

Report by Affordability and Vulnerability Panel – PR19

Introduction

The Affordability and Vulnerability Panel is one of four expert advisory panels reporting to Anglian Water's Customer Engagement Forum (CEF).

The Independent Advisory Panels act as subcommittees for the CEF. The Chair of each panel is a member of the CEF to represent the panel members in discussions and to keep their panel updated and fully involved in wider discussions. Each panel is independent of Anglian Water.

The Affordability and Vulnerability Panel (A&V Panel) was formed following a stakeholder forum held at the Kingsgate Conference Centre in Peterborough on 17 May 2017, which brought together third sector organisations from across the region.

The creation of a panel of independent experts reflects the importance placed on the twin issues of vulnerability and affordability by Ofwat in the 2019 Price Review and beyond. Ofwat's PR19 methodology highlights the affordability of bills as one of the four key themes and explicitly includes vulnerability for the first time.

The A&V Panel has acted as a 'critical friend' to Anglian Water as it has developed and broadened its emerging strategies for affordability and vulnerability, at the same time as developing proposals for their 25-year Strategic Direction Statement (SDS) and PR19 Business Plan.

The A&V Panel is chaired, in his personal capacity, by **Martin Lord**, who has a background working in the not for profit advice sector and currently works for the Electoral Commission.

Gill Holmes of **CCWater**, who is a member of the main CEF Panel and of Anglian Water's Customer Engagement Steering Group (CESG), also sits on the A&V Panel and has played a key role in the Panel's independent challenge to Anglian Water's customer engagement relating to affordability and vulnerability. She has also been able to attend two focus groups with vulnerable customers convened by Anglian Water as part of the company's PR19 customer engagement process, as well as several workshops for vulnerable customers.¹

Jeff Halliwell, who chairs the CEF, has been a regular attendee and active contributor to the A&V Panel meetings.

¹ Since January 2017, Gill Holmes has attended the following focus groups and workshops on behalf of the Customer Engagement Forum and A&V Panel: Jan 17 – Customer World Focus Group; Feb 17 – Vulnerable Customer Workshop; March 17 – Resilience Co-creation customer workshop; May 17 – Customer Segmentation Workshop; May 17 – Customer World Workshop; May 17 – Vulnerable Customer Workshop; July 17 – WTP Customer Hall Testing; August 17 – Water Resource Valuation Customer Focus Group; April 18 – Customer Focus Group – Low Income Families.

The Panel includes representatives from other key stakeholders in the voluntary sector and local authorities across the Anglian Water region including:

- Groundwork East
- CCWater
- Chelmsford Centre Supporting Voluntary Action
- Essex CVS Network
- Hunts and Cambridgeshire Forum of Voluntary Organisations
- Peterborough Dementia Action Alliance
- Business in the Community, Great Yarmouth
- Voluntary Action North East Lincoln

The Panel held five meetings in 2017 and 2018 (31 October 2017, 23 February 2018, 16 April 2018, 25 May 2018 and 12 July 2018 and one additional phone call on Thursday, 9 August). Full minutes are available on Anglian Water's website [here](#). Panel members were given detailed updates by colleagues from Anglian Water on the company's plans relating to affordability and vulnerability as they developed; members were also able to meet in private to discuss their views. A detailed list of challenges and company responses is discussed below and further in Annex I and Ia.

This current report represents a summary of the views of A&V Panel members on these issues during Anglian Water's 2019 planning period. The report is designed to be included as an Appendix to the main CEF report, which will be submitted when Anglian Water submits its 2020-2025 Business Plan to Ofwat. The report will also inform the main CEF report's views on customer engagement relating to affordability and vulnerability during the 2019 price review.

2. Terms of Reference for the Affordability and Vulnerability Panel

Background

1.1 At PR19, Ofwat is asking all companies to:

- deliver bills that are affordable for all, now and in the future; and
- propose performance commitments for addressing the vulnerability of customers.

Ofwat expects companies to engage with customers and their Customer Challenge Groups on these issues.

1.2 **Affordability** is about the level of the bill proposed by the company and the effectiveness of the practices in dealing with debt, including providing any financial assistance to customers who are finding it difficult to afford to pay their bill, e.g. through any social tariff.

Vulnerability is about the service provided to customers who are in vulnerable circumstances at any one time. It includes arrangements for any priority service registers which enable the company to identify specific needs customers have and then meet those needs when appropriate.

1.3 In the PR19 methodology consultation, Ofwat has said that they expect companies to find better ways to identify and support customers who are, or at risk of, struggling to pay their bills; to provide value for money and challenge themselves to be more efficient, including providing scope for price reductions, if this is what customers want. One aspect of efficiency is the cost of debt recovery and debt write off and the opportunities for companies to reduce those costs. Ofwat is also asking companies, for the first time, to propose a performance commitment relating to vulnerable customers.

1.4 There is a quantity of background/briefing on both these issues, particularly parts of the Ofwat PR19 methodology consultation paper, comparative information that can be provided on debt recovery costs, CCWater's Delving into Water reports and the Ofwat 2016 'Vulnerability Focus' report. Members of the Panel will be given a compendium summary of these materials as background.

Panel's Working Brief

2.1 The Affordability and Vulnerability Panel is being established to scrutinise and challenge the company for its proposals on the affordability of bills for all customers and delivering services to customers who are vulnerable, including the performance commitment proposed.

2.2 The Panel is expected to review and challenge the following issues:

- a) Anglian Water's current approaches to affordability and vulnerability, including the effectiveness of debt recovery and the deployment of the LITE scheme (social tariff);
- b) Customer and stakeholder feedback and views on the current approach;
- c) Anglian Water's proposed approach to affordability and vulnerability for its PR19 Business Plan, including the proposed performance commitment on vulnerability;
- d) Customer and stakeholder engagement that has been undertaken is proposed on affordability and vulnerability for the PR19 Business Plan.

2.3 In addition to scrutinising and challenging the company's present policies and actions and future plans in these areas, the Panel is asked to give its opinion on matters set out in the Customer Engagement Forum's Terms of Reference, as follows:

- a) Whether the company has a genuine understanding based on robust evidence of its customers' priorities, needs and requirements in relation to the issues of affordability and vulnerability?
- b) Whether customer insight and engagement, including with stakeholders, on these areas has been appropriate and informed the company's proposals in these areas?
- c) Whether there is evidence of ongoing, two way and transparent customer engagement on these areas?
- d) Whether the company's customer engagement about these issues has been sufficiently diverse, using methods appropriate and effective to engage with a diverse range of customers?
- e) Whether the company has engaged customers effectively and appropriately on any relevant future/long term issue relating to affordability and vulnerability?
- f) Whether the company has effectively informed and engaged customers about its current performance in these areas, and how that compares with other companies?

2.5 It is open to Panel members to provide any other opinions/views on the overall effectiveness of the company's proposed approach to addressing affordability and vulnerability, drawing on members' knowledge and skills.

3. Summary of the Panel's views

- The Affordability and Vulnerability Panel has been presented with evidence of a broad range of customer engagement activities and is confident that customer insight on these areas has been appropriate and informed the company's proposals. There is strong evidence of ongoing, two way and transparent customer engagement on these areas and that the company has used diverse, effective and appropriate methods to engage with a range of customers across the Anglian Water region and in Hartlepool too (see Annex 11 of the Customer Engagement Forum Report: *Report from Hartlepool Independent Advisory Panel* for more details on this). This includes reaching out to customers in vulnerable circumstances and those who are hard to reach. The Panel believes Anglian Water's PR19 Business Plan's focus mirrors those messages that are most consistently heard from customers.
- Based on this evidence, the Panel believes that Anglian Water has a genuine understanding based on robust evidence of its customers' priorities, needs and requirements in relation to the issues of affordability and vulnerability.
- There is strong evidence of customer engagement around headline **affordability** of bills. The Panel is satisfied that Anglian Water can demonstrate strong customer support for its proposed bill increase of 1% over AMP7. This support has been forthcoming at a time when the sector as a whole has come under considerable public criticism, and against a background expectation from Ofwat that bills across England should fall. Through this customer engagement, it emerged that more than 80% of customers were happy with accepting at least some bill increase in order to address the serious water supply resilience challenges in the region and the large programme of work needed to meet the company's environmental obligations. This strong level of customer support was reinforced by customer engagement carried out through Anglian Water's online community in August 2018, which found that the proposed increase was a **reasonable and fairly modest increase** compared to some other utility bills, and it will render great benefits that well exceed the small investment expected from customers.²
- Panel members are also pleased to see that Anglian Water has acknowledged the customer engagement showing that a small minority of customers struggled to pay their bills and that the remaining 20% or so of customers were unwilling to accept a bill increase. The company has responded by delivering a step change in support for those who struggle to pay their bills in AMP7.
- Panel members also welcomed the decrease in bill profile of 4.7% for Anglian Water customers in Hartlepool, recognising the fact that Hartlepool Water serves an area of severe deprivation compared to the national and regional averages.

² *Consultation on New Bill Outline* carried out by Incling, dated 13 August 2018 (please note: this is not referenced in version 14 of the Anglian Water Customer Research and Engagement Synthesis (Annex 12c), which was finalised before 13 August).

- The Panel has been broadly satisfied with the level of customer engagement carried out around **affordability**. However, some members expressed reservations around the plans and mechanisms referred to in the Business Plan in responding to those who find themselves in difficulty paying their bills. These reservations relate to a desire to understand and evaluate some proposed activities in more detail.
- The Panel is satisfied there has been widespread and extensive engagement on **vulnerability** and that this has helped to shape the company's vulnerability strategy and Business Plan for PR19.
- The Panel commends the wide range of initiatives responding to **vulnerability** although the Panel was not yet persuaded that the company's activities were currently as targeted, efficient or effective as they could be in this regard. They looked forward to seeing more detailed plans in this regard.
- There was also strong evidence of good approaches to using customer data and working with third parties, including other utilities, to better identify, and target support when addressing vulnerability.
- The Panel supports, and is assured that there is widespread customer support for, a twin **Bespoke Performance Commitment** on vulnerability (one quantitative and one qualitative measure). There is also customer support for a financial ODI associated with these measures.
- The Panel concludes, however, that customer engagement has been inconclusive regarding support for the company's proposed reward-only incentive mechanism. Following the Panel's challenge on this at their July meeting, Anglian Water carried out further customer engagement on this issue through the online community, which also remained inconclusive. As a result, the company agreed to redraft the narrative in their Business Plan to reflect this challenge and to explain that, in the absence of a clear indication from customers, they have drawn on best practice from the energy sector in their proposal to use a reward mechanism for the vulnerability ODI. Any outperformance payments received will be invested to support customers in vulnerable circumstances. The Panel is content with the company's redrafted narrative (see section on Performance incentives below and Annex III of this report for further details).
- There is a high degree of confidence in the deliverability of significantly more **Priority Service Registrations**, and customers support this approach. The Panel has been pleased to see the development of a stretching and meaningful Performance Commitment in this respect. The company has discussed how they plan to benchmark themselves against others – both inside and outside the water industry – to achieve excellence and become industry leading in this area.
- The Panel believes the company has engaged customers effectively and appropriately on relevant future/long term issues relating to affordability and vulnerability. They have engaged customers on anticipated long-term bill profiles (i.e. to

2025 and potential bill levels to 2029/30 – including inflation and impact of performance commitments). They have also engaged extensively with customers about the balance to be struck between current and future customers paying for investment.

4. Vulnerability

Vulnerability: The Panel looked at how Anglian Water planned to support customers who are in circumstances that make them vulnerable, based on the challenges set out in Ofwat’s 2016 Vulnerability Focus report.

The Panel considered to what extent the company had identified and provided accessible support for customers in circumstances that make them vulnerable, and scrutinised the company’s plans for a bespoke performance commitment related to vulnerability, as outlined below.

i. The quality of the company’s customer engagement on vulnerability

The Panel felt there had been widespread and extensive engagement on vulnerability that has formed part of a process that has improved Anglian Water’s understanding of and responses to vulnerability.

The Panel has been provided with robust evidence that customers in vulnerable circumstances have been consulted, in order to understand their challenges, and was reassured that the company has enthusiastically adopted a range of measures and initiatives in response to those needs in the PR19 Business Plan.

Panel members felt that the company had engaged very effectively with a range of customers from different backgrounds and geographies, including customers in vulnerable circumstances and those who were hard to reach such as those for whom English is a second language (see Annex II: *Summary of Anglian Water’s Customer Engagement on Vulnerability* below).

The Panel was confident that Anglian Water had worked really hard to understand the specific needs of vulnerable customers across the region to help feed into both their 25-year Strategic Direction Statement (SDS)³ and Business Plan for 2020-2025.

The Panel was pleased to see that providing tailored, more appropriate services and a better experience for people in circumstances that may make them vulnerable was a key ambition in developing both the SDS and PR19 Business Plan.

Understanding vulnerability

In order to really understand the issues facing their customers across the region, Anglian Water held co-creation workshops with 70 customers and 200 colleagues over several months in 2016 to inform their 25-year Strategic Direction Statement (SDS). They engaged with customers whose circumstances may make them vulnerable, carrying out 40 ethnographic surveys with customers with a wide range of potential vulnerabilities. This led to the development of Anglian Water’s Vulnerability Strategy.

³ See Anglian Water PR19 Business Plan Annex 1a: *Strategic Direction Statement 2020-2045*; also available on Anglian Water website: <https://www.anglianwater.co.uk/about-us/thinking-about-our-future/strategic-direction.aspx>

The company continued research in this area with a series of focus groups with customers in circumstances that may make them vulnerable in April 2018, as part of their customer consultation on the outline business plan.

After carrying out 40 in-depth interviews, in customers' homes, a number of key findings emerged. A critical insight was that there are many different types of vulnerability, and many different responses to those circumstances.

On behalf of Anglian Water, the market research agency Accent identified five potential groups:

- "desperate and drowning" (with chaotic lives, poor support networks, and not likely to contact Anglian Water for help);
- "living to the max" (with vulnerabilities largely under control, good networks, who are financially solid and proactive in asking for help);
- "surviving" (who tend to have more transient vulnerabilities, a history of financial difficulties that are now under control and good support networks);
- "super struggling" (who tend to be empty nesters that are financially struggling and facing multiple challenges); and
- "managing well enough" (who tend to be older, with limited financial concerns, and facing single rather than multiple challenges).

Anglian Water recognised that, within these segments, customers may have a need for support for any single or multiple vulnerabilities, including but not limited to financial problems, language barriers, medical needs, physical disabilities and digital disengagement.

Panel members were pleased to see that Anglian Water had recognised the sometimes transitory nature of vulnerability and this was factored into their overarching vulnerability strategy planning.

Findings from the customer research showed that life feels busy and tough for many customers in the Anglian Water region. Many customers were very concerned about their household finances and communities felt divided. However, customers were willing to pay for improvements in services if they were judged to be value for money and deliver pertinent improvements (see **Affordability** below).

The Panel felt that Anglian Water colleagues had understood the severity of the challenges customers face, and how their support networks, financial literacy and confidence, and emotional responses all shape their experiences of vulnerability.

In addition to customer engagement mentioned in the summary below, Panel members were also impressed that Anglian Water had created several innovative new channels to engage with customers on a regular and ongoing basis:

- An **online community** of 500 customers that was initially set up as a trial in May 2017, and is now a permanent engagement channel with on average one activity/topic per week with the community. (A&V Panel members and also colleagues in the Hartlepool Independent Advisory Panel (HIAP) expressed concerns that relying on the views of an online community might potentially exclude customers who were already digitally excluded. However, Anglian Water

colleagues were clear that this was one channel among many different platforms for gathering customers' views.)

- A new role of **Community Ambassador** was created, as part of the initial strategy development and in direct response to the demand from Anglian Water staff to be more involved in customer engagement. The company now has 50 colleagues trained to talk to community groups across the Anglian Water region (with eight in Hartlepool). These ambassadors gather feedback from participants through Clickapad voting button technology. This was an idea that was particularly strongly supported by customers in the Hartlepool focus groups, who felt that the ambassadors could share information with local community groups, who could then cascade this information further. (However, there are currently no customers from Hartlepool in the online community, an issue that was flagged by Hartlepool panel members – see Annex 11 of Customer Engagement Forum Report: *Report by Hartlepool Independent Advisory Panel Report* for more detail on this).
- A **Customer Board**, comprising 7 customers, first met in January 2018 and will meet four times a year, to consider and feed back on strategic issues, making sure that customer views are taken into account on an on-going basis.

The Panel was also pleased to note that customer engagement was ongoing and highly responsive through initiatives such as the online community. For example, following challenges from Panel members regarding the incentive mechanisms proposed for the Bespoke Performance Measure on Vulnerability at the Panel's meeting on 12 July 2018, Anglian Water colleagues initiated a two-week consultation with 80 customers exploring affordability and increasing support for vulnerable customers via the online community. The resulting report was shared with members of the Customer Engagement Forum after their meeting on 31 July 2018. It showed that most customers would support a small increase in vulnerability support, as long as it is relatively small, targeted and is helping to reach the right people.⁴

Panel members also commended Anglian Water for their commitment to educating staff about the issues facing customers with dementia. Colleagues were invited to become dementia friends following an awareness session provided by a dementia champion.

⁴ Incling report *Exploring affordability & vulnerability support increase* dated 6 July 2018, referenced on p18 of Anglian Water Customer Engagement & Research Synthesis (Anglian Water PR19 Business Plan Annex 12c: *Anglian Water Customer Engagement & Research Synthesis*).

ii. Evidence that the company's approach to vulnerability is targeted, efficient and effective

Anglian Water colleagues outlined a range of approaches to supporting customers in vulnerable circumstances through the company's Vulnerability Strategy, including using Office of National Statistics information and customer data to better understand their customer base.

However, the sheer range of initiatives responding to vulnerability, many of which were still "pilot" in nature, made it difficult for Panel members to be persuaded that the company's activities were as targeted, efficient and effective as possible in this regard, although that is not to say these initiatives are not to be commended.

Bespoke Performance Commitment on Vulnerability

The Panel supports – and was pleased to see that there was widespread customer support for – a twin Bespoke Performance Commitment on Vulnerability (one qualitative and one quantitative).

Anglian Water proposes to report on their performance supporting vulnerable customers through two ODIs. The first is a quantitative measure of extending customers on the Priority Services Register to 382,000 by 2025 and the second a qualitative approach using an independent panel assessment of performance against the company's vulnerability strategy (see Anglian Water PR19 Business Plan, Section 13.34 for more details).

In the Acceptability research on Anglian Water's performance commitments and outcome delivery incentives (ODIs), of Anglian Water's bespoke performance commitments, household customers placed high importance on the commitment on vulnerable customers (67% said it was of high importance to them, ranked second after external sewer flooding on 73%). Non-household customers' ratings followed a similar pattern, with vulnerable customers again ranked second (on 70%), after external sewer flooding (ranked of high importance by 85%).

Whilst there was some detail missing regarding how such an initiative would operate at the time of writing, the Panel felt that it might provide a framework in which performance in respect to vulnerability could be independently measured and assured. This is especially important given the company has committed to a "step change" in its approach on vulnerability.

Qualitative measure

Seventy percent of (the 50) participants who took part in online community activities on vulnerability supported the proposed idea of an independent board to promote the needs and interests of customers in vulnerable circumstances. This was thought to position Anglian Water in a positive light as a company that is taking vulnerability seriously.

Use of an independent board was thought to minimise the risk of other company agendas interfering with commitments to these customers, and to bring fresh perspectives to bear that will enhance standards. However, some online community participants emphasised that it was important for the company to speak directly to the customers they were trying to support, rather than to expensive consultants. They also wanted to know more about the experts who might be involved, were keen to have reassurance that this would not just be a “tick box” exercise, and stressed that performance metrics should support a focus on what is most important. This was a view that was shared by A&V Panel members.

The idea of having an independent board of experts to champion the needs and interests of customers in vulnerable circumstances was also explored in four of the (seven) focus groups conducted as part of the second Community Research study. This found a more mixed reaction to the idea. Some customers welcomed a degree of external challenge to the company, including by charities. However, echoing findings from the online community, others were more sceptical. They questioned who would sit on the panel, and whether they would be truly independent.

These were challenges that were also raised by the A&V Panel, who were keen to receive assurance that the recruitment process would ensure sufficient expertise, capability and independence.

Quantitative measure

In the second Community Research study, participants in four of (the seven) focus groups were asked for their views about how Anglian Water should measure performance against its commitments for customers in vulnerable circumstances. In principle, there was muted support for a measure on the number of people on the Priority Services Register (PSR), as proposed under Anglian Water’s quantitative ODI on vulnerability.

Some participants felt it was positive that Anglian Water was aiming to increase the number of people on its PSR from 13,500 to 100,000+ from 2020-25 (representing 15% of the total customer base). However, with such a large increase in numbers, some questioned how the company would ensure that only those who are really in need would benefit from support. Some A&V Panel members were also sceptical about setting targets in this area preferring to see the right people supported rather than focusing solely on increasing numbers.

Reflecting findings from other customer research, some research participants questioned whether they would be paying more through their bills to support so many additional people, and whether it was really Anglian Water’s job (rather than, for example, social services) to help those who are struggling. In the consultation on Anglian Water’s draft PR19 plan, participants from the online community questioned the setting of a target based on what they regarded as an arbitrary number of customers on the PSR, rather than just aiming to identify those customers who may need support. Plans to increase

the number of people on the register tenfold in five years also led some participants to question why these people had not been identified as vulnerable before.

Performance incentives

Whilst there was clear support for the twin Bespoke Performance Commitment on Vulnerability from customers, and evidence that customers support the principle behind this performance commitment, the Panel concluded that there was inconclusive support from customers for any ODI mechanism.

The Panel challenged the company to carry out further customer engagement around this issue at their meeting in July. In response, the company asked members of their online community about their preferred approach (reward-only, penalty-only, reward and penalty or reputational). The results of this engagement suggested no clear preference on the nature of the financial ODI (with no more than 36% of customers supporting any single option).

As a result of this engagement, the company revised the narrative of the Business Plan to reflect the challenge. They are proposing that both performance commitments for vulnerability will have an outperformance-only ODI on the basis of: a) best practice, from a similar incentive mechanism demonstrating improved performance by companies in the energy sector, and b) commitment to ring fence and reinvest any outperformance payment in further improving support for customers in vulnerable circumstances.

While the Panel was not totally convinced by some of the company's arguments in respect to sharing of best practice, they were pleased to see that the company had taken on board their challenge and reflected this in the final Business Plan (see Annex III of this report for full narrative on this incentive mechanism).

iii. Evidence that there will be an improvement in accessibility and support to customers in circumstances that make them vulnerable

The Panel was pleased to note that most customers in vulnerable circumstances reported positive experiences of dealing with Anglian Water. However, one of the main concerns highlighted by customers in general was a lack of awareness around services available for customers in vulnerable circumstances.

The latest figures from the CCWater *Water Matters* research from 2017/18, for example, found that 46% of Anglian Water customers were aware of additional services (up from 45% in the previous survey). Research among Hartlepool customers indicated that 48% of customers were aware of additional services for vulnerable customers in 2016/17.

Anglian Water's Synthesis Report (see Annex 12c of Anglian Water PR19 Business Plan: *Customer Research & Engagement Synthesis*) found that, in all of the customer engagement research that explored issues of vulnerability, raising awareness of additional support was a clear theme.

The Panel agreed that effective communication of support available for vulnerable customers was crucial. They were pleased to see that the company was developing several targeted initiatives as part of their Vulnerability Strategy to help improve accessibility and support for vulnerable customers in future, including:

- BSI Certification
- Crystal Mark Award for Plain English
- New bill formats
- Bills accessible in different languages
- New website/ My Account AA accessibility standard
- Roll out of Sign Language Live and translation applications to field based staff

iv. Evidence of good approaches to using customer data and working with third parties, including other utilities, to better identify, and target support when addressing vulnerability.

There was strong support from customers for Anglian Water working in partnership with other agencies to identify customers with additional needs and provide support to them. This was a view that Panel members strongly concurred with and they were pleased to see Anglian Water's proposals to address this area, including a commitment to work with voluntary agencies and other utility companies.

In terms of using customer data, there was some concern expressed among customers regarding the sharing of personal information between organisations. However, other customers were keen to piggy back on existing services to raise awareness of additional support available to more vulnerable customers.

The Panel felt there was strong evidence from the company of a willingness to share data (through PSR registration), to work with third parties and to use commercially available data to identify and work better with vulnerable customers.

The Panel also received strong assurance that the number of customers on the PSR would increase significantly – due to the company's own efforts, and joint working with other utility companies. This would provide some assurance that an overall increase in levels and incidence of support to individuals in vulnerable circumstances would be likely to increase (see Annex I of this report, question 5 for more detail on the company's plans in this regard).

However, the Panel remained unconvinced that a commitment to engage more robustly with the third sector, housing associations and other intermediaries had been properly planned or costed, as a vehicle by which the hardest to reach can be supported. They were concerned that the company may have underestimated the difficulties many reported in engaging with the sector. Panel members also cautioned against an

overreliance on using automated methods of identifying vulnerable customers. They cautioned that the reality was often more complicated.

5. Affordability

Affordability: Incentivising companies to develop business plans that address:

- **overall affordability, providing value for money;**
- **affordability in the long term; and**
- **affordability for those struggling, or at risk of struggling, to pay**

i. Good engagement with customers on affordability

The Panel was impressed by Anglian Water's customer engagement on affordability. The Panel was presented with evidence of a broad range of customer engagement activities and was confident that the Business Plan's focus mirrors those messages that were most consistently heard from customers across all/most engagement pieces, i.e. an understanding of financial distress as requiring proactivity, and that financial difficulties/poverty can be both ingrained and hard to address/reach.

One of the key findings from Anglian Water's preliminary customer world research was that life feels tough for customers at the moment. Many customers were very concerned about money and 54.7% of customers in segmentation research said they budgeted carefully for the month.

However, most customers felt their water bills were value for money, affordable and fair. Results from the Community Perception Survey for 2017/18 found that 48% of household customers agreed with the statement that "*Anglian Water is a company that provides a service that is value for money.*"

The latest set of figures from CCWater *Water Matters* research (2016/17) showed that 73% of Anglian Water customers were satisfied with the value for money of their water services. 2017/18 research by CCWater showed that 81% of Anglian Water customers agreed that bills were affordable (first in the country) and 79% of Hartlepool Water customers said the same.

Segmentation research revealed that 76% of customers rarely or never experience difficulty paying their water bill, although this figure tended to fluctuate according to customer segment.

ii. Customer support for the affordability of the plan

There was strong evidence of customer support for the affordability of the Business Plan even in the light of a proposed upward bill profile. In Acceptability research carried out by the market research agency Accent, customers were asked how affordable they would find a bill increase of £21 of the next five years. 81% of customers said this level of bill increase was affordable.

The Panel was persuaded that the change to bills was driven by the significant investment underpinning the company's Water Resource Management plan (WRMP) and particularly the statutory investment programme under the Water Industry National Environment Programme (WINEP). This proposed level of bill change of 2.5% was supported by around 80% of customers during Anglian Water's extensive customer engagement around the Business Plan. The Panel was therefore confident that Anglian Water customers would also support the proposed 1% bill increase proposed in the Business Plan submitted to Ofwat for PR19. This strong level of customer support was reinforced by community engagement carried out through Anglian Water's online community in August 2018, which found that the proposed increase was a **reasonable and fairly modest increase** compared to some other utility bills, and it will render great benefits that well exceed the small investment expected from customers.⁵

The Panel noted that around 20% or so of Anglian Water's customers were concerned about affordability and did not support increases in bills. However, the Panel was pleased to see that the company, in its Business Plan, has pledged to proactively offer support to all customers with affordability issues with the aim of providing this support to over 500,000 customers by 2025.

iii. The effectiveness and accessibility of the company's support for those struggling, or at risk of struggling, to pay

The Panel was impressed by the company's proposed Affordability Strategy, which included a commitment to extend the extra care team by 29%, to train existing staff to help signpost customers to additional support and benefit maximisation, and to make it easier for customers to pay their bills through an increased range of digital channels. The roll out of smart meters was also welcomed by Panel members as a means to help customers manage their bills and monitor their water consumption.

The Panel has been broadly satisfied with the level of customer engagement carried out around affordability and has confidence in those other pieces of engagement activities carried out in determining the level of cross-subsidy for the Lite Tariff and other initiatives.

Anglian Water colleagues outlined a range of approaches to supporting customers in vulnerable circumstances, including working with partners such as the Utilities Network, Financial Inclusion Partnerships and local authorities to help identify customers in vulnerable circumstances and using data through credit reference agencies such as Experian to better understand their customer base.

However, whilst superficially responsive to the priorities of customers, from a professional standpoint, Panel members were not wholly convinced as to the plans and

⁵ *Consultation on New Bill Outline* carried out by Incling, dated 13 August 2018 (please note: this is not referenced in version 14 of the Anglian Water Customer Research and Engagement Synthesis (Annex 12c), which was finalised before 13 August).

mechanisms referred to in the Business Plan in responding to those who find themselves in difficulty paying their bills.

For example, initial indications were that the Lite Tariff and other affordability measures were deployed primarily through identification of customers identified as in financial distress (minutes 31 October 2017). The Panel expressed concerns regarding the effectiveness of targeting based not just on the design of schemes, but the extent to which the company is proactive and reaches out. Customer engagement had indicated time and again this was a priority for customers. However, Anglian Water's presentation provided at the May 2018 Panel meeting on the use of "skills-based routing" – enabling the referral to special teams and functions through the overlay of Experian data – was an interesting development in terms of effectiveness that would need to be reported and monitored.

The Panel was pleased to see that the company is redoubling efforts to maximise the support available to customers – whether through help with budgeting, support through benefit maximisation, or driving down bad debt through the exploration of behavioural economics. For example, the company's benefit maximisation approach, run in partnership with the Citizens Advice Bureau, has helped customers to claim an average £2,600 increase in benefits where they have an unclaimed entitlement, more than an average household's total water bills across an entire AMP.

As mentioned above, the company's commitment to engage more robustly with third sector, housing associations and other intermediaries, as a vehicle by which the hardest to reach can be supported was also welcomed. However, Panel members – a number of whom work in the third sector – remained concerned that the company's plans might underplay the difficulties many reported in engaging with the sector and therefore might not fully realise the potential this work could release.

Moreover, other eye-catching initiatives – such as benefit maximisation, possibly through business as usual processes within the company (as opposed to referral to specialists) – carried some risk of gathering customer support while not achieving the good aspired to in addressing customer experiences.

Conclusions

In summary, Panel members commended Anglian Water for the breadth and depth of their engagement with a range of customers, including those in vulnerable circumstances and those who are hard to reach. The Panel was impressed by the company's efforts to understand the needs and requirements of customers.

In particular, there was confidence that the company has a good record of responding to the needs of people in financial difficulties. The Panel was impressed to see a considerable step change in the company's future plans to support customers who find themselves in vulnerable circumstances.

In respect to such customers and in respect to those who are otherwise vulnerable, the Panel has confidence that its future plans, although dependent on the quality and effectiveness of expert panel oversight, as detailed in the Bespoke Performance Commitment on Vulnerability, will continue in this vein with some confidence also of continuing development and improvement in this area.

The Panel was also impressed by the company's response to their challenge around the incentive mechanism proposed for the Performance Commitment and their willingness to respond to this challenge by carrying out further customer engagement on this issue. Panel members were pleased that Anglian Water had highlighted the fact that customer engagement remained inconclusive on this issue in the final narrative of their Business Plan.

In terms of affordability, the Panel was satisfied that Anglian Water can demonstrate strong customer support for their proposed bill increase of 1% over AMP7. This support has been forthcoming at a time when the sector as a whole has come under considerable public criticism, and against a background expectation from Ofwat that bills across England should fall. However, the majority of Anglian Water customers supported a higher level of bill increase than this (2.5%) in order to invest now to continue to tackle leakage, to enable sustainable growth, to increase resilience to drought and flood, and to enhance the natural environment.

August 2018

Annex I: Challenge Log

We have received some questions and comments from the Affordability and Vulnerability Panel, both through sight of a draft report and through discussion at the CEF meeting on **5 June 2018**. This note sets out Anglian Water’s response to those challenges.

We have carried out extensive engagement with customers on our vulnerability strategy and we are pleased this is recognised by the panel. We do not underestimate the challenge of implementing our strategy, and in particular we recognise the need to build and maintain more partnerships with organisations in the third sector. We think this is the best way to ensure our vulnerability services are targeted to the right people, through channels they trust, in a way that will help them most. This will require us to invest time and resources in building those relationships and providing practical help and support to more organisations working in the third sector. We have built those resources into our business plan for PR19.

We intend to arrange a further meeting of the V&A panel during June or July, to allow further discussion on the detailed operation of the performance commitments, and scrutiny over the engagement that supports these commitments. We set out below our response to the challenges from the panel ahead of that meeting.

A&V panel comment	Anglian Response
<p>1. At the moment, the sheer range of initiatives responding to vulnerability, many of which are "pilot" in nature, make it difficult to be persuaded that the company's activities are targeted, efficient or effective in this regard, although that is not to say they are not to be commended</p>	<p>We are pleased the panel recognises the extensive and innovative range of initiatives we have developed in consultation with our customers. Our engagement has shown us that there are many different types of and responses to vulnerable circumstances, and support needs to be tailored, and targeted, as a result.</p> <p>We have moved beyond the pilot stage and into business as usual for a significant number of initiatives such as staff training, building partnerships and using data.</p> <p>We continue to push ourselves to find new ways of helping customers, for example using speech analytics, to ensure we are consistently providing the best and most effective support we can.</p> <p>We would welcome the opportunity to discuss with the panel in more detail our methodologies for ensuring our activities are targeted, efficient and effective.</p>
<p>2. The Panel supports and there is widespread customer</p>	<p>We are pleased the panel supports the bespoke</p>

A&V panel comment	Anglian Response
<p>support for, a Bespoke Performance Commitment on vulnerability. Whilst there is a considerable amount of detail missing into how such an initiative would operate, the subgroup felt that it might provide a framework in which performance in respect to vulnerability could be independently measured and assured.</p>	<p>commitment we are putting forward. The operation of the performance commitment has been developed and tested through a number of challenge processes within Anglian, and we hope to arrange an additional V&A panel meeting with sufficient time to take the group through the detail of how the qualitative performance incentive will operate, how we have set the targets, the benchmarking we have carried out, and the customer views we have gained.</p>
<p>3. The Panel, at time of writing, is not wholly convinced that a Delivery Incentive has been consulted on in such a way as to preclude customer support for Penalty for failure.</p>	<p>We are not proposing that there will be a penalty for failing to meet the targets set out for the vulnerability ODIs. We have committed to ring-fencing any rewards gained to be re-invested back into initiatives to support vulnerable customers.</p>
<p>4. The Panel remains unconvinced that a commitment to engage more robustly with third sector, housing associations and other intermediaries, as a vehicle by which the hardest to reach can be supported, has been properly planned or costed.</p>	<p>The extra resource requirements to increase our engagement with third parties and the number of partnerships have been identified as part of our business planning process for AMP7, and is included in our PR19 business plan. This includes plans for dedicated resource to support stakeholder and community engagement.</p>
<p>5. ...and may in their current form underestimate the difficulties many reported in engaging with the sector, and therefore might not fully realise the potential this work could release</p>	<p>We have recognised the challenges of ensuring effective engagement with third-parties. Building effective partnerships is a key part of our business plan and under our proposed performance commitment, partnerships and engagement with third parties will be explicitly tested on an on-going basis – therefore providing an incentive to continuously improve our engagement. The performance commitment will also provide regular challenge from an independent panel on our engagement.</p> <p>As we have previously set out, we have committed to reinvest any rewards we gain into vulnerability projects, some of which will be helping third-parties by providing resources to them.</p>

Annex Ia: Additional Challenges and Responses logged

Challenge during A&V Panel meeting, 25 May 2018:

The Panel wanted to see more customer engagement around financial incentives related to the Performance Commitment on Vulnerability.

Response from Anglian Water:

We carried out research across 602 participants to understand which service measures that customers felt should have a financial incentive. The research was conducted across a representative sample taking into account age, gender and socio-economic groupings. The results show support for vulnerable customers being the 3rd most important with a score of 7.4/10.

Panel question (email 10 July 2018):

Firstly, we are very much in favour of measures that support customers in vulnerable circumstances and of the quantitative and qualitative elements. We think that any reward (if there is to be reward) should be for very high levels of performance and we wonder if 'good' is good enough?

We also have some questions around the customer engagement relating to the financial incentive. It's not clear whether the question of outperformance incentive only was raised in the principle ICS survey or just in the follow up focus groups or whether it was made clear to customers that it was they who pay for the outperformance payment?

Response from Anglian Water (email 11 July 2018)

On the **performance commitment level** – in short, our initial thinking on setting the 'good' level was based in part on the observed performance of the best companies in the energy sector when this incentive was introduced, and in part to reflect that 'good' performance alone would not lead to a reward (i.e. 'good' is the committed level and rewards would only be achieved for going beyond this). By way of example, if we have a performance commitment level of 40/50, and we demonstrated 'good' performance across all 5 assessment criteria we would score 8/10 for each, giving a total score of 40. This being equal to the performance commitment level, we would not get a reward for this. To exceed this score and start earning a reward would require us to demonstrate 'excellence' in at least one of the five criteria (or in more than one criteria if we only achieve 'fair' or 'poor' performance in any other category).

On your specific questions relating to **ICS research**, in the earlier ICS surveys, customers were asked about the importance of having financial incentives against the performance commitment. This informed us that customers felt this was the third most important service measure to have a financial incentive against. This was followed up with the focus groups where customers were asked about the best *type* of financial incentive (i.e. penalty only, outperformance only, or both – see script on page 72). Further findings and quotes from customers involved in the focus group can be found from page 65 of the appendix.

The focus group and survey included an earlier discussion on the broader nature of PCs and ODIs and their impact on bills. Page 5 shows the background on ODIs and questions asked to customers about the financial impact of ODIs in the survey, and page 68 shows the focus group script relating to this.

Panel question (email 9 July 2018):

Please could you give more precise detail behind the assertion that: “We have engaged with customers on the proposed reward only incentive, with customers expressing that they would not want incentives in place which discourage sharing of best practice. Customers felt that there should be a neutral or positive impact from joining and sharing best practice and those companies shouldn’t be competing in the vulnerability sphere. Customers felt the package of reward only and ring fencing the reward was a positive one and would help to share and expand best practice.” What was the detail of this engagement please?

Response from Anglian Water (email 11 July 2018):

The appendix to the ICS report provides more detail on the engagement and the findings. In short, an initial survey was conducted with customers in which strong support was expressed for financial incentives. Follow-up engagement was done with focus groups where customers were asked about the specific type of incentive that should be applied to vulnerability (penalty/ reward/ both). What the report is trying to say is the customer felt that reward-only incentives would encourage the sharing of best practice and saw this as being preferable over competition. They liked the idea of ring fencing rewards.

Panel question (email 9 July 2018):

Please could you give more detail of the nature of “ringfencing” any reward. How is the possibility to be avoided that the ringfenced funds simply replace funds that would otherwise be invested in this area?

Response from Anglian Water (email 11 July 2018):

We are planning investment in vulnerability for the next AMP which is included in our business plan. Any reward would be in addition to this and we would make this clearly visible to the panel.

Panel question (email 10 July 2018):

Bill impact is clearly important – could you confirm that the maximum incentive is £5 per customer over the AMP?

Response from Anglian Water (email 11 July 2018):

On the **bill impact**: we have based our performance payments on there being a maximum bill impact of £1 per customer per year across both performance commitments so £5 per customer over the whole AMP is correct. It is worth noting that this bill impact would only result from us both a) far exceeding our PSR targets in every year of the

AMP, and b) being assessed by the Panel as demonstrating excellent performance across assessment criteria in every year of the AMP.

Panel question (email 9 July 2018):

Can you explain how Hartlepool would feature in the proposed panel please?

Response from Anglian Water (email 11 July 2018):

We have plans to integrate Hartlepool Water more into the core Anglian Water business activity moving forward. As such, this would result in any actions taking place in the AW region automatically being covered in Hartlepool. This applies to both the measures in our vulnerability strategy and the remit of the independent Panel.

Panel questions during Panel meeting, 25 May 2018:

The A&V Panel had questions about the process and robustness of the independent Panel proposed under the performance commitment on vulnerability. Would it be transparent enough? How would it be made up and chosen? How would it maintain independence? There were also questions raised about the remit and recruitment of the independent consultant and assessment criteria for the company's performance.

It is worth noting that Panel members were pleased to see Anglian Water had removed "expert" from the vulnerability panel wording as a result of previous feedback.

Response from Anglian Water:

A fuller explanation and description of the independent Panel was given during the 12 July 2018 Panel meeting. However, some questions still remained about recruitment and potential conflicts of interest.

Phone call on 9 August 2018

Challenge: Panel members questioned the company's argument that a penalty based incentive mechanism for the vulnerability ODI might provide perverse incentives for sharing information and best practice with other companies.

Response: The company explained that, if you have a financial penalty attached to this ODI and share best practice with other companies to raise the bar across the sector, you could put yourself at a disadvantage. By sharing information, you're potentially raising the standards of other companies, so this might disincentivise sharing of best practice. This was based on a discussion with colleagues at Ofgem in relation to vulnerability incentives.

The Panel concluded that Anglian Water is industry leading in this area and it was a shame if best practice couldn't be shared more widely to the advantage of customers in vulnerable circumstances.

Annex II: Summary of Anglian Water’s main customer engagement on vulnerability

Vulnerable Customers: Qualitative Research for Anglian Water, Accent, May 2017

The purpose of this research was to inform the definition of vulnerability and the language used to talk to customers about these issues. The research also sought to explore the different types of vulnerable customers within the Anglian Water customer base, their priorities, and any additional support they might want from the company. The research involved 20 in-depth interviews with customers in five different locations (four interviews in each, including in Hartlepool). Participants were recruited to reflect the existing definition of vulnerability in the Water Industry Act and covered customers: with literacy/language difficulties; with medical issues/high water needs; with physical disabilities; on low incomes; who are digitally disengaged; and those from older age groups. The interviews with customers in Hartlepool focused on customers who were digitally disengaged, on low incomes, of older age, and with physical disabilities.

Anglian Water: Customers in Vulnerable Circumstances, Research Report, Community Research, May 2017

This second study on vulnerability aimed to inform a definition of vulnerability that could underpin Anglian Water’s services and communication with customers, and explore these customers’ expectations and the barriers they experience in accessing services and support. It involved 20 depth interviews with customers experiencing a range of vulnerabilities that were judged to be temporary, sporadic and more permanent, including: low income/unemployment; mental and physical health problems; critical lifestage challenges/changes to family form; and literacy/language-related difficulties.

Vulnerability: Qual insight from the Love Every Drop customer community, incling, December 2017

This research involved a group of Anglian Water customers taking part in a dedicated discussion about vulnerability on Anglian Water’s online community, over the course of one week. These explored: customer perceptions of “vulnerability” and who can be affected; the types of support customers spontaneously identify as important (and how this fits with expectations of the role of the water company and of Government); and feedback on some of Anglian Water’s initiatives and plans in this area.

Anglian Water: PR19 Draft Business Plan Research with Customers in Vulnerable Circumstances, Community Research, May 2018

The objectives of this research were to understand attitudes to the following issues among customers in vulnerable circumstances: their current bill, options for investment over 2020-25; the outcome delivery incentive (ODI) for leakage; Anglian Water’s vulnerability strategy and feedback on proposed ways of measuring success in reaching and supporting customers in vulnerable circumstances. This involved seven focus groups and 53 customers including older people, younger women, low-income families, deaf and visually-impaired customers and people with English as a second language. A range of

approaches was used to ensure full participation, including interpreters and British Sign Language (BSL).

Please note: a full list of Anglian Water's Customer Engagement Channels and Questions can be found in Annex 12d of the company's Business Plan (Customer Engagement Channels and Questions).

Annex III: Vulnerability narrative extract from Anglian Water's Business Plan

The below is the extract from the vulnerability narrative in Anglian Water's business plan relating to the rationale for the proposed reward-only Outcome Delivery Incentive for vulnerability

Our customers have demonstrated strong support for the vulnerability performance commitments having a financial ODI associated with them. Engagement with customers through focus groups suggested that there was some support for a reward-only incentive mechanism. In response to challenge from our CEF, we asked our online community on their favoured approach (reward-only, penalty-only, reward and penalty or reputational). The results of this engagement suggested no clear preference on the nature of the financial ODI (with no more than 36% of customers supporting any single option).

In the absence of a clear indication from our customers as to their preference we have looked to best practice in other sectors. We engaged directly with Ofgem, the energy regulator, and discussed differing approaches to incentivising the best outcomes for this group of customers. The vulnerability incentive mechanism used in the energy sector is based on a reward mechanism with companies only receiving this reward for achieving outcomes that go beyond business as usual delivery. We are proposing to use a similar mechanism for our vulnerability performance commitments which will (through the independent Panel assessment) encourage innovation in developing and sharing best practice in across the industry.

Recognising the assymetry in such an ODI, we will commit to re-invest any outperformance payments received into measures to support customers in vulnerable circumstances. This reinvestment would be in addition to the totex expenditure already allocated to supporting customers in vulnerable circumstances in our business plan. If we exceed our stretching performance commitments for vulnerability, the outperformance payment we receive will be reinvested into those areas identified within the AMP that helped us to exceed those performance commitments, thus ensuring that those efficient and effective activities which helped us to achieve high performance are resourced to help us go further and take us to an industry leading position on vulnerability.

We are therefore proposing that both of our performance commitments for vulnerability will have an outperformance-only ODI on the basis of a) best practice, from a similar incentive mechanism demonstrating improved performance by companies in the energy sector, and b) our commitment to ring fence and reinvest any outperformance payment in further improving support for customers in vulnerable circumstances.