AMP8, and beyond.

Smoothing of bills over time also helps to support customers that are behind on their water bills – work with them<sup>37</sup> shows that stable bills helps with household budgeting and avoiding arrears.

In addition we have considered customers' preference for bill stability and have adjusted in period PAYG ratios to generate smoothly falling K factors. These small annual reductions in annual real bills over AMP7 will help to partially offset the impact of annual inflation, acting to smooth nominal bill impacts.

However a number of factors may still drive larger than expected nominal bill changes in AMP7. Bill volatility can be driven by in period ODI rewards/penalties, revenue correction mechanisms and changes in CPIH. We discuss the potential scale of AMP7 bill volatility in chapter 9, section 9.7.3, and believe that actual residential customer's bills may be as much as 12% higher or lower than headline rates in any given year. Given this uncertainty we will seek to manage bill volatility for customers during AMP7 by:

- Applying Ofwat's charging guidance when setting charges so that incidence effects and stability are important considerations in setting charges
- Where bill volatility appears to be particularly high, such that it cannot be managed through the charges setting process, we will consider making applications to Ofwat as part of the annual reconciliation process if there needs to be NPV neutral deferral of changes in revenue
- In any case, ensuring that there are appropriate handling strategies to support customer groups seeing large annual increases in bills

#### 3.4.5 Demonstrating bills are affordable post 2025

Direct assessment of longer term affordability can be difficult, but based on a range of important indicators we believe future bills should broadly maintain levels of affordability and value for money. In generating bill forecasts for the years 2025-2030 we have considered a range of factors including changing wholesale totex requirements and cost efficiencies, retail cost pressures, and possible changes in the average cost of capital. We have also included the impact of United Utilities Performance Commitments out to 2030.

Our proposed AMP7 investment programme ensures that the North West asset base is being maintained for the long term. Over AMP8, we expect bills to remain broadly flat on an underlying basis, but for total bills to increase in real

<sup>35</sup> T1082 - Performance commitments, ODIs and bill profiles research

<sup>36</sup> T7002 - WACC in the context of Risk, Return and Resilience at PR19 - Ernst & Young report

<sup>37</sup> T1103 - Disengaged customers: Non-payers research

terms due to projected increases in the allowed cost of capital, continued transition to a CPIH based RCV, and the impact of the Manchester and Pennines Resilience Direct Procurement for Customers project<sup>38</sup>.

The CPIH transition occurs as both the pre-2020 RPI and CPIH RCVs are run-off, whilst additions are made only to the post-2020 CPIH RCV. We commissioned EY to set out their view on a likely industry cost of capital range for AMP8. For our business plan projection we have selected a point estimate from EY's recommended range which is towards the lower end of the range, whilst maintain gearing at 60%. This indicates the CPIH stripped vanilla WACC increases from 3.30% in AMP7 to 3.86%, increasing customers' bills by c.4%, assuming no step change transition to a fully CPIH based RCV. Chapter 9, section 9.4.2 sets out our views on why this assessment is appropriate.

Levels of capital investment and totex are forecast to be broadly stable between AMP7 and AMP8, with small increases in some areas, for example, on assets planned to reach the end of their lives during AMP8. As set out in chapter 4 we have put in place a robust long-term investment strategy to maintain and improve service resilience. In line with this strategy we foresee some increases to investment as a number of assets reach the end of operational life. We also expect growth in household numbers to drive pro rata increases in residential retail costs.

Taken together with anticipated growth in new household connections our central forecast is for average household bills to remain broadly stable, increasing by only c.£9 across AMP8. In addition completion of the Manchester and Pennines Resilience (M&PR) project will add a further c.£7 to average bills between 2024/25 and 2029/30.

**Table 3.6: Average household bills are most likely to show a small increase in AMP8**

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total change
Average Household bill before M&PR (2017/18 FYA CPIH)	381.8	389.7	391.8	392.10	389.8	391.2	+9.4
Impact of M&PR	0.5	1.3	1.2	1.2	4.2	7.2	+6.7
Average Household bill (2017/18 FYA CPIH)	382.3	390.9	393.1	393.2	394.0	398.4	+16.1
Average Household bill (nominal)	440.8	459.7	471.5	481.0	491.7	507.1	+66.4

Whilst we believe that bills are most likely to demonstrate a small real terms increase between 2025 and 2030 we also expect North West household incomes to grow. On our current forecasts this growth could average around 1.3%/yr, nearly twice the rate of expected bill growth. This suggests that overall affordability levels could remain broadly stable over the period. At the same time the stretching service improvements forecast to be delivered by 2030, as detailed in chapter 5 will ensure that customers continue to receive a value for money service.

We have also considered post 2030 bills by considering how a range of potential future scenarios may affect charges. Factors such as changes in the cost of capital, levels of totex investment and efficiency, growth rates in connected households, changes in residential retail costs, movements in the wholesale RCV, and inflation ranges can influence bills. We have generated high and low scenarios for these factors, and have produced a range of possible future household bills. This assessment has not sought to control for factors such as government or regulatory policy choices or substantial changes in external factors or customers' service expectations.

**Table 3.7: Long term household bill scenarios**

Scenario	2029/30 average household bill (2017/18 FYA CPHI)	Average bills 2030-35 (2017/18 FYA CPHI)	Average bills 2035-2040 (2017/18 FYA CPHI)
High	440	440	445
Central	398	390	385
Low	360	345	325

<sup>38</sup> We have used Ofwat's financial model to calculate customer bills. We have some reservations over the AMP8 tax allowance calculated by the financial model. This appears to be overstated by c.£8 – £17m p.a. in AMP8 compared to our expectations. This translates to a c.0.5 – 1.0% increase to customer bills.

We have found that central scenarios for long term future bills show a broadly stable trend in real terms after 2030. There is a risk that future bills could increase materially under a 'high bill' scenario, particularly if the cost of capital were to increase materially. There is also scope for material bill reductions in the long term, although network maintenance requirements present a pragmatic lower limit to cost reduction opportunities and the cost of capital is unlikely to fall materially from current levels. However there is some opportunity for further bill reductions if the number of new homes increases faster than expected and plans to reduce long term per capita consumption can be realised.

Based on this assessment we believe it is most likely that real bills will remain below 2020 levels out to 2040, on a CPIH basis. This result indicates that the current bill reduction proposals for AMP7 are sustainable and that investment choices made now are not expected to adversely affect long term customer affordability and value for money.

## 3.5 Engaging with our stakeholders

A central part of our strategy is to continuously improve our support to customers such as through utilising community and social partnerships. Gaining insight from other organisations and those that work directly with people in vulnerable or financially stressed circumstances is crucial to improving the services that we offer. Working more closely with these groups means that we learn more about the challenges people on low incomes or in vulnerable circumstances face. It also means we can create combined service offers that effectively address customer issues we could not implement on our own.

We have striven to understand the views of customers on low incomes or who are in vulnerable circumstances. We have structured our engagement based on our understanding of our customer segmentation analysis to get the best insight. Chapter 2 describes some of our key customer engagement and segmentation activities. This approach has helped us recognise where additional services and support may be needed and which aspects of our existing support is valued most highly by various segments of customers. For example, we have identified that customers in vulnerable circumstances are more focussed than the average customer on bill affordability<sup>39</sup>.

Key examples of the ways we have used collaboration and wider engagement to identify opportunities to improve is our decision to hold a North West affordability summit, our work in sharing details of Priority Services customers with Electricity North West and the establishment of an Independent Affordability and Vulnerability Panel. We describe these in more detail below.

### 3.5.1 Sharing details of Priority Services customers with other service providers

One of the most effective ways of identifying customers eligible for Priority Services is through sharing information<sup>40</sup> with other organisations that maintain similar registers.

The energy sector already has an established framework for data exchange across companies to keep and share Priority Services registers for the benefit of customers. To enable learning and immediate collaboration between the water and energy sectors - and to act as a 'proof of concept' for the industry to follow - we have completed a ground breaking cross sector pilot between United Utilities and Electricity North West<sup>41</sup> (ENW), rapidly trialling and testing new approaches to data sharing and reporting to the UK Regulators Network.

The proof of concept trial was designed to help establish a fully aligned framework to Priority Services for energy and water companies that will see data and registration of Priority Service customers shared (where consent is given) across sectors in the UK by 2020. Issues such as customer consent, needs codes and aligned communications are all addressed in the trial.

The trial started in January 2018. Anyone living in the c2 million properties supplied by both United Utilities and Electricity North West (ENW) and requesting to be added to the United Utilities Priority Services register were also

<sup>39</sup> T1029 – Acceptability testing: Stage 2

<sup>40</sup> In all cases sharing of personal data is subject to compliance with GDPR.

<sup>41</sup> Electricity North West are an electricity distribution network operator in the North West of England. Their geographical foot-print overlaps a large proportion of the United Utilities water supply area. Electricity North West deliver electricity to circa 5 million people in 2.4 million properties.

asked if they would also like to be added to the equivalent Priority Services register maintained by Electricity North West. As long as the customer provided explicit informed consent then their details were passed to ENW so that they can be added to the equivalent register for Energy Priority Services. Similarly ENW informed United Utilities of any new Priority Services registrations they received in the North West of England.

The trial proved successful and in the three months to April 2018 the details of 2,000 Priority Services Registrations were shared between United Utilities and ENW. One key finding from the trial has been that there is a degree of caution amongst customers to consenting for their details to be shared between organisations. We believe that consent rates can be improved and we are implementing improved communications, emphasising the benefits to these customers. We are extending the trail under our 'One Priority Service Register by 2020' initiative. This aims to deliver a national data share for Priority Services across the water and energy sector by 2020.

In spring 2018 we also became one of the first water companies to regularly share details of Priority Services customers with a local authority. We initiated a data sharing arrangement with Salford City Council whereby Salford share details of blue badge holders so that we can add them to the Priority Services register. We plan to offer a similar arrangement to all Local Authorities in the North West in AMP7. Again, this is subject to active customer consent to their data being shared.

### 3.5.2 Our Independent Affordability and Vulnerability Panel

In April 2017 we formed our Independent Affordability and Vulnerability Panel to challenge and provide further insight into how best to engage customers in vulnerable circumstances. The Panel acts as a voice for those customers who have traditionally found it difficult to raise concerns. The Panel is playing a key role in ensuring that we deliver leading services, and is also working with us to co-design new services and interventions. The Panel includes members of the Customer Challenge Group, YourVoice. During the AMP7 business planning process the Panel has acted as a sub-group, feeding back on affordability and vulnerability matters to YourVoice.

**Figure 3.6 Impact of the Independent Affordability and Vulnerability Panel**



Acting independently, the Independent Affordability and Vulnerability Panel has a focussed remit on how best United Utilities can engage and address customers in vulnerable circumstances, including those facing transient vulnerability and those facing affordability challenges. The Panel currently comprises an independent chair and representatives from a wide range of relevant groups, including Warrington Disability Partnership, Salford City Council, Step Change Debt Charity, MIND, Age UK, The Samaritans, British Gas, Citizens Advice and Macmillan Cancer Care, and is playing a key role in ensuring that United Utilities is seen as the sector leader in the services and support that it provides to Priority Service customers.

Members of the Independent Affordability and Vulnerability Panel have also taken on a leading role in helping us co-design new interventions and support schemes, driving forward actions from the North West Affordability summit. Section 3.3 of supplementary report S2001, details each new workstream and sponsorship by a member of the Panel.

In AMP7 the Panel will continue to act as a voice for customers in vulnerable circumstances, providing insight and challenge on how best to engage with customers in vulnerable circumstances.

### 3.5.3 Co-creating collaborative solutions – North West Affordability Summit



In January 2018 we held the first North West Affordability Summit with the aim of bringing together representatives from a wide range of different sectors and communities with the collective goal of identifying new opportunities to make a difference.

This ground-breaking event brought together representatives from organisations such as debt advice charities, food banks, Department for Work and Pensions, Credit Unions, Councils, Housing Associations, MPs and other utility companies attended the day. The day facilitated the exchange of ideas and co-creation of

potential solutions. A full description of our approach to co-creation and how the North West Affordability Summit fits within that framework can be found in chapter 2.

As a result of this work, five key workstreams were identified where United Utilities and other stakeholders could collaborate to improve our future support offerings for customers with affordability issues or who have the potential to face future affordability issues. Each workstream has been sponsored by a member of our Independent Affordability and Vulnerability Panel, who act to guide and promote United Utilities improvement efforts:

- **Workstream 1, North West Community Advice Hub** Establishing a North West community advice website (sponsored by Salford City Council), enabling co-delivery of affordability and vulnerability support, and providing an easy route for continued United Utilities engagement with the money advice sector;
- **Workstream 2, Metering Makes a Difference** Delivering communications promoting the benefits of metering (sponsored by StepChange);
- **Workstream 3, Early Intervention** A stronger focus on early intervention, co-designing targeted solutions for at risk customers before they fall into debt (sponsored by Bernice Law, United Utilities YourVoice Chair);
- **Workstream 4, Just About Managing** Providing more solutions and options for low to middle income households with indications of financial stress (sponsored by Warrington Disability Partnership);
- **Workstream 5, Community Education** Offering links into education programmes for budgeting and money advice (sponsored by Age UK)



These co-designed ideas have formed a key part for our continual improvement plans for our affordability and vulnerability support. Since holding the first summit in January we are regularly updating the community that took part, and have been capturing and reacting to feedback on these updates. We will provide updates on progress at the next North West Affordability Summit in 2019.

An example of the focus the summit has given to our efforts in this area is the recent launch of a Payment Break scheme as part of the “Just About Managing” work stream. We now offer pauses in regular payments as a way of helping customers who face short-term financial pressures in managing their day-to-day finances: for example, we actively promote the Payment Break option with customers that are moving onto Universal Credit. Further details of our Payment Break scheme are provided in section 4.2.3 of our supplementary report S2001. We will be increasing the flexibility and accessibility of the Payment Break offer to enable more customers to benefit from this in AMP7.

## 3.6 Affordability – United Utilities’ services to support customers

The United Utilities region has high levels of extreme deprivation, tougher macro-economic conditions and more risk associated with welfare reform than any other region in the UK. As a result, we have focussed significant effort and resource to ensure that we have a leading approach to providing solutions to address affordability challenges.



We have sought to benchmark the support we provide, seeking to emulate best practice from retailers beyond the water sector. In its recent review of United Utilities' bad debt management capability, Deloitte assessed our approach to "affordability" as being a particularly mature capability<sup>42</sup>.



**"Overall we have concluded United Utilities has a mature bad debt function with deep knowledge of the water industry and its associated challenges... Key debt management activities are in place and well developed, especially around affordability campaigns and external data sharing"**

*Source: T6008 "Bad debt management maturity assessment: Deloitte"*

### 3.6.1 Providing the right services for low to middle income households

Our engagement with customers has revealed that many can afford their water charges, but find they need to manage their household budgets closely in order to do so<sup>43</sup>. Unexpected changes in bills, or other financially challenging life events can be difficult to manage. 47% of household in the North West have less than £100 in savings to cover an unexpected bill<sup>44</sup>. The Resolution Foundation<sup>45</sup> found that 70% of low and middle-income households have less than one month's income in reserve, so avoiding bill shocks and providing structured payment plans can do a lot to help residential customers manage budgets.

We provide support to customers that may find affording water charges difficult through a range of different payment plans and support options. For example we offer a wide range of payment day options to help adapt to customers' income profiles. Greater use of nudge techniques and other behavioural economics informed strategies will help us increase this rate in future.

However we recognise that we can develop these approaches further. In the last year we have engaged extensively with a wide range of customers and stakeholders, including debt advice groups, customer champions, the CCG YourVoice and the Independent Affordability and Vulnerability Panel to better understand how we can help address affordability challenges for low to middle income households.

At our North West Affordability Summit in January 2018 we received clear feedback that whilst our affordability support was amongst the best in the utility sector we could still do more to help reduce overall levels of debt by providing more support before customers fall into debt. As set out in S2001, section 4.2 we have been working with the debt support community to develop new support schemes. For example introducing flexible payment plans and options to help customers manage their budget, as well as linking into money advice and debt management charities.

We are using customer data, and data sharing with a Credit Reference Agency (CRA) partner, to help us identify those households likely to be under financial strain<sup>46</sup>. Through the use of our own information on customers' payment history and information on individuals' payment patterns held by our CRA partner we are increasingly able to identify those customers at risk of falling into debt. This new information is helping us to actively target new payment support propositions for those customers most likely to benefit from them, and so pre-empt many customers from falling into arrears. We currently have in place a range of options for customers to help them manage their payments and home finances:

<sup>42</sup> T6008 - Bad debt management maturity assessment: Deloitte

<sup>43</sup> T1104 – Disengaged customers: Rehabilitated customers research

<sup>44</sup> Money Advice Service "Closing the Savings Gap" September 2016, <https://www.moneyadviceservice.org.uk/blog/millions-at-risk-with-savings-of-100-or-less>

<sup>45</sup> Resolution Foundation "Living Standards 2016" <https://www.resolutionfoundation.org/app/uploads/2016/02/Audit-2016.pdf>

<sup>46</sup> In all cases sharing of personal data is subject to compliance with GDPR.

**Table 3.8: United Utilities offers a wide range of discount tariffs and other financial assistance schemes**

<b>Supporting a wide range of payment channels</b>	We offer a wide range of ways to pay, including direct debit, payment card, online, over the phone, via our mobile app, through customers' banks or by cheque. Supporting a wide range of payment channels helps to make sure that customers have an option that is convenient for them.
<b>Flexible payment patterns</b>	We believe we offer one of the widest range of payment plan options in the industry, including any day weekly, fortnightly, 10 monthly, 12 monthly, and four weekly payments. This means we are able to easily match automatic payment patterns to customers' income patterns. For many customers this makes it easier to manage household finances. Just over 70% of customers are paying by Direct Debit.
<b>Swift refunds direct to bank account</b>	Where we hold a customers' bank account details we can make a direct refund of account credits direct to their account. This is particularly helpful when a customer moves home and the account on their previous property is in credit. Moving home is often associated with some big one off bills, and swift hassle free refunds is one way we can help.
<b>Improved process for proactively engaging customers with high bills</b>	We have taken a proactive approach to help customers manage unexpected bill spikes. When a customer is heading towards a bill substantially higher than historic trends we will proactively contact them, and where appropriate offer allowances for internal leaks, revised payment plans and/or seek to spread payments over longer periods. We will also actively promote water saving devices and offer advice on how small changes in behaviour can help reduce bills in future.
<b>Promoting metering for bill management</b>	We actively promote the advantages of water meters, which can save money for many customers. Tools such as our online calculator can help customers decide if a water meter is for them, and we offer an extended two year period in which they can revert back to unmeasured charges if they turn out not to save money. In 2017/18 we received over 36,000 requests for a free meter fit, continuing a recent increase in meter fitting rates.

In AMP7 we plan to roll-out wider support for those customers that are on low to middle incomes and are showing signs of financial stress. Key initiatives include new "Lowest Bill Guarantee" and "Payment Break" schemes as set out below.

We are also trialling an online water usage report, which gives metered customers detailed information on their water usage, giving them the opportunity to reduce usage and putting them in control of their bills. As set out in chapter 6, section 6.3.4 the water usage report will enable customers to see how much water they have used since their last meter read, how this compares to similar households, and provide tailored advice on how they can reduce consumption.

We are also looking at the time it takes to issue metered bills. Under our current practices a newly measured customer may not receive a bill for up to 6 months. This is due to the timing of our meter reading cycles and can cause issues for customers with budgeting. To address this we are currently adapting our processes and IT systems to build in the flexibility required to carry out meter readings and generate bills within 6 weeks of a customer moving home or getting a water meter. This will help provide an accurate bill related to real to consumption levels in a timely way, helping customers budget appropriately.

### 3.6.2 Lowest bill guarantee

Since July 2017 we have been trialling a 'lowest bill guarantee'. This is a new offer aimed at unmeasured customers that would likely benefit if they moved onto metered charges but who may need more confidence about the impact on their bills before they can commit to a switch. The guarantee makes a promise to customers that, if they elect to take up a Free Meter Option (FMO), we will monitor their charges, and will charge them the lesser of their new measured charge or their old rateable value based unmeasured charge. This two year commitment goes much further than existing "right to revert" schemes widely available across the industry, where customers can choose to go back to unmetered charges after one or two years, but are still liable for higher charges during the period that they have a meter.

The scheme has been developed in direct response to customer research which indicated that one of the biggest barriers for customers taking up an FMO is the fear of larger future charges<sup>47</sup>. By introducing a way for customers to have clarity on future charges we hope to help them overcome this loss aversion, nudging them into a choice which is better for their household, and thereby open up metered charging to a larger group of customers. Using detailed

<sup>47</sup> T1033 – Water efficiency behaviour change: Qualitative research, and T1034 – Water efficiency behaviour change: Quantitative research

information on customers' likely consumption patterns, household occupancy rates and existing property rateable values we have been able to target promotion of the lowest bill guarantee to those customers most likely to experience lower bills with a meter. This provides the opportunity for more customers to gain greater control of their future charges, whilst preserving the water efficiency incentives that a meter offers.

To test the new proposition we offered the lowest bill guarantee to a small group of customers between July and October 2017<sup>48</sup>. During this period we observed a 26% increase in meter take up, with subsequently 98% of participating customers seeing a bill reduction when compared to their old rateable value, indicating that we have targeted the right groups of customers. This new proposition has the potential to prove a highly effective intervention for low occupancy households that face affordability challenges, but have historically been reluctant to opt for a free water meter.

In AMP7 we plan to offer the lowest bill guarantee more widely, and will target promotion of the scheme to those customers who our information indicates are both likely to be facing affordability challenges and would likely experience lower bills when on measured charges.

### 3.6.3 Payment Breaks

We currently offer Payment Breaks as a key support option for helping customers to manage short-term financial pressures. Introduced initially to help customers manage the transition onto Universal Credit, we have been steadily increasing the flexibility and accessibility of the Payment Break offer to enable more customers to benefit from it.

Similar to schemes in the financial services sector, a payment break offers customers the option of reducing or delaying bill payments for a short period to help them manage through an unexpected financial shock.

This key proposition has come from extensive consultation with our most financially stretched customers<sup>49</sup>, and from benchmarking work against best in class financial service companies<sup>50</sup>. Engaging with customers has helped us co-design a new service offering that can help avoid them entering into arrears.

With 47% of homes in the North West having less than £100 in savings<sup>51</sup> to manage an unexpected bill we anticipate that payment breaks will form an important part of conversations as we initiate more engagement with those customers that show warning signs of slipping into debt. We know that once customers fall behind on their payments it can be hard to catch back up again, and Payment Breaks may be an appropriate preventative measure for many low to middle income customers.

In AMP7 we plan to offer Payment Breaks more widely, and will target promotion of the scheme to those customers who our information indicates are both likely to be at risk of short term financial shocks.



A customer contacted us to let us know that she was scheduled for a major operation in the next 2 weeks and her wages had stopped. We offered her a Payment Break to help out, resetting her payment plan so that there was nothing to pay for 3 months.

### 3.6.4 Additional financial support for those in particular need

Some customers have persistently low household incomes, with correspondingly low ability to afford their water charges on a continuing basis. For these customers our cost benefit assessments indicate that in addition to the payment support options a meaningful discount to tariffs is the most effective way of alleviating water poverty.

<sup>48</sup> T1038 – Lowest bill guarantee (price promise) research

<sup>49</sup> T1103 - Disengaged customers: Non-payers research

<sup>50</sup> S6013 – Debt management capabilities

<sup>51</sup> Money Advice Service “Closing the Savings Gap” September 2016, <https://www.moneyadviceservice.org.uk/blog/millions-at-risk-with-savings-of-100-or-less>

We have identified that in 2017 18% of households were likely to be classified as living in water poverty. The impact of United Utilities' proposed bill reductions for AMP7 will change the levels of water poverty in the North West. Based on our forecasts the impact of falling bills and rising household incomes will lift 250,000 customers out of water poverty. This will still leave 9% of households in the North West in water poverty by 2025.

Many people in the North West have difficult financial circumstances so we try to handle non-payment sensitively and identify those customers most likely to find payment difficult. In 2016/17 bad debt costs added around £17<sup>52</sup> to the average United Utilities annual water bill. We are increasingly using cutting edge proactive debt engagement practices to keep this as low as possible and avoid putting customers under financial strain. As set out in S6013 - Debt management capabilities, section 2 for those customers who are struggling to afford their bill we promote a culture of rehabilitation back into making payments and offer several avenues of assistance. If any Priority Services customers fall into debt we have a segmented approach which allows us to offer them a more sensitive and tailored customer experience. As a result of these targeted promotional activities we anticipate an increase in customer awareness of affordability assistance measures. In business plan data table App4 – Customer metrics, line 9 we report that we anticipate a c.20% increase in awareness by 2025 from 2017/18.

This approach to supporting customers facing affordability challenges is distinct from the way in which we manage debt with customers that do have the financial means to afford their bill. In chapter 7, section 7.8.3, and also in S6013 - Debt management capabilities, we set out our approach to prompting payment from customers that can afford to do so.

We are receiving external recognition for best practice in collections and debt management. In 2017 our debt management team won Water Team of the Year at the Utilities and Telecoms Awards and we were shortlisted at the Market Research Society Awards for our innovative approaches to customer reengagement. These awards recognise excellence across the utility and credit industries, not just the water sector.

### 3.6.5 Reaching the hardest to reach – our Town Action Planning initiative

United Utilities recognises that whilst more help is now available than ever before, awareness of assistance schemes remains relatively low<sup>53</sup>. We have been working hard to develop innovative ways of getting the most vulnerable in society to engage with us. For example we launched our multi award winning Town Action Planning (TAP) initiative in 2016 which targets some of our most vulnerable customers, giving support when they need it most.

Suitably trained staff visit customers' homes to help assess their entitlement to our assistance schemes. TAP uses customer segmentation data to focus on towns and postcodes where customers are most likely to be experiencing water poverty and are not responding to our normal engagement strategies. Over 77,000 visits have been completed to date, covering over 16 towns.



A customer who lost their job due to mental health illness hadn't been in contact despite our attempts to contact them by letter and had failed to pay several debt collection agencies. So we arranged a Town Action Planning visit. During the home visit we discussed their circumstances and established that the customer was qualified for our back on track scheme which reduced their annual bill by £442. The customer also applied for a grant from the United Utilities Trust Fund and was awarded over £3,000. The customer has now set up a direct debit and is up to date on payments.

Each visit takes 45 minutes during which we listen and try to find a long term solution. We can sign a customer up to a scheme and agree a sustainable and affordable payment plan there and then.

Out of 77,000 visits 46% had a successful outcome. Around 20,000 customers signed up to a payment arrangement, and as of July 2018 67% are being maintained. In addition to those committing to a new payment arrangement 18,700 customer signed up to either a lower tariff or a debt rehabilitation scheme. We have helped 35,706 customers who

<sup>52</sup> Based on implied bad debt associated costs in United Utilities AMP6 Retail Cost to Serve revenue allowances

<sup>53</sup> CCWater "Water Matters- Household customer views on their water and sewerage services 2017"

would otherwise have been referred to Debt Collection Agencies (DCA). A sample of 600 of the people we visited were surveyed and asked how satisfied they were with their visit. We achieved an average of 4.76 out of 5.

#### Awards for our Town Action Planning for Debt initiative



- Won 'Excellence in Treating Customer Vulnerability' award from the 2017 'Credit Awards'. The Credit Awards is the largest awards in the consumer credit sector, recognising innovation and best practice
- Won the "Responsible Approach to consumer" category of the Chartered Institute of Credit Management awards
- Highly commended for the "Vulnerable Customer Team of the Year" at the 2018 Credit Strategy awards

### 3.6.6 Direct intervention – grants and discounted tariffs

By utilising the latest Credit Reference Agency and open source data on customers' financial circumstances, coupled with dynamic insight into customers' perceptions and expectations, we have developed a set of support schemes to help those customers that may find paying their full water charges challenging.

Typically these schemes are targeted at households with incomes in the lowest 10%-20% of the population. The substantial affordability challenges faced by our customers has resulted in us offering a range of different social tariffs and financial support schemes, representing industry best practice<sup>54</sup>.

**Table 3.9: Description of our financial assistance schemes as presented to customers**

<b>Back on track support tariff</b>	If you're behind with your water bills and on benefits, we can get you straight by putting you on a fixed amount, depending on your circumstances.
<b>Help to pay social tariff</b>	If you're receiving Pension Credit, you could move onto a rate which better suits you, based on your income and outgoings.
<b>Payment matching+</b>	If you've built up a lot of debt, for every pound you pay we'll match it to get the debt paid off twice as fast. After six months, for every pound you pay, we'll pay £2 until you've paid off what you owe. If you keep up payments for 2 years we will write off all outstanding debts.
<b>UU Trust restart grants</b>	If you're in real financial difficulty, you could qualify for a one-off payment from our Trust Fund to help clear your debts and start afresh.
<b>Water Direct</b>	If you're on benefits, it can help you to budget for your bills by applying to the Department for Work and Pensions to pay your bill direct from your benefits.
<b>WaterSure</b>	If you have a water meter and receive benefits, and use a lot of water due to ill health or having a large family, our WaterSure scheme caps your annual bill, regardless of how much water you use.

In 2017/18 we saw 100,000 customers receiving direct financial support from United Utilities. Further details of our discount tariffs and other support schemes are available in section 4.1 of S2001.

**Table 3.10: We use a wide range of different assistance schemes**

Scheme	Number of customers 2017/18
Help to Pay – Social tariff	15,462
Back on Track – Support tariff	30,696
Payment Matching	33,517
Help for customers with a water meter - WaterSure	16,490
Restart – United Utilities Trust Fund	3,505
<b>Total</b>	<b>99,670</b>

<sup>54</sup> S6013 – Debt management capabilities

Over the course of AMP6 we have been substantially increasing the number of customers helped through our support schemes. By 2019/20 we anticipate over 110,000 customers will be receiving financial assistance via one or more of the United Utilities support schemes. This represents a more than doubling of the performance levels committed to as part of AMP6.

We also offer non-financial assistance such as our Water Direct scheme for customers who are in debt and receive government benefits. We currently have 36,000 customers paying via DWP and the proposed changes to data share with DWP could help further.

However we recognise that whilst this level of support is helping many households avoid falling into water arrears there is more we can do. We recognise that both the level of support available and the steps we take to target support at those customers most in need can be expanded and improved. Supplementary S2001, section 4.2 provides expanded detail on how we will improve our affordability support for those most in need in AMP7.

### 3.6.7 Demonstrating value for money

We have assessed our affordability schemes to ensure they represent value for money for both those in receipt of support and to the wider customer base.

Demonstrating that reduced charges are effective in returning customers to good payment patterns is important. It is not enough to simply reduce charges if this doesn't lead to customers finding the new charges affordable as it will not enable them to return to good payment. We have conducted a cost benefit assessment for all of our direct support schemes, assessing costs, benefits and total net anticipated benefits for all schemes from a company perspective. Benefits include reduced bad debt charges and reduced debt management costs.

Independently in 2016, Ecorys undertook a Social Return on Investment (SROI) study to measure the impact of the United Utilities Trust Fund. The study concluded that the UUTF has an extremely positive impact for society as a whole<sup>55</sup>. The SROI ratio, or ratio of benefits to costs, is estimated to be 3.04. This means that, for every £1 invested into the fund, £3.04 of benefits are estimated to be generated for the wider economy in the North West.

**Table 3.11: Cost Benefit Analysis of each financial support scheme<sup>56</sup>**

Scheme	Benefit to cost ratio	UU contribution	Customer contribution
Back on Track tariff	1.30	100%	0%
Help to pay social tariff	0.49	50% <sup>57</sup>	50%
WaterSure	0.94	0%	100%
United Utilities Trust Fund	1.32	100%	0%
	<b>Additional cash recovered</b>		
Payment Matching+ arrears allowance	£1,772	100%	0%

This assessment considers United Utilities costs and benefits from affordability schemes. A value of greater than 1.0 indicates that benefits exceed the tariff discount costs of offering the scheme. It is not an assessment of total societal benefits. Financial assistance schemes are a transfer of value between different parties. This is between different customer groups (in the case of rebalanced social tariffs), or between customers and United Utilities (in the case of United Utilities funded schemes). We believe that a total society CBA would yield cost/benefit values near to one.

In conducting this cost benefit assessment we have looked at the observed six year impact on average customer payments and the costs of providing the schemes. For Payment Matching we have used a slightly different approach to assessing the benefits, focussing on the additional cash recovered from each customer versus their payment habits before sign-up.

<sup>55</sup> Source: SROI report on UUTF by Ecorys <https://www.uutf.org.uk/home/social-return-investment-report/>

<sup>56</sup> Total aggregate gross costs and benefits of financial assistance schemes is reported in business plan data table App 4 – Customer metrics, lines 7 to 8

<sup>57</sup> UU contributions to the Help to Pay social tariff are capped at c.£1.4m/yr. In 2017/18 this equated to 50% of total tariff discounts.

We have identified that our most beneficial schemes are the Back on Track support tariff and United Utilities Trust Fund. Both are 100% funded by United Utilities, with no direct customer contributions. The Back on Track tariff offers sustained bill reductions for low income households, whereas the United Utilities Trust Fund provides one off grants for customers in hardship. Given these positive benefit ratios we plan to increase the focus and promotion of the Back on Track scheme in AMP7.

The United Utilities Trust Fund also offers net positive returns and so we will continue to make trust fund contributions and to promote the scheme to customers. In recent years we are increasingly finding that ongoing tariff discounts can offer better sustained solutions for many customers when compared to one off trust grants. Therefore we anticipate that the number of United Utilities trust grants may reduce as we promote the benefits of ongoing discount tariffs instead.

The Payment Matching+ arrears allowance scheme is also cost beneficial. We anticipate that as the number of customers in debt reduces we will need to develop new and better ways of identifying and promoting the scheme with eligible customers (see supplementary report S2001, section 4.2.5). We anticipate that this increased activity will be sufficient to maintain scheme registrations despite the material reduction in the eligible customer base in AMP7.

We have an increased mandate from wider customers for the Help to Pay social tariff<sup>58</sup>. Customers have provided this support based on their willingness to cross subsidise bill reductions for the poorest pensioners. The cost/benefit for United Utilities, before the rebalancing of reduced tariffs onto the wider customer base is less than one; however the scheme was designed and promoted as a mechanism of support for customers, not a cost efficiency initiative. Given this we believe the tariff is fulfilling the purpose on which the customer support is based, so we will look to further promote the benefits of this tariff to those that are eligible. We will continue to improve our ability to promote the tariff with those customers that stand to gain the most from the discount in AMP7.

Similarly the WaterSure scheme is a government mandated scheme put in place to ensure fairer charging for those least able to pay high metered charges. We will therefore continue to promote the scheme appropriately.

Each scheme can be more or less effective for different customers in different circumstances, and we expect the macro economic and social environment to change over time. As such we will keep the cost/benefit of each scheme under review and may increase or reduce the relative scale of each scheme over the course of AMP7 as our observations of customers' needs change, ensuring that we continue to deliver support schemes in a cost efficient, socially responsible manner.

### 3.6.8 Expanding our affordability support in the future

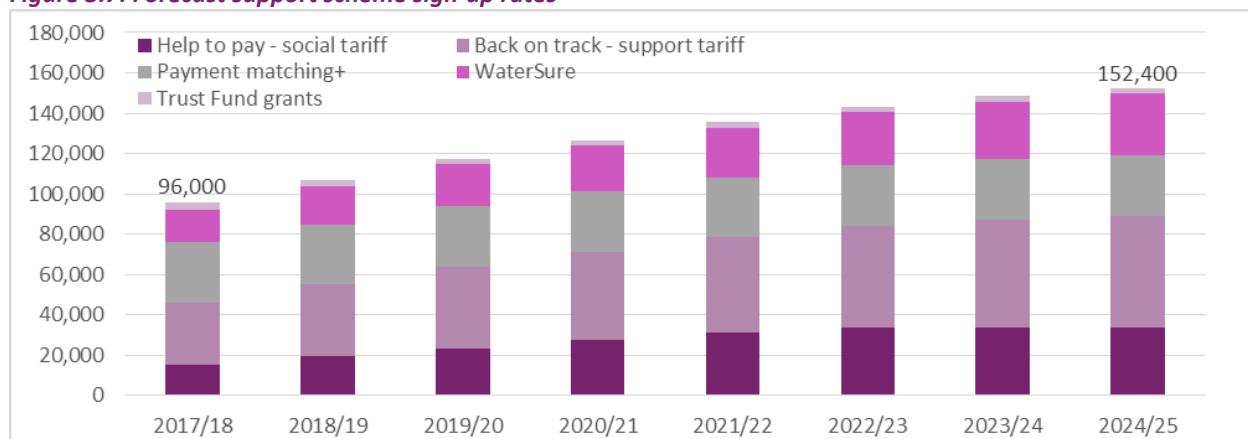
In chapter 9, section 9.10 we discuss our proposals for CommUnity Share. The base element of this initiative represents a core commitment to support financially stressed customers. In AMP7 we propose to provide direct company funded support worth £71m through our discounted tariff schemes. This compares to £53m in of support provided in AMP6. The following schemes are included within this element of the initiative:



As we move into AMP7 we may decide to alter the mix of funding between the schemes and/ or invest in other types of tariffs and customer support schemes to reflect further learning through experience and customer engagement. Each year we will report on the number of customers on each scheme, and present to United Utilities' CCG, YourVoice commentary on what has driven movements in each scheme.

This additional investment will enable a substantial increase in the number of customers receiving financial support in AMP7. We aim to increase the number of customers receiving financial support each year to over 152,000 by 2025.

<sup>58</sup> T1030 – Social tariffs research

**Figure 3.7: Forecast support scheme sign-up rates**

Some of the solutions we are implementing for low to middle income customers, such as a Lowest Bill Guarantee and Payment Breaks are also likely to help the lowest income households. Further, under the CommUnity Share proposals, there is the potential for further targeted financial assistance where additional funding is available and this is supported by stakeholders.

### 3.6.9 Lifting customers out of water poverty performance commitment

Customer engagement feedback tells us that customers in financial stress place enhanced emphasis on the size of annual water charges<sup>59</sup>. There are many people in the North West who are in uncertain financial circumstances.

We are therefore proposing a new bespoke Performance Commitment and ODI structured to ensure that we seek to provide financial support to as large a number of customers in water poverty as possible, and to ensure the degree of support provided is significant in the context of each customer's individual circumstances. It is intended to focus on the outcomes of our interventions, ensuring that company activity is targeted at those most in need.

The measure assesses the number of customers lifted out of water poverty each year due to our actions. The definition for water poverty used for this measure is customers spending more than 3% of their annual household income, after housing costs, on water and wastewater services. We will demonstrate that individual customer's financial circumstances have been assessed when determining whether or not tariff discounts and other interventions have been sufficient to lift individual customers out of water poverty.

A fuller description of this Performance Commitment and ODI can be found in chapter 5, section 5.7.5.

**Figure 3.8: Preparations for a second North West Affordability Summit in 2019 are underway**

<sup>59</sup> T1029 – Acceptability testing: Stage 2



## 3.7 Targeted additional services to support customers in vulnerable circumstances

Our plan will continue to improve on the industry leading support<sup>60</sup> we provide for customers in vulnerable circumstances, including those facing transient vulnerability, extending our Priority Services offering to more customers, and ensuring that we continue to improve the quality and scale of the support we provide to those most in need.

Our focussed and flexible approach will ensure that all customers, regardless of their specific needs will find they can engage with their water and wastewater services in a way that works for them. Our plan backs up this commitment with a robust and stretching bespoke performance commitment that ensures we will continue to deliver industry leading levels of support into AMP7 at a cost that offers all customers value for money.

### 3.7.1 Our Priority Services scheme – flexible support for our customers

We believe in delivering great customer service for all customers, and have delivered substantial improvements in customer service during AMP6, for example we have seen substantial improvements in SIM and UKCSI performance (see chapter 8, section 8.2.4). We recognise that those in vulnerable circumstances have different requirements to the typical customer. Working with partners and customers we have identified a range of enhanced services which are beneficial to those in vulnerable circumstances.

One of the key lessons learnt from the Lancashire water quality incident in summer 2015 is that we could have done more to help vulnerable customers during the incident if we had had a more comprehensive register in place at the time of the incident. The lack of information on customer circumstances meant that we weren't easily able to prioritise informing many vulnerable customers about the boiled water notice, or help manage the additional challenges they faced in the circumstances.

Following the incident we set out to radically change our approach to supporting vulnerable customers. This has helped us reform our vulnerability support services, and means we are better able than ever before to provide extra operational support to those that need it most, especially during service disruptions. We believe these changes mean we have developed an industry leading set of services for customers in vulnerable circumstances<sup>61</sup>.

As part of the process of reform we engaged with recognised third sector organisations. Organisations such as Age UK, StepChange and Citizens Advice have helped us put in place the measures and support that customers value most. We have then worked with a wider community of stakeholders and our Independent Affordability and Vulnerability Panel to further improve our Priority Services propositions. We have also considered objectives and recommendations from government<sup>62</sup> and regulators, including Ofwat's<sup>63</sup> and CCWater<sup>64</sup>.

As set out in section 5.1 of supplementary document S2001 the revised service recognises that there are a range of reasons why people may find themselves in vulnerable circumstances, and seeks to provide targeted support to the right customers at the right time. The first step to achieving this is driving customer engagement and registration. The Priority Services scheme is available to customers who may face vulnerable circumstances due to any of the situations in figure 3.8.

<sup>60</sup> Awards - Excellence in Treating Customer Vulnerability, Credit Awards WINNER May 2017 and Best Vulnerable Customer Support Team U&T Awards Finalist October 2017

<sup>61</sup> A United Utilities desktop review of all vulnerability assistance measures publically offered by all water companies operating in England and Wales identified that United Utilities now offers a wider range and more comprehensive set of support measures than any other company.

<sup>62</sup> For example, objectives in Defra's "The government's strategic priorities and objectives for Ofwat" September 2017; and proposals in BEIS's "Modernising consumer markets: Consumer Green Paper" April 2018

<sup>63</sup> Ofwat 'Vulnerability focus report' February 2016

<sup>64</sup> CCWater "Staying afloat: Addressing customer vulnerability in the water sector (2016-17)" September 2017

**Figure 3.9: Additional support needs**

Vulnerability can often arise due to a temporary event, such as illness or life event. Being aware of the reasons why a customer has asked to be added to the Priority Services register is therefore important in understanding what support a customer may need, and also understanding whether this extra support is a permanent requirement or is only needed for a finite period of time<sup>65</sup>.

We have created the registration process with advice from support agencies making it as easy as possible for customers to sign up. In 2016 there were just over 20,000 customers registered for additional support. Under the refreshed scheme we have achieved a substantial increase in registrations. In March 2018 there were over 52,000 on the United Utilities Priority Services register. Promotion through publications like “All Together Now”<sup>66</sup> and on medical prescription packaging<sup>67</sup> have helped boost self-identification from eligible customers.

Once on the register, customers can speak to a dedicated team who have had training by organisations such as MIND and The Samaritans, via dedicated phone lines or email address. With guidance from these advisors, customers can select from tailored offerings which best suit their needs.

Alongside this, our website can now offer a service, Recite Me, a toolbar that can be used to personally customise the online content. This could be by increasing the font size or changing background colours, a read aloud capability for text or video information or which can automatically translate content into any one of 100 languages for those who need translation support.

In the event of supply interruptions we provide proactive communications and couriered bottled water delivery for Priority Services customers. We also offer much enhanced accessibility tools on the United Utilities website and app, with adaptations for partially sighted and blind customers as well as support for over 100 languages. For example we have been working on improving the support available for those with hearing loss, and recently achieved “Louder than Words” accreditation<sup>68</sup>.

<sup>65</sup> Ofwat ‘Vulnerability focus report’ February 2016

<sup>66</sup> All Together Now is a popular free newspaper aimed at those with disabilities (circulation of 500,000) and is also distributed through hospitals, GP surgeries and supermarkets

<sup>67</sup> We promote Priority Services on 400,000 pharmacy bags distributed by 200 pharmacies in the region in partnership with ENW.

<sup>68</sup> Action for Hearing Loss offer “Louder than Words” accredited partners status to organisations that have demonstrated commitment to improving access to their business for people who are deaf or have a hearing loss.

**Table 3.12: Customers can select from tailored offerings which best suit their needs**

With guidance from our appropriately trained advisors, customers can select from tailored offerings which best suit their needs:	
Priority bottled water deliver via a dedicated courier service during supply interruptions	Quarterly meter reading if the customer is blind or partially sighted
Proactive communications during water supply issues or flooding, providing reassurance, help and guidance	Relocate meters to more accessible locations if the customer may find it difficult to access the meter
Nominee scheme if our customers have difficulty in communicating so a friend or family member can manage their account on their behalf	Knock and wait protocol when visiting customer homes who may have limited mobility so they do not have to rush
Choice of preferred mode of contact	Proactive bill and tariff review
Password scheme when visiting customers' homes to help protect them against bogus callers	Text Generation Text service to help people with hearing loss to access our call centre
Finance advice and guidance	Key language leaflets
Braille, Large print or Audio leaflets and bills	Translation service

We are mindful that operational incidents also affect customers resident in business properties, such as care homes and hospitals. We have established robust operational processes to support these customers during an operational event or incident. All sensitive customers are flagged on our systems to enable us to easily identify those affected by a no water supply or water quality issue. Each sensitive customer is also segmented into one of the following tiered levels of support:-

- High dependency / vulnerable residential population including where re-location is highly problematic. E.g. Hospitals and Prisons. These customers are considered for dedicated tankered water provision
- Vulnerable residential population e.g. residential care homes (elderly, infirm, hospices). These customers are considered for a dedicated tankered supply or dedicated static tank or bottled water
- Non-residential but unacceptable societal impact e.g. educational establishments, NHS walk in centres, Day-care facilities. These customers are considered for a dedicated static tank or bottled water provision
- Agriculture / economic hardship, where re-location is difficult and no access to environmental water is available. Considered for a dedicated static tank (non-potable water options are also considered) during an extended event

This operational approach was tested during the recent Freeze-Thaw Extreme Weather event earlier in 2018 and proved to be effective in quickly identifying at risk customers, and prioritising our operational responses accordingly. We have received excellent feedback from customers on the quality of our vulnerability support services. In a recent survey of all customers registered for Priority Services 95% said they are satisfied with the service they have received, and that services are easy to access<sup>69</sup>. As reported on business plan table App4 – Customer metrics, line 20, we plan to maintain this excellent level of customer satisfaction with the service we offer.



**One customer was motivated to write in after speaking to one of our Priority Services advisors:**

“I have been through breast cancer... and had to have chemotherapy and radiotherapy last year, throughout my journey my water rates bill was very high I was extremely stressed... Debbie has gone above and beyond her role, she has been an absolute angel by reassuring me regarding my bill and sorting an affordable payment plan. I have the utmost respect for her and I feel that this must be recognised.”

<sup>69</sup> Business plan data table App4



“Well done UU, we are Priority Service registered customers due to our son’s disabilities. There was a local fault yesterday evening and we were notified by text, email and later a courtesy call. We also had an emergency supply of water delivered for which we are grateful. Really pleased with the extra mile you went, all without us contacting you once! Many thanks keep up the good work everyone!”

### 3.7.2 Striving for continual improvements

We have made great strides in improving Priority Service support, but there is more to do.

For example we have considered the distribution of Priority Services registrations across the areas that we serve. It is clear that levels of engagement in some areas are higher than in other areas, reflecting both demographic differences as well as differences in local attitudes to such services. We recognise that when designing the initial Priority Services offering we did not have a full understanding of which of the range of support services we offered customers would value most.

As set out in section 3.5 one way we can substantially boost Priority Service registration is to put in place data sharing arrangements with energy providers and other utilities<sup>70</sup>. Following the North West Affordability Summit in January 2018 we have also identified a number of ways in which we can improve the quality and accessibility of the services we offer, including establishing a North West Community Advice Hub, as detailed in S2001, section 3.3.1.

We are also extending some of our Priority Services offerings to our wider customer base to enable co-delivery of support. In June 2017 we began notifying all customers with contact details about disruptions to supply or other service events. These updates allow customers to make more informed decisions and keep them aware of what help is available and how to access it. We believe that taking this wider community approach will help customers self-identify if they need more support and will allow people to help more vulnerable people within their community, potentially in a swifter and more effective way than the assistance we can offer. As stated in business plan table App4 – Customer metrics, line 12 we anticipate that these efforts will result in levels of customer awareness of vulnerability assistance increasing by nearly 50% by 2025.

As part of our operational resilience plans we hold records on business properties which may have vulnerable customer’s resident, such as hospitals, care homes and prisons. During service disruptions we will prioritise engagement with these sensitive customer groups, prioritising support if necessary. In future we can do more to consider how Priority Services offers may be extended further to residents in such properties, whilst recognising the important role of business retailers.

We utilise a range of data sources to enhance our ability to identify customers in vulnerable situations, including:

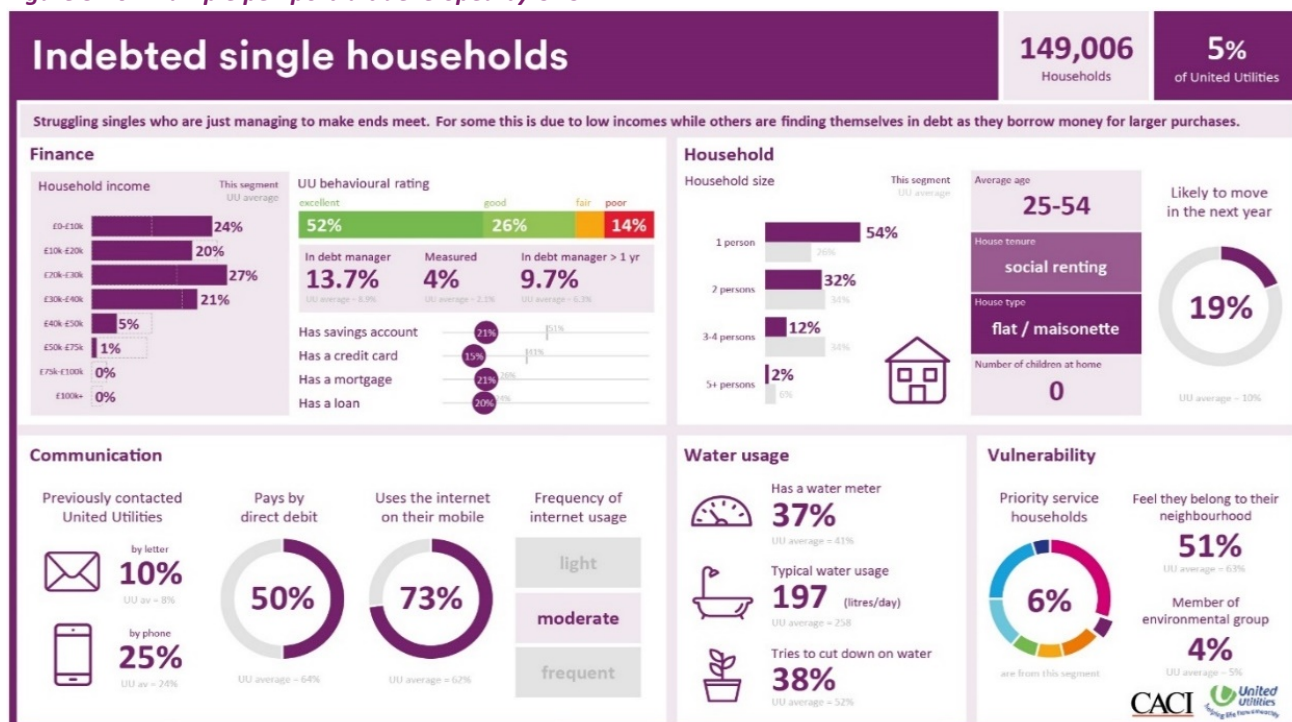
- Socio-demographic data, including CACI’s ACORN consumer classification data
- Credit Reference Agency data sets, including full Insight data sharing arrangements via Equifax
- Internally captured data
- ONS/national data sets on vulnerable customers

We have undertaken a large-scale segmentation analysis with CACI, matching ACORN information to internal United Utilities data sets. Using this matched dataset we have created a set of key customer segments that we have the ability to match to each household within our region. This is an enhancement on previous segmentation models employed at United Utilities, which were typically based at the postcode level and not individual customer level.

For each segment we have created a pen portrait – this provides an overview of the segment’s key attributes and behavioural preferences. A key element of the segmentation model is the provision of a score that relates to the propensity of the customer to be on a Priority Service Register with another supplier, as a result the segmentation analysis gives an indication by individual customer categorisation of a likelihood towards vulnerability. This has enhanced our ability to identify and reach out to customers in vulnerable circumstances.

<sup>70</sup> In all cases sharing of personal data is subject to compliance with GDPR.

Figure 3.10: Example pen portrait developed by CACI



One early example of this work is the changes we've made to our bills that now include specific messages targeting those customers that are most likely to benefit from registering for Priority Services. This form of highly targeted promotion will become increasingly important as we aim to achieve substantially higher registration rates in AMP7.

### 3.7.3 Committing to an improving level of support

We are using insight from customer research to help us further develop the Priority Services offerings in a way that is of most value to customers. We have found that customers place great value on the support we provide<sup>71</sup>. Over the next AMP we are committed to expanding the quality and reach of our priority services scheme. We plan to continue to strengthen working with external organisations, and to do more to share best practice across the water sector and beyond. In AMP7 we will:

- Continue to produce annual affordability and vulnerability reports, with oversight by YourVoice
- Ensure that we check in with all customers registered for Priority Services at least once every 2 years to check that the support we are offering is still appropriate
- Working with Ofwat and companies to standardise performance reporting, revealing benchmarks for good service across the industry, including awareness metrics, and helping to demonstrate that vulnerability support provides good value for money
- Enhance scheme promotion, making greater use of customer research and data analytics to help us promote Priority Service awareness and registrations
- Continue the roll-out of sharing information on Priority Services registrations between water and energy, building on the trial with Electricity North West
- Test levels of satisfaction with the Priority Services offer on an annual basis to reveal registered customers' views

We plan to use our enhanced customer segmentation analysis to provide our front line call-centre agents with the data to be able to promote the service to customers on a more proactive basis. In addition, this data will be used to run a series of campaigns to actively promote the Priority Service Register. We expect this engagement will help identify customers in need of additional support and extend the reach of our Priority Services offerings.

<sup>71</sup> S3004 – Customer research triangulation

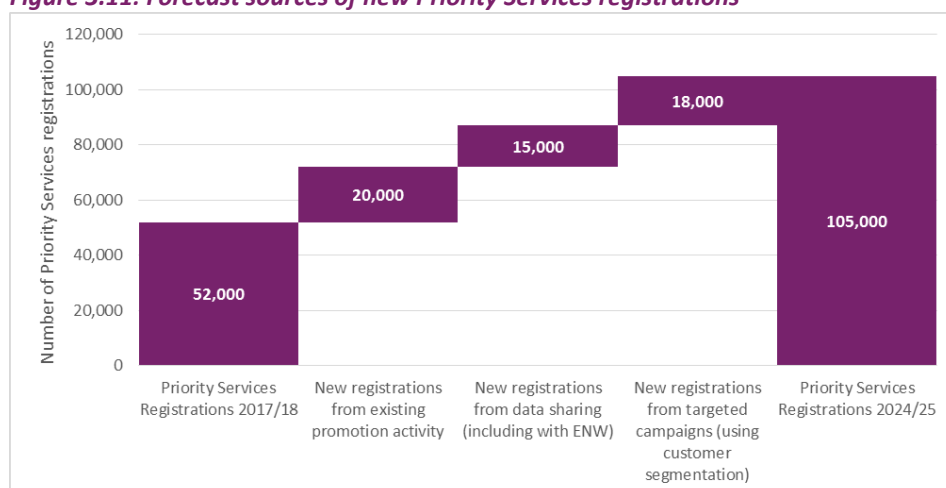
We have consulted with customers and both the United Utilities CCG ‘YourVoice’ and the Independent Affordability and Vulnerability Panel (see section 3.5) on the impacts of our plans for customers in vulnerable circumstances, including the associated performance commitment and ODI. Their views have helped inform our proposals, and have directly led to a number of changes to our future plans. For example feedback from customers on the importance of Priority Services has led us to increase target performance levels for the “Priority Services for customers in vulnerable circumstances” ODI.

### 3.7.4 Supporting customers in vulnerable circumstances performance commitment

Feedback from customer engagement tells us that customers in vulnerable circumstances place great weight on the quality and scope of the Priority Services offerings. In recognition of this we are proposing a Performance Commitment and ODI to incentivise active identification and registration of those customers in need of support, whilst ensuring that the quality of our Priority Services offering is protected by requiring that we achieve British Standard ‘Inclusive service provision’ certification.

This measure incentivises us to provide support to over 100,000 customers in vulnerable circumstances by 2025, with financial penalties for failing to reach this target. It is a stretching performance commitment, pushing up both United Utilities registration rates and setting a new industry frontier for Priority Services registration rates. Target registration rates are reported on business plan table App4 – Customer metrics, lines 13 and 14. Following engagement with YourVoice the incentive rate has been set at a stretching level, ensuring we are incentivised to deliver a cost efficient service, so providing value for money for wider customers.

**Figure 3.11: Forecast sources of new Priority Services registrations**



We will actively promote our support for vulnerable customers to ensure we have a minimum number of customers registered for our Priority Services offering each year. We will also provide assurance that the quality of vulnerable customer support is of a leading standard by achieving and maintaining certification under BS18477 ‘Inclusive service provision. Requirements for identifying and responding to consumer vulnerability’<sup>72</sup>.

In addition we recognise that the support water companies provide for customers in vulnerable circumstances is an issue that rightly attracts particular attention from a wide range of stakeholders. In developing this ODI with the United Utilities CCG ‘YourVoice’ we have agreed that any net rewards<sup>73</sup> that United Utilities may receive from this ODI will be reinvested in providing support to customers in vulnerable circumstances.

A fuller description of this Performance Commitment and ODI can be found in chapter 5, section 5.7.4.

<sup>72</sup> Bsi, <https://shop.bsigroup.com/ProductDetail/?pid=000000000030213909>

<sup>73</sup> For the purposes of this commitment net rewards are assessed as ODI annual reward less marginal cost of serving additional Priority Service registered customers