

Introduction and summary

We welcome the CCW consultation on affordability. The water industry has made substantial progress in recent years in helping customers who struggle to pay. This has been assisted by other stakeholders, including CCW. The annual CCW Affordability and Vulnerability report has contributed to improvement by sharing best practice.

We now consider that it is time to move to a more standardised national approach to financial support. A national approach would:

- Agree a common definition of eligibility that can be used across the country in WOCs and WASC's
- Deliver the amount to be funded to support customers in each region based on the agreed eligibility criteria
- Enable the 3rd sector third sector to universally support and promote our schemes as well as ensuring support across boundary customers as support would be universal.
- Test customer support for financial assistance at a national not a regional level

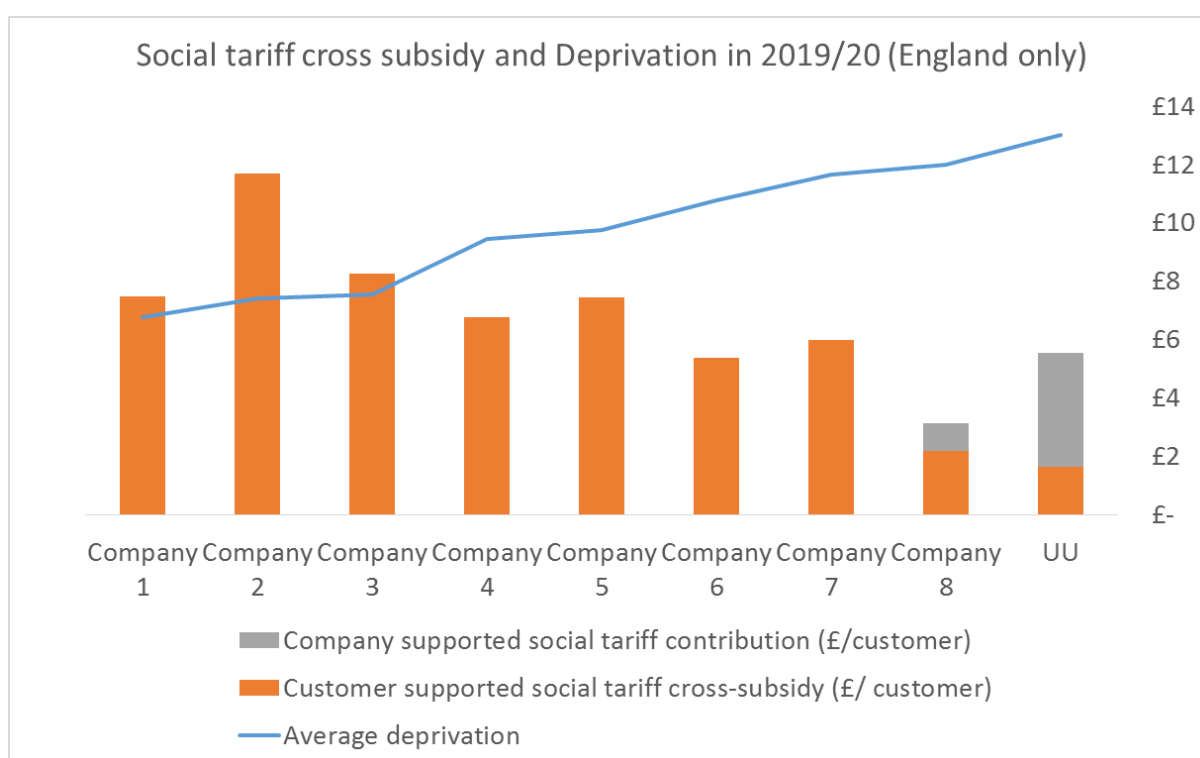
There would still be scope for local differences in approach to helping financially vulnerable customers, but within an overall national framework. The reasons why this change would be appropriate now are that:

- The current limitations on the extent of support mean that the number of customers for whom financial support can be made available may be restricted, even if they meet eligibility criteria. In our view this should not be subject to rationing. The current framework creates anomalies between customers in different companies' areas. In transitioning to a national approach, it would not be appropriate to seek support from customers at a regional level.
- The economic impact of Covid-19 has strengthened the need for financial support. Although we hope that this economic impact will diminish over time, there are likely to be some continuing structural change in the economy which will adversely affect some customers and lead to them struggling to pay water bills.
- A national framework would contribute to the water industry commitment to "make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty".¹
- Diverse approaches by companies have contributed to establishing what is most effective. Experience of a wide range of different actions over recent years will enable best practice to be identified for development of a national framework.

¹ Public Interest Commitment, Water UK, April 2019

- There is a need for a common approach to eligibility for basic levels of support to be provided across the sector. This would help with transparency and fairness

The existing framework has resulted in a diverse range of social tariff customer cross subsidies being obtained by companies, and it is clear that the level of social tariff support tends to fall as the level of deprivation increases.



- Currently only three companies are directly funding support to customers to provide additional support for customers in need. UU is one of these companies and will make a substantial contribution of £71m in this AMP period.
- We consider that helping the financially vulnerable is a national policy issue which needs a national approach, rather than help to customers varying with where they live. In our response we provide evidence to show that the current approach drives a “postcode lottery” and is unsustainable.

In this response we have set out how we a national approach could be implemented. We have also described our approach to engaging with customers and assisting them if they are struggling to pay. The economic circumstances of the North-West mean that more support is required than in some other parts of the country. We believe that our approach is innovative and provides examples of best practice, both in

terms of helping customers to avoid getting into payment difficulties and providing financial assistance to make bills more affordable.

Response to questions raised by CCW

1. What works well in terms of the current arrangements for supporting households that struggle to pay their water bills?

An effective approach to supporting customers who are struggling to pay needs to be a package approach, including:

- Understanding the characteristics of customers.
- Engagement with local stakeholders.
- Making it easier for customers to keep up with bill payments.
- Increasing awareness of available assistance.
- Ensuring that customers are paying bills which are as affordable as possible, including keeping the general levels of bills down and encouraging metering where appropriate.
- Providing financial assistance where necessary, including social tariffs.
- Evaluating the effectiveness of different methods of support.

Water companies have increased their efforts to ensure that they meet the needs of financially vulnerable households. The need is particularly great in the United Utilities area because of the particularly high level of deprivation in England in our region. 59% of the most deprived neighbourhoods are in our region, despite United Utilities only serving 14% of households in England².

UU has made a number of financial contributions in the past and continues to do so in this current AMP period. In 19/20, UU was only one of three companies who provided direct support customers in this way. We are providing a minimum £71m of direct support to customers through our WaterShare scheme.

Efforts to improve the extent to which struggling customers' needs are met should encourage widespread adoption of best practice, as well as changing the framework for financial support. We have developed an extensive package of measures which we believe is effective in assisting financially vulnerable customers. Where possible we quantify their impact to assess effectiveness. These measures are set out below.

² Source: United Utilities analysis of Indices of Multiple Deprivation 2019 <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019>

(a) Understanding the characteristics of our customers

We have undertaken a large-scale segmentation analysis to understand the characteristics of our customers. Working with customer data and marketing experts CACI we created a set of eight key customer segments, with further sub-segments focussed on customers in most need of support. We can match each household in the region to these segments, and have included this segmentation within our billing system, enabling easy use of the information. These segments are shown in the diagram below.



For each segment we have created a customer “pen portrait”. This shows the key attributes and behavioural preferences of each group for considering affordability and vulnerability support, and helps us to understand propensity to engage in other key digital retail offerings. The analysis enables us to undertake targeted campaigns and behavioural trials to improve the customer experience and reduce bad debt and cost to serve.

(b) Engagement with our stakeholders and forming local partnerships

A central part of our strategy to provide support to customers is to work with other community and social groups. 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 which we could not implement on our own.

In April 2017 we formed our Independent Affordability and Vulnerability Panel which 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, and from a wide range of local stakeholders.

Since 2018 we have held annual affordability summits to bring together stakeholders from across the region to discuss how more support can be provided. This has included topics such as:

- Changing the perception and dispelling the myths about water meters.

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- How to proactively approach and help customers before they fall into debt.
- How to educate our most deprived communities on budgeting and money management issues.
- Creating a one-stop-shop to bring financial assistance schemes and information from across the public and private sector to help the money advice community quickly and easily pinpoint the right support for the people who come to them for help. This innovative project, entirely funded by UU, was a first for the sector and has delivered a comprehensive regional recourse to help the money advice sector in the North West find help for the clients who face affordability challenges.
- How organisations can do more to support young people manage their money and avoid falling into debt.

(c) Making it easier for customers to keep up with bill payments

We have a package of measures to make it easier for customers to pay their bills, including:

- Flexible payment patterns – We offer a range of payment plan options, including any day weekly, fortnightly, 10 monthly, 12 monthly, and four weekly payments. For many customers this makes it easier to manage household finances. Just over 70% of customers are paying by Direct Debit.
- Supporting a wide range of payment channels – 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.
- Proactively engaging with customers with high bills – 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.

(d) Increasing awareness of available assistance

We have dedicated outreach workers to raise customer awareness of the support available. We launched in 2016 our multi-award-winning Town Action Planning initiative, which targets some of our most vulnerable customers, giving support when they need it most. Trained staff visit customers' homes to help assess their entitlement to our assistance schemes. We use 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. We make around 40,000 dedicated affordability visits per year.

A Hardship Hub website has been created to support those organisations throughout the North West who provide expert advice to individuals struggling with debt. Money Advisors and other 3rd sector employees

or volunteers can use the website to find schemes and support initiatives to help their clients. The website contains information on the financial support schemes offered by suppliers across a wide range of sectors including gas, electricity, water, telecoms, housing associations councils and local charities.

We have a friends and family helpline to offer advice to people who are concerned that someone they know is struggling to pay their bill. It serves as an additional way to promote support schemes to people who may not otherwise contact the company for help.

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. 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 target new payment support propositions for those customers most likely to benefit from them, and so prevent many customers from falling into arrears.

(e) Ensuring that customers are paying bills which are as affordable as possible

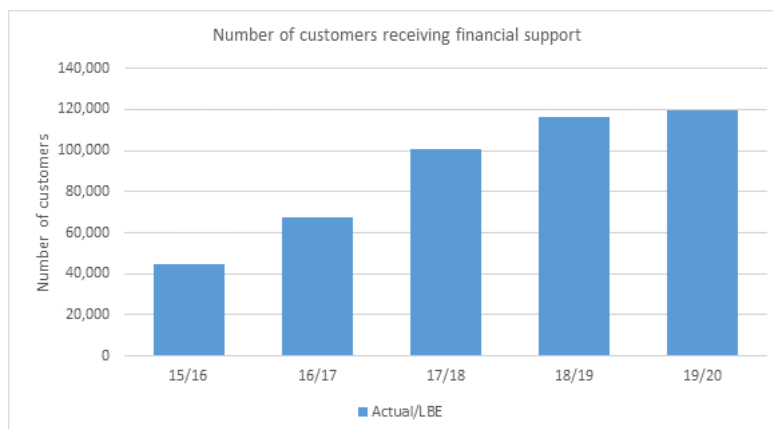
We aim to keep the overall level of bills down to reduce problems of affordability. We achieve this by ensuring that we are operating efficiently and taking into account the impact on bills before proposing service or environmental improvements. From 2019-20 to 2024-25 our average bill for household customers will fall by 14% in real terms, compared with a national average of 12%.

For some customers who are struggling to pay, a switch to metered billing will reduce their bills. We offer a lowest bill guarantee, aimed at customers who would be likely to benefit if they moved onto metered charges but who may need more confidence about the impact on their bills before they commit. The guarantee promises to customers that, if they elect to take up a free meter, we will monitor their charges, and will charge them the lesser of their new measured charge or their old unmeasured charge. The scheme has been developed in response to customer research which indicated that one of the biggest barriers to customers switching to metering is the fear of larger future charges. Analysis of our customer base enables us to target promotion of this at those most likely to benefit.

We are also increasing our efforts to promote efficient use of water. For customers struggling to pay who have a meter, this contributes to making bills more affordable.

(f) Providing financial assistance

The problems faced by customers who are struggling to pay are varied and there needs to be a range of measures available to help. The number of customers supported has been steadily increasing, as shown in the graph on the right:



We have an extensive package of assistance for customers in financial difficulty. Our package includes:

- The United Utilities Trust Fund: managed by independent trustees, this fund provides grants for those customers who are in severe financial hardship, allowing them to get back on an even footing. The initiative is funded partly by us, and partly by contributions from customers through their water bills. Our evidence shows that 70% of customers helped through the Trust Fund continue to pay their bills 12 months later.
- Payment Matching scheme: an opportunity for our customers to clear their water bill debts more quickly. For every £1 that a customer contributes to their debt, we also put in £1. After twelve months, we match every £1 paid with a £2 contribution, if the customer continues to make regular payments.
- Back on Track tariff: a means-tested social tariff with customers allocated to one of six charging bands depending on their individual circumstances.
- WaterSure: the national financial support scheme designed for customers with water meters who receive benefits and have a large family, or have a member of the household with a medical condition that requires the use of large amounts of water.
- Help to Pay: customers receiving Pension Credit and struggling with their payments can apply to have their bills capped at an affordable amount based on their income and outgoings.
- Payment Break: customers who are struggling with their water bill payments due to losing their job or having to pay for an unexpected household emergency can apply to delay their bill payments for an agreed period. This is particularly important given the economic impact of Covid-19, with many customers facing reduced incomes. The Resolution Foundation found that 1 in 10 workers thought their household would not be able to make ends meet if

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its main income source ran out for a week; around 1 in 4 said they would struggle after a month³.

- Universal Credit support: we can delay water bill payments for up to eight weeks for those customers who are waiting for their first Universal Credit payment to arrive.
- Local Authority Discount tariff: we have several collection agreements in place with local authorities and housing associations in the region. For tenants who pay their bills via this method, we provide a £10 reduction in their annual bills to reflect the lower administration costs of these arrangements.

(g) Assessing evidence on the benefits gained from alternative approaches to helping customers struggling to pay

In order to ensure that our programme of measures is effective, we evaluate the benefits gained from our approach. This has included assessment of our Trust Fund and of our Outcome Delivery Incentive to lift customers out of water poverty through social tariffs.

Economic consultants Ecorys carried out a study for us to measure the impact of the United Utilities Trust Fund⁴. The study concluded that the Trust Fund has an extremely positive net social impact, with a ratio of benefits to costs of 3.04. Benefits included outcomes for employment, housing, relationships and, in particular, health.

Economic consultancy Hatch carried out a study to estimate the value to be delivered from our Outcome Delivery Incentive to lifting customers out of water poverty. This estimated a benefit of £10.3 million will be delivered across AMP7, based on the valuation of wellbeing arising from being “debt free”. This included benefits such as improved mental health and ability to pay for housing.

2. In what ways could the approach to supporting financially vulnerable households in the water sector be improved?

The provisions of the Digital Economy Act 2017 will help companies to target support. The Act allows the sharing of information between water and sewerage companies and other organisations to help company’s better target their support schemes to support those living in water poverty. Customers should be able to get help with their bills more quickly. Data sharing arrangements with the Department for Work and Pensions to provide information on benefit recipients were delayed by Covid-19, so there are still further improvements to be gained from this new provision.

³ Rainy days - An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020

⁴ A Social Return on Investment (SROI) study to measure the impact of the United Utilities Trust Fund, Ecorys, June 2017

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There is also potential for improvement through working more closely with other organisations. The joint working between energy and water companies on priority services illustrates what can be achieved. This joint arrangement ensures that more customers get the right help from their utility providers when they need it. Any customer who finds themselves in a vulnerable situation can choose to register once to get help, rather than having to give details multiple times to different utility companies. A change to standard national criteria for social tariffs, as proposed below, would increase the scope for joint working.

Continued learning from experience and sharing good practice will lead to some further improvements in supporting financially vulnerable households. However, we feel that now is the right time to make a step change in the approach to supporting customers.

We consider that there should be a national framework for making social tariffs available. We set out below that:

- The current arrangements create anomalies between companies in terms of level of support. They constrain the amount of support which can be given, particularly in the parts of the country where the need is greatest (see response to Question 3).
- The need for support is increasing, particularly as because of the outlook for the economy (see response to Question 4).
- A framework with standard eligibility and levels of support needs to be developed (see response to Question 5).

3. Are there gaps or limitations in the current arrangements, if so what? Which households in need of support are currently missing out on it. What evidence can you provide in relation to this? How could it be addressed?

The extent of support which can be provided is constrained by the level of funding, which is limited by the extent to which the general customer base in a company's area is willing to provide support to those who are struggling to pay.

The results which companies have obtained on willingness to pay reflect:

- Differences in the general prosperity of companies' customers – this can mean that companies with a large number of customers struggling to pay are least able to provide support, because customers in the area do not feel they can afford a significant addition to their bills.
- Differences in how companies and local CCW regional offices have asked customers about willingness to pay, e.g. in terms of questions asked or information or context provided. Research on willingness to pay is a valuable input into decisions on water company services.

However, it is clear that there are variations between company research results which are not solely due to real differences in customer preferences.

The requirement to obtain customer support creates difficulties if research results vary over time. One company with a high level of support through social tariffs implemented this on the basis of customer research carried out for the 2014 price review. This showed that 75% of customers would support an addition of up to £15 on their bill to finance social tariffs. Research for the 2019 price review showed a much lower figure, with a majority of customers only supporting up to £6 on bills (similar to the level of customer support in the United Utilities area, with support for around £5 being added to bills to fund social tariffs).

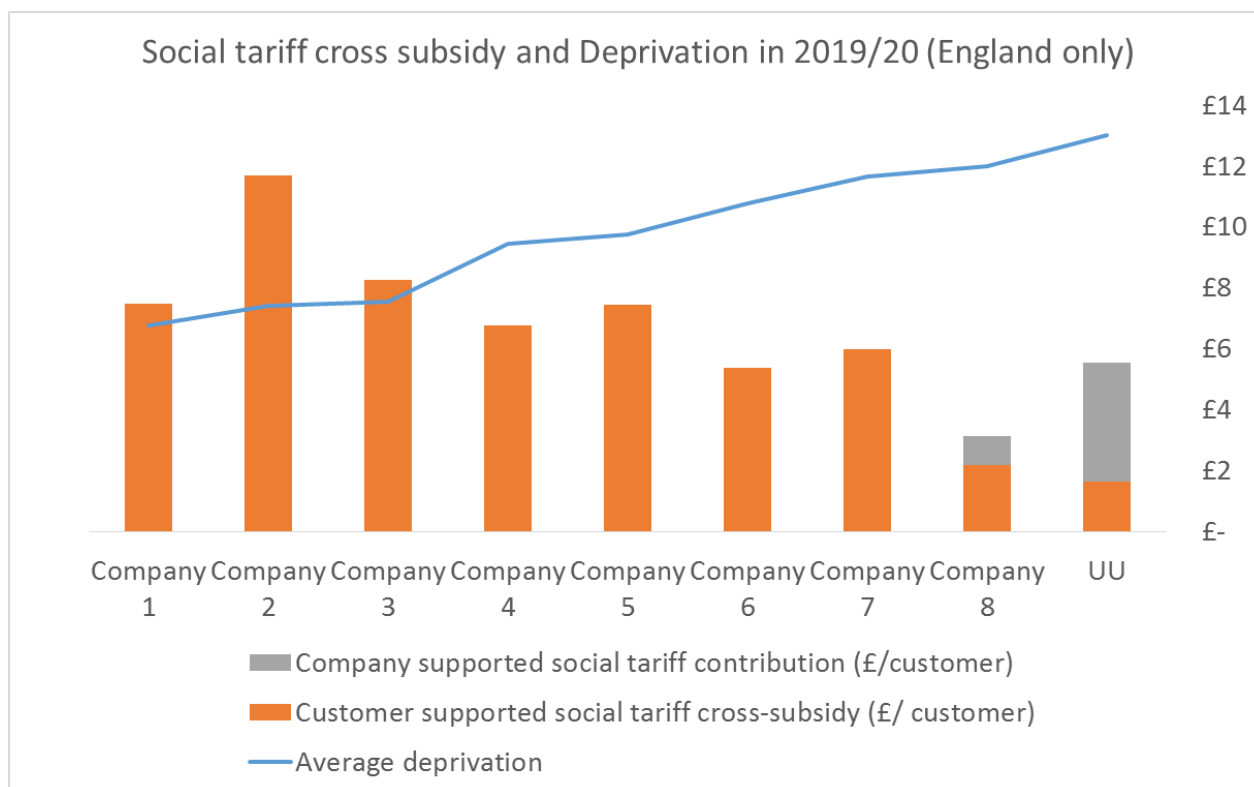
Clearly, a scaling down of support, following more recent research, would create problems and the company has not done this. It does, however, lead to an anomaly, with one company having much higher social tariff support available than is available in the United Utilities area, despite similar results from recent customer research.

The graph below shows how the number of customers helped by social tariffs varies considerably between companies, with the number in the highest company being eighteen times that in the lowest. In addition, there is no clear relationship between levels of income and deprivation in companies and the number of people helped.



Source: CCW Water Affordability and Vulnerability Report 2019-20

For those companies for which we had data, we have compared levels of social tariff support with the level of deprivation. As the graph below shows, the level of social tariff support tends to fall as the level of deprivation increases.



Work by economic consultants CEPA for Water UK to assess levels of water poverty for a sample of four companies⁵ found large variations between companies in the level of water poverty. In considering a sample of four companies, CEPA found levels of water poverty could range from 12.7% to 22.2% (based on water bills exceeding 3% of income), a 75% difference between companies. This strong regional difference in water poverty levels is maintained if a 5% of income threshold is used.

The current situation is, therefore, that:

- There are large variations in water poverty between companies.
- The constraints on social tariff support means that the level of support tends to be lower where the need, in terms of deprivation and water poverty, is greater.

The extent of variation between companies in the number of customers benefiting means that some customers needing support must be missing out on support from social tariffs. This may be because of variations between companies in eligibility criteria or differences in the extent of promotion of the scheme. Differences in eligibility criteria create a “postcode lottery”, where one customer may be eligible for social tariffs but another customer nearby served by a different company is not eligible.

⁵ Measuring Water Poverty using a bills to income metric, CEPA for Water UK, June 2020

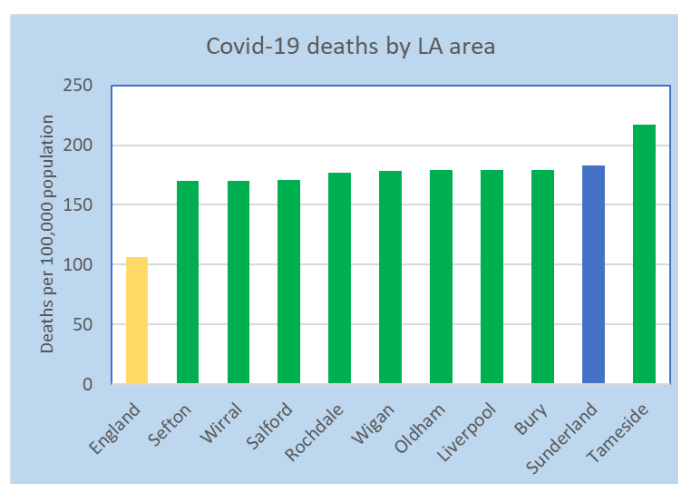
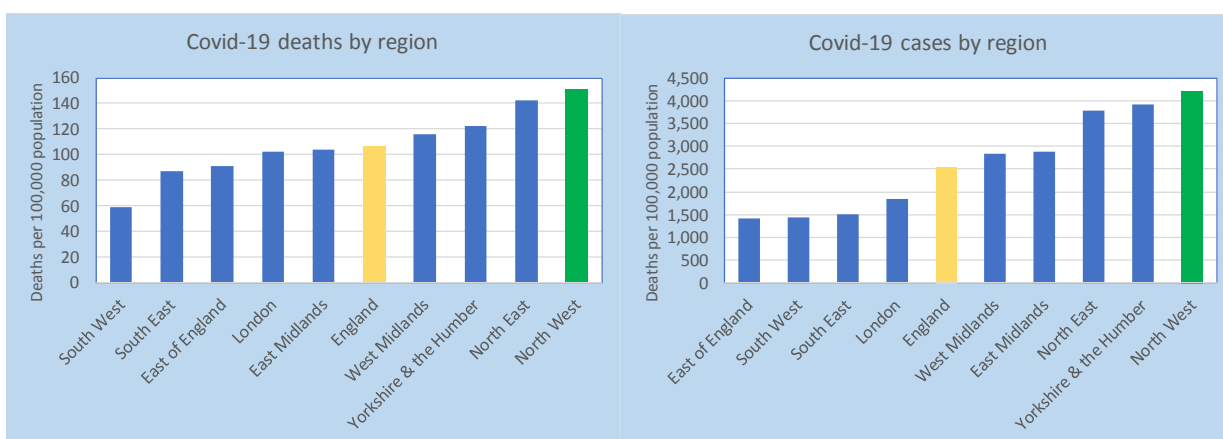
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4. Are current arrangements sustainable and capable of meeting likely future needs in terms of supporting financially vulnerable households? If not, how should this be addressed?

There is likely to be a growth in the number of people who are needing support. The Chancellor of the Exchequer said in the Government Spending Review in November that the economic emergency caused by Covid-19 has only just begun, and that there would be lasting damage to growth and jobs. Unemployment is predicted to rise by one million to 2.6 million by the middle of 2021.

The areas hardest hit by Covid-19 are those with the highest level of deprivation, so the economic impact is likely to worsen deprivation. The graphs below show the number of cases and deaths by region, with the North West being most affected. Within regions, the North West has nine of the ten most affected local authority areas.

Deaths and cases since the start of the Covid-19 outbreak



The graph shows the ten local authority areas worst affected

Areas in the North West region shown in green

Source: coronavirus.data.gov.uk

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Without changing the current arrangements, we are likely to see the extent of water poverty increase rather than decrease. This will go against the Water UK commitment to make bills affordable for households with water bills more than 5% of their disposable income.

The government, in its guidance to Ofwat, said that: “Ofwat should challenge companies to improve the availability, quality, promotion and uptake of support to low income and other vulnerable household customers”⁶. However, current constraints on social tariffs may prevent this increase in support from being achieved.

We have, therefore, set out in our response to Question 5 the changes which we think are needed to meet future needs for supporting vulnerable households.

5. Are the current arrangements for funding social tariffs fit for purpose? If not, how should they change?

As we have set out in the response to Questions 2 to 4, we consider that there needs to be a change to the approach to funding social tariffs in order to ensure that the needs of customers who are struggling to pay can be met. There should be a national approach to funding is appropriate for a social policy issue of this nature. Policies designed to make services affordable for a particular group are often determined at a national level, as applies, for example, to:

- Free bus travel.
- Free prescriptions for the elderly, and with certain medical conditions.
- The Warm Homes Discount, discussed in more detail in the response to Question 7.

There is a strong case for financial support being funded from national taxation, but we recognise that constraints on public spending mean that this may not be possible.

As part of the national approach, there needs to be a consistent definition of water poverty, so that there is a shared understanding of the scale of the challenge. This has been explored in a recent UKWIR project on water poverty⁷. It recommended water bills exceeding a defined percentage of disposable income as the appropriate high-level measure for quantifying water poverty.

The need for a national approach to some aspects of charging for water has already been recognised, including:

- The national funding of a bill reduction for customers of South West Water.
- The implementation of the WaterSure scheme on a national basis.

⁶ The government’s strategic priorities and objectives for Ofwat, Defra, September 2017

⁷ Defining water poverty and evaluating existing information and approaches to reduce water poverty, UKWIR, 2020

The approach to the new Innovation Fund provides a precedent for a fund created by contributions from companies, with funds collected by companies from customers' bills, and then distributed according to a national framework.

We propose that the national approach be based on:

- A national fund, financed by a standard contribution from customers across the country.
- Removal of the requirement for each company to test acceptability with its customers.
- Standard eligibility criteria for customers to benefit from social tariffs.
- A standard average amount per customer benefitting from the tariff.
- Distribution of the fund according to the number of customers in each company benefitting from the social tariff.

A national scheme would still give some flexibility to respond to local circumstances, as:

- There would be scope for companies to offer varying levels of assistance to different customers, while staying within the overall average level of assistance set nationally.
- Companies would still have flexibility in their offers of financial assistance other than social tariffs within their range of support – section (f) of our response to question 2 showed that we have an extensive range of help available.

The above framework, and the details of its implementation, could be determined through stakeholders working together. This could be done through a UK Water Industry Research project, with companies, Ofwat, CCW, Defra and other stakeholders involved in supporting struggling customers represented on the steering group.

6. How could the sector's approach to promoting and delivering support (rather than the mechanisms they use) be improved. How could households' awareness of assistance options be raised, including hard to reach households? How could the process for households to apply for financial support schemes be improved to make access easier?

We have set out in our response to Question 2 how we approach to increasing awareness, which includes:

- Our Town Action Planning initiative, which targets some of our most vulnerable customers, giving support when they need it most. Trained staff visit customers' homes to help assess their entitlement to our assistance schemes.
- A Hardship Hub website, which customers can use to find a qualified not-for-profit advisor who will be able to help. The website contains information on the financial support schemes offered by suppliers across a wide range of sectors.

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- A friends and family helpline to offer advice to people who are concerned that someone they know is struggling to pay their bill.

Promotion of social tariffs would be made easier if the national framework, proposed in our response to Question 5, were to be adopted. This would make national campaigns to increase take-up more effective.

7. Are there any particular lessons from other fields or sectors, which may be transferable, that the water sector should take account of in shaping its future approach?

As pointed out in our response to Question 5, the energy sector's Warm Home Discount scheme provides an example of how a national framework for social tariffs could be implemented. This has standard eligibility criteria, based on customers receiving the Guarantee Credit element of Pension Credit, being on a low income, or receiving certain means-tested benefits. Eligible customers can receive a standard reduction in their winter electricity bill. The scheme also provides for some other assistance to be provided as part of the scheme, such as benefit checks, debt assistance, and energy efficiency advice. This flexibility allows companies to be innovative in developing their approaches to supporting customers.

Around 2.2 million customers benefited from rebates in 2018-19⁸, compared with 0.7 million customers benefiting from social tariffs in 2019-20⁹. This is attributable at least in part to it being a standard scheme which can be promoted on a national basis by government and by organisations which help those struggling to pay.

The approach to funding of the scheme ensures that:

- Scheme costs are shared equitably between the participating energy suppliers.
- No supplier is disadvantaged as a result of having a higher than expected number of consumers eligible for the rebate.

A national approach would remove anomalies between companies and makes promotion of social tariffs more effective.

⁸ Warm Home Discount 2018-19, Ofgem, 2019

⁹ Water for All – Water Affordability and Vulnerability Report 2019-20, CCW, 2020