

Debt management capabilities



Chapter 7: Supplementary document

Document Reference: S6013

In this report, we provide information on how we have put in place robust residential debt management processes and capabilities. We then illustrate how we have successfully implemented a debt transformation programme, contributing to improved results. Finally we present details on future improvements to be made in AMP7.

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1 Summary

- We have put in place robust residential debt management processes and capabilities following an external assessment of by PwC in 2016
- Under our debt transformation plan, we have successfully implemented the recommendations made by PwC and this has significantly contributed to the excellent results we have delivered in AMP7
- Substantial reduction in Bad Debt – from £75m in 14/15 to a predicted £43m by 19/20, then down to £35m by 2024/25
- Independent assessment from Deloitte rates UU as having a mature debt collection function with deep understanding of the water industry and it's challenges
- Deloitte state that UU substantially meets all best practice capability identified by PwC and demonstrate industry leading practices for affordability and late stage recovery activities
- Maximising value from being a full CRA data share member: effectively using credit defaults and accessing data to enhance our segmentation approach
- On track to provide affordability support for double the amount of customers we originally set out to help in AMP6 – helping 117,000 customers who are struggling to pay with an industry leading suite of customer assistance schemes
- Clear strategy for further improvement: Mature tailored collections and segmentation approach driving performance improvement, aiming to deliver a new industry leading predictive analytics capability

Bad debt forms a significant element of customers' bills. In 2019/20, allowances made as part of the PR14 final determination for bad debt will directly add around £17 onto UUW customer bills¹. Bad debt is an unavoidable part of the cost of retailing, but one that can be reduced through effective management action. This is particularly important when considering the benefits future bill reductions can have for those who are already struggling to pay.

We are seeking to take a more proactive approach to providing help and support to those customers that need it. This is why over the last few years we have sought to enhance substantially our debt management systems, data and processes. We have made extensive improvements in the sharing and use of Credit Reference Agency (CRA) data and other 3rd party data sets, and have used this information to better understand our customers. This has enabled a tailored approach to engaging customers in debt, matching individual customer circumstances with the various support options we have available.

Equally, the ability to access and use CRA data has been crucial in identifying where customers may have the means to pay. Sharing payment performance data with Equifax our CRA partner allows UU to register a default on customer credit files. This is proving to be an effective prompt to payment for many customers. We use CRA data extensively to build customer scorecards, enabling the effective targeting of collection activities such as litigation and subsequent enforcement activity. The data is vital to helping us individualise the content of our debt recovery messages and selection of communication channels.

Through these and other key initiatives, we have reduced annual bad debt and debt management costs from £75m in 2014/15 to £50m in 2017/18. We anticipate further reductions in 2018/19 and 2019/20 such that by the end of the AMP our annual bad debt and debt management costs will be at £43m/yr.

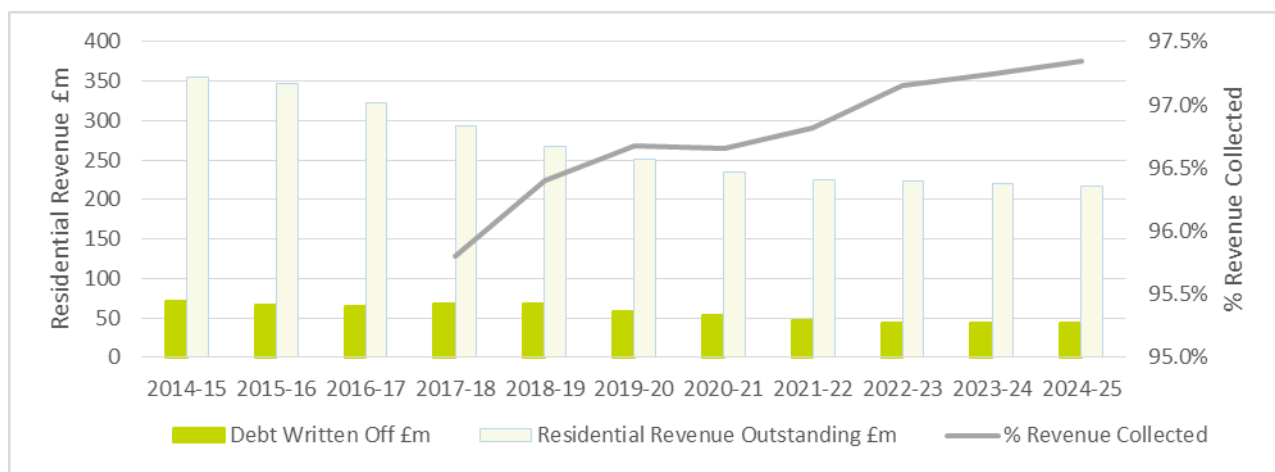
¹ Based on UU PR14 final determination for Residential Retail Cost to Serve allowances

Figure 1: Bad Debt charges are anticipated to drop substantially across AMP6

This cost reduction has been achieved by engaging in a major debt management transformation programme. Adopting a full range of leading debt management practice has helped deliver an award winning debt management process. Some of the key initiatives adopted include:

- Enhanced analytics and customer segmentation, leading to improved understanding of in debt customers
- Use of a full data share solution with an external CRA, enabling us to access full credit histories for our customers
- Customer data improvement programme, using third party data to improve the quality of customer records for billing
- Leading suite of assistance schemes helping to reduce bad debt and improve customer affordability
- Market driven Debt Collection Agency panel process, using the power of markets to drive supplier efficiencies
- Improved collections processes, focussed on the effective use of the full range of debt collection techniques, including improved early collections, registering defaults and the full suite of court options

Reductions in the level of bad debt charges is mirrored by other key debt metrics², such as revenue outstanding, debt written-off and in year cash collection rates.

Figure 2: UU actual and forecast performance - bad debt outstanding, write-offs and in year cash collection³

These transformational initiatives are delivering substantial performance improvements, and we believe there is more that we can do. The work undertaken in this current AMP period has laid strong foundation for us to do more in AMP7.

² Source: Table R3 – Residential retail – further information on bad debt and customer services

³ All values presented on business plan table R3

In September 2017 Ofwat challenged the industry to do more to tackle levels of household water debt. PwC published a report, commissioned by Ofwat⁴ into water industry retail service efficiency. Amongst its findings the report sets out a framework for debt management activities in the water sector, including guidance on what constitutes best practice.

We have used this best practice guidance, alongside the views of a range of other debt experts, to help develop our approach to debt management and are tackling the issues that many of our customers are facing head on. Within the rest of this report we set out our debt management processes and tools, and benchmark our current capabilities against PwC recommendations on best practice. We identify both where we have put in place best practice capabilities, and where there are future opportunities to improve.

In our main business plan submission (documents P001, section 7.8) we set out that delivery of these improvements will contribute to UUW reducing residential retail annual bad debt charges by a further £15m/yr from current levels by 24/25.

1.1 Looking outside the water sector

In challenging ourselves to improve performance our benchmarking has shown us that we need to look beyond the water sector. Many sectors, such as energy, telecoms, and the financial services sector all have to manage residential customer revenue collections and debt management. We observe a number of common practices used by other sectors that are yet to be taken on widely in the water sector.

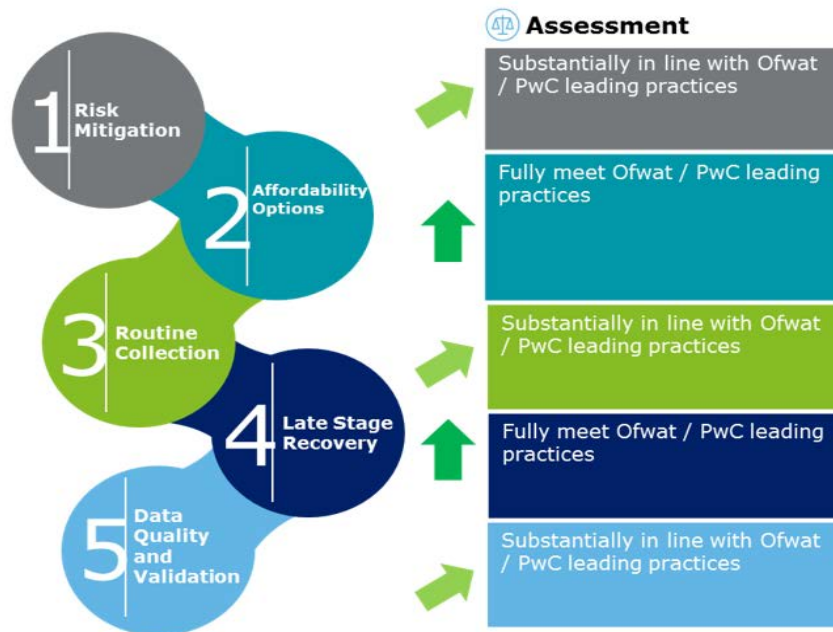
We continually review our bad debt management approach by obtaining independent assessment from experts in this field. This has been key to the improved performance we have delivered in recent years. Our debt transformation programme followed an external assessment of our capability undertaken by PwC against their bad debt maturity assessment framework. This has helped us to introduce a range of new approaches and initiatives to improve performance. Work with smaller specialised organisations like Sagacity Solutions (data solutions experts) and StepChange (personal debt advice charity) also gives us access to advanced capabilities in key focus areas.

Deloitte Assessment of UU Capability

Most recently, we asked Deloitte to assess our operational debt management capability against their in house bad debt best practice model and the published debt management framework published by PwC in their report “Retail Services Efficiency Benchmarking”. Both these models draw on best practice insight obtained from other sectors, including financial services and energy.

UU is in a strong position in all of the key elements identified when compared to the PwC maturity model for debt collection. Deloitte has assessed UU as showing leading industry practices in both the affordability and late stage recovery blocks of activity. For all other areas, Deloitte has assessed UU as being substantially in line with the best practice identified by PwC and Ofwat.

⁴ PwC report for Ofwat – Retail Services Efficiency Benchmarking, September 2017 <https://www.ofwat.gov.uk/wp-content/uploads/2017/10/250717-Ofwat-Retail-Services-Efficiency-12.pdf>

Figure 3: Deloitte's view of our maturity against the PwC assessment model⁵

Deloitte carried out a benchmarking exercise to determine how UU's bad debt management processes align to best practice, both within and beyond the water sector. Their assessment is based on benchmarking both current and proposed UU activities versus leading practices as highlighted in the Ofwat / PwC report and beyond, using their own bad debt maturity model framework.

Deloitte concluded:

"Overall we have concluded United Utilities has a mature bad debt function with deep knowledge of the water industry and its associated challenges. The management team has been strengthened by new talent acquisition in key roles bringing subject matter expertise, perspectives from other industries and data analytics capabilities. Key debt management activities are in place and well developed, especially around affordability campaigns and external data sharing, and a number of improvement initiatives are in progress. We have therefore concluded that UU's approach is substantially in line with Ofwat's leading standards."

This positive view of UU's operational and strategic approach was independently validated by CCW in their latest debt audit report (March 17). Under this audit, CCW randomly select customer accounts that are going through our debt management process and assess our adherence to the strategy we have in place, adherence to Ofwat's debt guidelines and provide feedback on potential improvements to our approach. The CCW assessment panel identified the following areas of good practice:

- Data cleansing of customer information before sharing it with credit reference agencies
- UU increasing its local presence through local radio and road shows
- The Town Action Planning initiative
- Payment holidays
- The online video explaining the bill
- The 'Tell me' initiative

We obtained a score of 24 out of 25 for the accounts they assessed and CCWater concluded:

⁵ S6014 – Bad Debt Management Maturity Assessment (Deloitte)

“The assessment panel was impressed with how the company dealt with its customers in arrears, showing both effectiveness and sensitivity.” The panel also highlighted several areas of good practice that stood out within the sector.⁶

1.2 PwC Maturity Model used in retail services efficiency benchmarking report

In assessing the industry’s capability to recover debt in comparison to other sectors such as Energy, Telecoms and Local Authorities, PwC grouped together all appropriate actions and approaches into five main blocks of activity.

- Affordability
- Routine Collections
- Late Stage Recovery
- Data Quality and Validation
- Risk Mitigation

This report considers in detail each key block of capability identified in the PwC “Retail Services Efficiency Benchmarking” report, and provides details of Deloitte’s assessment of UU capability and details of UU’s current activity and future plans in these areas.

2 Affordability

PwC identified the following activities as key to demonstrating leading practices to address affordability:-

- | | |
|----------------------------|---|
| • Low Income Tariffs | • Continuous Authority Payments |
| • Water Direct Payments | • Proactively identifying vulnerability / affordability |
| • Bursary Schemes | • Field engagement campaigns |
| • Arrears Matching schemes | • Engaging with 3rd parties |

In their assessment of UU’s bad debt capability, Deloitte assessed our approach to “affordability” as fully meeting leading practices identified by Ofwat / PwC. In their report Deloitte say:

“Overall UU fully meets the Ofwat / PwC standards. A high proportion (around 80%) of UU’s delinquent customers are defined as “can’t pay” or credit challenged. These are people in financial difficulties who cannot afford to pay their current tariff. Bad debt management activities focus on early identification of these customers and UU offers an array of affordability / vulnerability tariffs and flexible payment plans. UU use a variety of communication channels to engage with these customers including mail-shots and affordability visits.”

UU affordability approach - summary

The North West has high levels of extreme deprivation and more risk associated with welfare reform than any other region in the UK. It is therefore vital that UU has industry leading affordability schemes available and effective operational processes to ensure that support gets to those customers who need it. As a result, we have focussed significant effort and resource into ensuring that we have a robust approach to providing solutions to address the affordability challenge. Further details on the demographics and the challenging operating environment for the UU region can be found in document S2001 “The Affordability and Vulnerability Challenge”, section 2.

Over the course of AMP6, we have been substantially increasing the number of customers helped through our support schemes. In 2017/18, we increased the number of customers receiving help via one of our financial assistance schemes by over 30,000

⁶ CCW – UU Debt Assessment Report 2017

customers. We recognise that whilst this level of support is helping many households avoid falling into water arrears there is more we can do.

Both the level of support available and in particular the steps we take to target support at those customers most in need can be expanded and improved. We have adopted an innovative approach to engaging with customers who face affordability challenges and are targeting areas of extreme deprivation where customers face deep-seated affordability challenges. Once again, in S2001 “The Affordability and Vulnerability Challenge” section 4.2 we present how in AMP7 we will improve our affordability support for those most in need. For example, we plan to use water poverty indicators to help target those customers most in need of financial support.

One element of activity identified by PwC in their report for Ofwat is the suggestion that the use of Continuous Payment Authority (CPA) could have a bigger role in the water sector. We currently do not employ the use of CPAs, as we believe that we need to exhaust all other payment plan opportunities before we introduce this approach (see section 2.5). In undertaking their assessment of UU’s capability, Deloitte make the observation that this activity should perhaps fall under the routine collections block of activity instead of the affordability block.

Below we provide a summary of activity we undertake in the area of affordability support. We have aligned presentation of our process and capabilities to the activity areas highlighted in the PwC “Retail Services Efficiency Benchmarking” report.

2.1 Low income tariffs

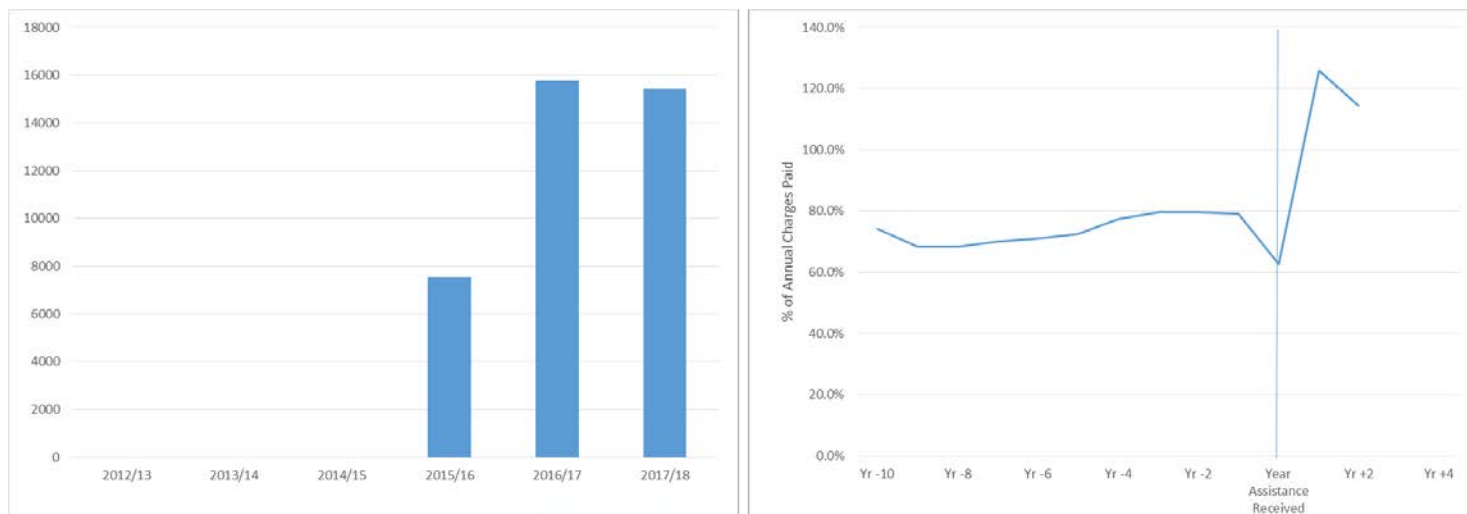
The substantial affordability challenges faced by our customers has resulted in us offering a range of different social tariffs and financial support schemes. We have both a social tariff and ‘win-win’ tariff available to customers on low-incomes. Typically, these schemes are targeted at households with incomes in the lowest 10%-20% of the population.

We also promote Free Meter options where household composition and usage indicates customers could save money compared to their fixed rateable value based tariff, and where appropriate will promote the WaterSure tariff to eligible customers.

Table 1: Description of our discount tariffs as described to customers

Back on track support tariff	If you're behind with your water bills and on benefits, we can get you straight by putting you on a fixed amount, depending on your circumstances.
Help to pay social tariff	If you're receiving Pension Credit, you could move onto a rate which better suits you, based on your income and outgoings.
WaterSure	If you have a water meter and receive benefits, and use a lot of water due to ill health or having a large family, our WaterSure scheme caps your annual bill, regardless of how much water you use.

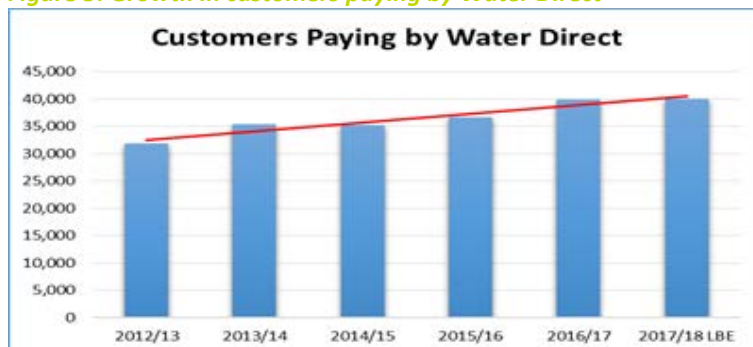
See S2001 “The Affordability and Vulnerability Challenge” section 4.1.3 document for details of how we have grown the number of customers receiving each tariff and how the tariffs are effective in improving customers’ payment performance. One example of this is the progress we have made in promoting our Back on Track ‘win-win’ tariff. There are now over 30,000 customers on the tariff and we are seeing strong sustained growth in the number of customers who signed up for this. In addition, the tariff is working well in terms of rehabilitating customers’ long-term payment performance to UU.

Figure 4: Growth in customers on Back on Track Tariff and their Payment Performance

2.2 Water Direct

This is a payment method that enables customers in receipt of certain qualifying benefits to pay for their ongoing water charges and a contribution towards their arrears directly to UU before they receive their benefit payment from DWP.

UU actively promotes the DWP 'Water Direct' scheme and we have seen steady growth in the number of customers paying by this method in recent years. We now have 36,000 customers on this payment method. We make active use of both customer consented applications and proactive applications. Proactive applications to Water Direct can be made by the company after a customer has two failed payment arrangements and not responded to threats of court action. The use of CRA data has improved the success rate of our proactive DWP applications in recent years and we will continue with this approach in AMP7.

Figure 5: Growth in customers paying by Water Direct

We also work closely with our local DWP offices in order to actively promote our range of lower cost tariffs to customers who are paying by direct deductions and this has contributed to our sign-up numbers for the Help to Pay tariff.

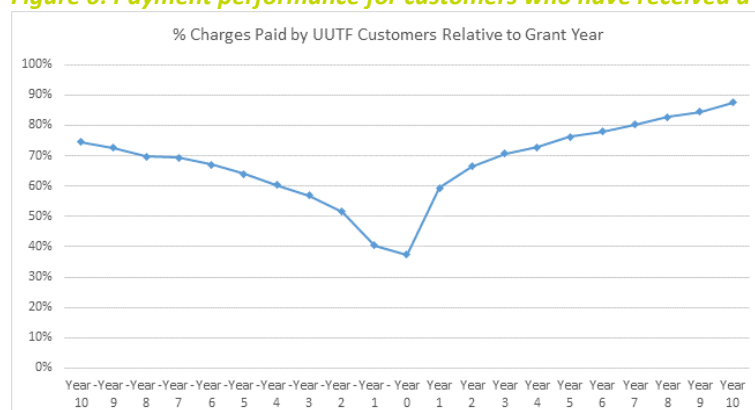
2.3 Bursary schemes - United Utilities Trust Fund

This independent registered charity provides grants to customers who face affordability and debt issues. Administered by a board of trustees, the United Utilities Trust Fund (UUTF) pays off outstanding debts to both UU and other creditors.

We introduced the UUTF in 2005/06 and have so far have donated circa £60m to support trust fund activities. To date, the UUTF has helped over 55,000 customers by providing them with grants to help pay off arrears that they had accrued on their water and wastewater account. The total value of the grants provided is £47.6m, with an average grant value of more than £850. The provision of these grants is having an extremely positive impact on rehabilitating future payment levels from those customers helped.

Typically, a customer who is helped by the UUTF pays approximately 37% of their charges in the year in which they get a grant. After receiving help payment rates increase to between 70% and 90%. This rehabilitation is maintained even when a customer applied to the UUTF 11 years ago.

Figure 6: Payment performance for customers who have received a UUTF Grant



The UUTF remains an important element of our portfolio of assistance offerings to customers who face financial difficulties and we propose to continue to make substantial donations to the UUTF over the AMP7 period.

2.4 Payment Matching+ - Arrears Allowance scheme

Our Payment-Matching+ scheme, formerly known as the Arrears Allowance scheme was introduced to provide customers who have built up substantial arrears to be given an opportunity to rehabilitate their payments with UU. For every pound a customer pays UU matches this for the first 6 months of payments. Thereafter, UU double matches each pound paid by a customer on the scheme. Finally, a customer that maintains agreed arrears payments for a full 24 months will have any outstanding debt written off, providing a clear route out of debt for many customers. This scheme is funded entirely by UU.

Encouragingly, rehabilitation rates for this scheme are very positive and we now have over 50% of customers on this scheme receiving the double matching write-off, meaning that they have maintained payments for at least 6 months.

To support payment scheme retention and rehabilitation we are sending customers reminder text messages prior to a payment being due. We regularly communicating with customers on the scheme, showing them how their balance is reducing. Since April 2013 we have promoted the scheme extensively to customers and we currently have c.34,000 customers making regular payments. This is an increase of over 16,000 since April 2016 and we believe this to be one of the largest re-start schemes in the sector.

2.5 Continuous authority

UU does not currently utilise continuous payment authorities (CPAs) when collecting charges from customers. This type of payment method is frequently used in the payday loan, gym membership and magazine subscriptions sectors.

We do not believe that CPA's give the same level of protection to customers as Direct Debit or standing orders. CPAs are designed to provide the creditor with greater flexibility, in particular, around how and when they can take payments from customers' accounts. This may not always be in the customers' best interest. There is also some indications that many customers do not understand the way in which CPAs operate, and may find it difficult to alter or stop CPAs that they have previously agreed to. We are aware of scrutiny on the use of continuous payment authority arrangements by the FCA⁷ and Money Advice Service⁸ and in particular practices of not cancelling the continuous payment authority despite the customer's request.

As a result, our current strategy has been to promote heavily the vast array of flexible payment plans we currently have available to customers and not to pursue a strategy of implementing CPAs. Offering tailored payment plans to suit all of our

⁷ <https://www.fca.org.uk/news/news-stories/continuous-payment-authorities-it-your-right-cancel>

⁸ <https://www.moneyadviceservice.org.uk/en/articles/recurring-payments-for-payday-loans>

customers' individual circumstances plays a vital role in supporting low-middle income households in avoiding falling into debt in the first place. The Resolution Foundation's⁹ analysis of DWP Family Resource Survey data shows that 70% of low and middle-income households have less than 1-month's income in reserve (£1,500), so avoiding bill shocks and providing structured payment plans can do a lot to help households manage budgets.

A particular area of focus for us has been to promote Direct Debit. We believe that we have one of the highest Direct Debit penetration in the sector at 70% and offer the widest range of payment day options (any day of the working week, weekly, fortnightly, four weekly, bi-annually, annually, on demand). See S2001 "The Affordability and Vulnerability challenge" section 4.1.5 for further details of our approach to providing a comprehensive range of payment methods and frequencies for customers in financially difficult or vulnerable circumstances.

In undertaking their assessment of UU's bad debt capability, Deloitte comment that this activity would align more to the routine collections block.

2.6 Proactively identifying vulnerability and affordability issues

We have a dedicated Affordability Team who are trained to recognise signs of affordability challenges and show empathy to customers and their circumstances. The team has taken circa 100,000 calls since launch and has been instrumental in the growth in our affordability tariffs. The team also promote our Priority Services offer (see section 2.7 for further details).

Central to setting an affordable but sustainable payment plan arrangement is that new payment arrangements are made in the context of customers' wider circumstances; including taking into account all of their outgoings. For customers who face both debt and affordability issues, we look to "bundle" schemes together so that we can address their historic debt problem, but also provide the customer with a lower bill that helps to address affordability issues, thereby mitigating the risk of them falling into arrears in the future again. In future the Affordability Team will have the capability to validate a customers' declared income using matched data from our CRA partner. This will provide a heightened level of assurance that we are providing help to those who need it most.

Figure 7: Affordability solutions are prominently promoted on the UU website



The Affordability Team have access to bespoke tools and applications that enable swift assessment of the schemes individual customers are eligible for, ensuring they are offered the lowest possible tariff. Our agents are trained to signpost customers who are in arrears to a range of external money advice providers such as National Debt Helpline and Citizen Advice Bureau (CAB). We have created strategic partnerships with both StepChange and Payplan, where we work together to ensure UU customers obtain wider holistic help for their financial situation. We have established relationships with local advice agencies, charities and voluntary organisations in the UU region. We have a dedicated Outreach Manager who engages with the advice sector in the UU region and promotes the assistance packages available to customers.

⁹ <https://www.resolutionfoundation.org/app/uploads/2016/02/Audit-2016.pdf> - table 9

Our engagement with customers has revealed that many can afford their water charges, but find they need to manage their household budgets closely. As a result, we have also developed a range of services to help low to middle income customers¹⁰. See S2001 “The Affordability and Vulnerability challenge” section 4.1.6 for details of our approach to providing:-

- Swift refunds direct to bank account
- Helping customers who receive High Measured Bills
- Promoting metering to address affordability issues

We recognise that we can do more. Over the last year we have engaged extensively with a wide range of customers and stakeholders, including debt advice groups, customer champions, and our own CCG and Independent Affordability and Vulnerability Panel to better understand how we can help address affordability challenges for low to middle-income households.

2.7 Field engagement campaigns

Applying the insight from our day-to-day research and our dis-engaged customer research, some key themes emerged that made us change what we do. This research and insight from the third sector supporting customers highlighted that customers did not always understand the range of financial support we offer. Many customers were unaware of the discount tariffs we have available, or how best to access them. Based on this feedback, we re-branded and simplified our support, so our customers can better understand the help we have available and how the schemes work in practice. We have also stepped up engagement campaigns, during new strategies such as highly targeted customer communications and face-to-face engagement with hard to reach groups.

Town Action Plan

Whilst more help is now available than ever before, awareness of assistance schemes remains relatively low¹¹. We have been working hard to develop innovative ways of getting the most vulnerable in society to engage with us. We launched our Town Action Planning (TAP) initiative in 2016, which aims to have face-to-face meetings with some of our most vulnerable customers, giving support when they need it most. See S2001 – “The Affordability and Vulnerability challenge, section 4.1.2 for full details of this award winning programme.

Out of 77,000 TAP visits (since the scheme launched) 46% had a successful outcome. Around 20,000 customers have signed up to a payment arrangement, and as of July 2018 67% are being maintained. Of these 18,700 customers have also been signed up to the Payment Matching+ arrears allowance scheme and/or a lower tariff to help with affordability going forward. In total we have helped 35,706 customers through TAP who would otherwise have been referred to Debt Collection Agencies (DCAs).

2.8 Engage with money advice and 3rd party organisations

We have established relationships with local advice agencies, charities and voluntary organisations in the UUW region. Our outreach manager engages with the advice sector in the UU region and promotes the assistance packages available to customers. We promote contact details of our dedicated Affordability Team, so that they can quickly and effectively get solutions for the clients that they represent and wish to help.

To provide insight and challenge on how best to engage with customers in vulnerable circumstances in April 2017 we formed an independent Affordability and Vulnerability Panel. Acting as a voice for those customers who have traditionally found it difficult to raise concerns, the panel is playing a key role in ensuring that we deliver leading services.

The Affordability and Vulnerability Panel has a concentrated remit, particularly focussed on how best to engage and address customers in vulnerable circumstances and those facing affordability challenges. It has an independent chair and representatives from leading 3rd sector organisations.

¹⁰ For the purposes of designing support and assistance schemes we have used the Resolution Foundation definition for “low to middle income” as households with income less than the national median, but greater than the lowest 10% and who receive less than one-fifth of their income from means tested benefits.

<https://www.resolutionfoundation.org/app/uploads/2016/09/Hanging-On.pdf>

¹¹ T1103 - Populous Research – Dis-engaged customers

Bringing together North West stakeholders to better help those struggling with water bills

In order to improve our opportunities to engage further with other organisations in January 2018 we held our first North West Affordability Summit. The event brought together more than 100 North West stakeholders to discuss how more support could be provided to customers struggling to pay their water bills and to stimulate new ideas and share best practice. The event, held at Liverpool St. George's Hall, was opened by the Rt. Hon Angela Eagle MP (Wallasey) and was attended by charities, foodbanks, Citizens Advice Bureau, StepChange, DWP, Credit Unions, debt agencies, housing associations, local councils and other utilities and financial service companies.

UU is increasingly using behavioural economic approaches and nudge marketing techniques to encourage engagement from customers. In AMP7 we plan to expand the level of support we have available to customers by rolling out the following assistance schemes to greater numbers of UU customers:

- Lowest Bill Guarantee
- Advizzo Bill Management Trial
- Payment break

3 Routine Collections

PwC identified the following activities as key to demonstrating leading practices to undertake routine collections:-

- Tailored collections
- Outbound dialler
- SMS and digital contact
- Voice Blast
- Out of hours dialling
- Speech analytics
- Data Share

In their assessment of UU's bad debt capability, Deloitte assessed our approach to "routine collections" as substantially meeting leading practices identified by Ofwat / PwC. In their report, Deloitte say:

"The routine collections actions in place are substantially in line with Ofwat / PwC suggested activities."

Deloitte have also identified a small number of opportunities for further improvement such as greater use of speech analytics for debt management and greater use of segmentation to tailor customer communication in early collections.

UU Routine collections summary

UU is one of only a few companies in the sector that operates a full data share solution with a CRA. This allows us to utilise key external data sources to adopt a fully segmented and tailored collections approach. In addition, we have a long standing track record of utilising the contact channels highlighted by PwC as best practice. Text messaging, Dialler and Voice Blast technologies have all been embedded into our collections strategy. We have acted on the recommendations made by PwC in their assessment of UU's debt management capability in 2016 and now use these contact channels much extensively in our early collections processes.

We have provided an overview of capabilities and plans we have for other digital interventions that are providing real value to both UU and our customers, including our new Mobile App, online account portal and automated speech recognition system. These go beyond the suggested activities identified in the PwC maturity model.

We recognise that whilst we have utilised customer segmentation and Speech Analytics extensively in the billing and customer services arenas, we should explore in more detail the potential to utilise this in our collections strategy. We are increasingly using behavioural segmentation and are achieving some excellent results via this method. We plan to roll this out further in the remainder of the current AMP and into AMP7.

3.1 Tailored collections

We are using customer data and data sharing with a 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.

Supplementary report S2001 “The Affordability and Vulnerability Challenge” document section 4.1.1 details our customer data architecture. This shows how we use different sources of information to segment the UU customer base and target positive interventions for those customers who face affordability challenges. 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. We are combining the use of this data with the implementation of behavioural economic studies and trials to maximise the effectiveness of reminders and other payment prompts.

Segmentation – The building blocks for behavioural trials

Key to implementing a successful programme of behavioural studies and trials is the ability to segment the customer base. We have undertaken a large-scale segmentation analysis to understand the makeup of relevant customer groups. Working with customer data and marketing experts CACI we have created a set of eight key customer segments, with further sub segments focussed on customers in most need of support. We have now developed the capability to match each household in the region to these segments, and have included this segmentation within our billing system, enabling easy use of the information. This is an enhancement on previous segmentation models employed at UU, which were typically targeted at the postcode level and not individual customer level.

Figure 8: United Utilities Customer Segments developed in conjunction with CACI



For each segment we have created a customer pen portrait. This provides an overview of the segment’s key attributes and behavioural preferences when considering debt risk, affordability and vulnerability support as well as helping to understand propensity to engage in other key digital retail offerings. By loading this segmentation analysis into our processes and systems we are able to swiftly and repeatedly undertake targeted campaigns and behavioural trials to improve the customer experience and reduce bad debt and cost to serve. For example, this assessment reveals where customers are in a segment and sub-grouping with a markedly increased likely of falling into debt, helping us to target pre-emptive debt avoidance measures, such as promotion of our new Payment Break offer.

This new segmentation underpins many of the new bad debt and customer experience improvements initiatives we have identified for delivery in the remainder of AMP6 and AMP7, for example in our Business Plan (see The Executive Summary, Chapter 1, section 7.8) we describe the extensive role that customer segmentation plays in targeting pre-emptive debt interventions.

3.2 Outbound dialler

UU has utilised an automated dialler solution within its collections operation. This is a key element of our approach to engage with customers who have either fallen into arrears with their charges or are in the early stages of debt recovery.

Since its implementation, the use of the dialler tool has continually been refined and we now employ this contact strategy at multiple sequence points across the majority of our key debt recovery strategies. Typically we make approximately 20,000 outbound calls per month to customers going through our debt recovery strategies. Following the external assessment of our approach by PwC we have recently implemented plans to utilise the dialler to a greater extent in the early collections process. This project will deliver additional dialling activity at a further 6 points within our early collections strategy and increase the number of outbound dial contacts.

3.3 SMS

SMS messaging is embedded in multiple sequence points throughout the main strategies within our debt recovery system. Text messages are sent to prompt contact from customers as part of a wide range of collection strategies, including debt recovery, affordability support and court strategies. In 2016/17 c.550,000 SMS messages were sent out. We also use SMS as a way of notifying customers of new or enhanced affordability schemes and also to forewarn customers who are due to receive a default notice on their credit file as a result of non-payment of charges to us.

We now have the capability to automatically send pre-emptive reminder text messages to any customer who is on a payment plan with United Utilities. This simple enhancement to our system capabilities has been extremely successful in helping customers maintain a pre agreed payment. Our call centre agents will actively promote the option of reminder texts where they recognise that the customer needs budgeting help and support. Once again, the PwC review provided us with recommendations to use SMS messaging more extensively in the early collections process and this has been implemented.

3.4 Voice blast

We have implemented voice blast technology. Every year we send approximately 112,000 voice blast messages to customers. Voice blasts have historically been used at several points in various collection strategies, including as part of normal debt recovery processes and in promotion of affordability support options.

Once again, we have recently made changes to our processes, sending more voice blast messages in the early collections recovery cycle. Messages are now being sent to accounts in the very earliest stages of arrears, before the customer has even formally been classified as 'in debt'.

We also work to improve the effectiveness of our messaging tool. Messages have been refined so that now the customer has the ability to either speak to an agent or be passed through directly to our automated payment line for them to make an immediate payment.

3.5 Out of hours dialling

UU undertakes dialler activity between the core hours of 8am to 8pm Monday to Friday. We now have an in-house predictive analytics team and they have been looking at predictive tools and techniques to predict the best time to call a customer, based on the information that we hold on them. We have previously trialled out of hours dialling, but this has so far not proved effective in generating increased contact rates and hence cash collection, despite the increased cost of maintaining out of hours collections teams.

Dialler activity has taken place on a Saturday; however analysis shows that it is more productive to undertake this activity throughout the core working hours. We use a very wide range of contact channels for debt management, including e-mail and letters. It appears that maintaining out of hours out bound dialling is not adding to the overall effectiveness of customer communications.

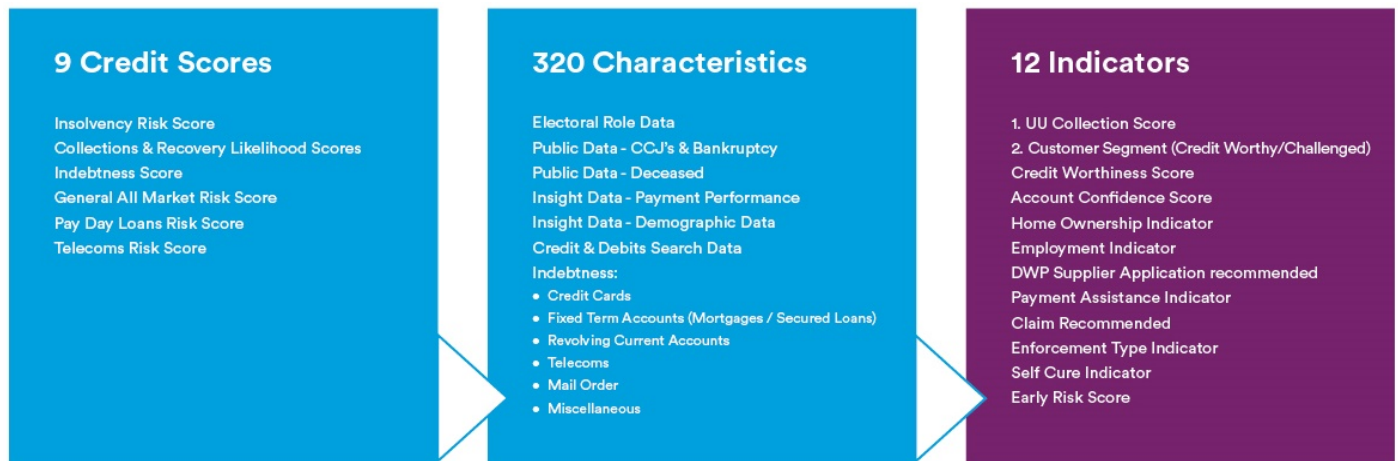
3.6 Speech analytics

We do not currently use speech analytics tools as part of our debt management strategy; however we do understand that there are potential opportunities to do so and are currently investigating options to do more work in this area. We already possess speech analytic capabilities in billing and customer services, using it to gain insight into reasons for contacts from customers and helping to ensure that our calls are PCI compliant when payments are being taken over the phone by agents.

3.7 Data sharing

UU operates a full data share solution and shares our payment performance data with our CRA partner, Equifax. Being a member of the full "insight" data share group enables us to utilise the most advanced and comprehensive suite of data products and services. We have been actively integrating new capabilities based on these datasets into our customer management and collections processes for a number of years.

We receive a defined data block for each customer that we data share and the data consists of bureau calculated credit scores and a combination of individual and demographic characteristics.

Figure 9: Overview of CRA data utilised

We share our own payment performance data with Equifax on a monthly basis and we utilise the returned data, alongside our own records of customer payment behaviour to generate a set of twelve indicators that are then incorporated into scorecards that determine the most appropriate debt path for the customer account to take as it flows through the collections process. We have built both litigation and affordability scorecards using this data.

This ensures that all customers are treated in the most appropriate manner throughout the billing and recovery process. We are currently engaging with our CRA partner to look for further opportunities to access new data sets that are being developed, such as data blocks that provide enhanced information on individual customers' affordability scores, propensity to access pay-day lending products, property characteristics and general indebtedness levels.

4 Late Stage Recovery

PwC identified the following activities as key to demonstrating leading practices to undertake late stage recovery:-

- Disconnection
- Litigation and default
- DCA
- Debt sale
- Trace and collect
- Enforcement
- Field collections

In their assessment of UU's bad debt capability, Deloitte assessed our approach to "late stage recovery" as fully meeting leading practices identified by Ofwat / PwC. In their report, Deloitte say:

"UU's practices in this area represent leading practices and fully meet Ofwat / PwC standards."

UU late stage recovery summary

UU undertakes all best practise activity identified by both Deloitte and PwC in this area to a mature level, with the exception of debt sale. We have strong performance in the litigation, enforcement and default areas following the introduction of our full data share solution with Equifax. We plan to further improve the effectiveness of activity in this area by refining the approach we take by further tailoring collection interventions using analysis derived from our expanding predictive analytics capabilities.

4.1 Disconnection

As identified in the PwC report “Retail Services Efficiency Benchmarking” this approach is not legally permissible.

4.2 Litigation and default

Default Strategy

The introduction of our full data share solution has provided UU with what is effectively a new sanction to help recover debt from some customer segments. The ability to register a default on a customer’s credit file can impact their ability to gain credit for a mortgage, loans or mobile phone contracts. As a result, we find that registering a default is proving to be an effective sanction. Customers who have the means to pay, and generally have a healthy credit rating are now paying UU in order to protect their credit rating. To date UU has registered over 220k defaults against UU customers.

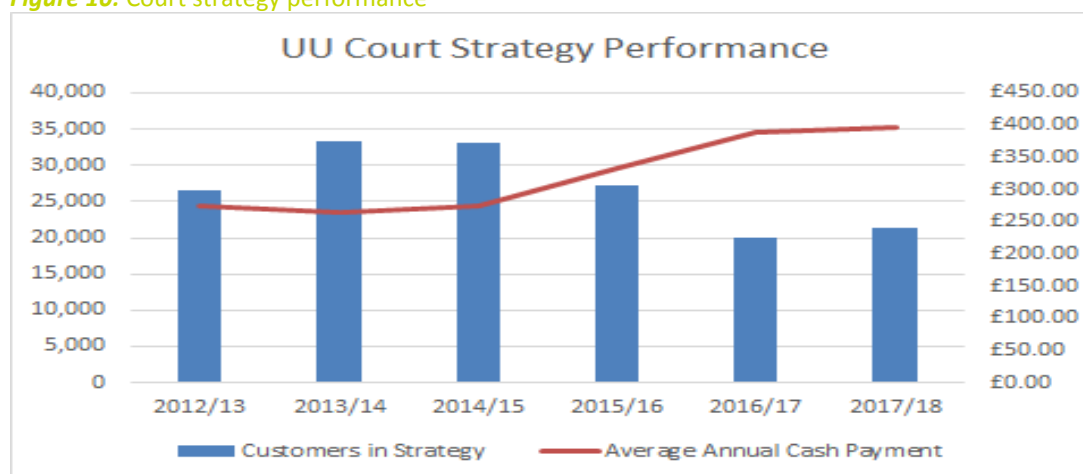
Warning customers of the risk of a default notice is also proving an effective prompt to payment for many customers. We have developed clear communications that make clear what the consequences of a default means for them, including explaining that access to mortgages, mobile phone contracts and personal loans can be adversely affected.

This strategy has resulted in earlier cash collection and reductions in debt management costs. In 2018 YTD, we have seen an x% increase in current year cash collection rates. In particular, a reduction in accounts sent to a debt collection agency (DCA) is helping to reduce commission payments.

Litigation Strategy

For a relatively small group of customers who have the means to pay but are choosing not to litigation remains an important part of the collections process. We have introduced a revised segmentation approach and scorecard to increase the effectiveness of the litigation strategy. This has helped to increase the accuracy of selection criteria for customers who are suitable for the court process.

Figure 10: Court strategy performance



Since 2016, we have reduced the number of customers we have taken through the court process to circa 20,000/yr, whilst increasing recovery rates by c.40%. The new segmentation approach is much more effective at choosing which customers are suitable to take through the strategy. This has meant that the average amount collected from the customer has increased from around £290 to £400 a year, showing that our segmentation approach is working more effectively.

4.3 Debt Collection Agencies (DCA)

As part of our operational debt management strategy we use a panel of external Debt Collection Agencies (DCA's). This strategy has been continually refined and re-freshed. We currently employ specialist agencies to recover certain types of debt, with six agencies currently collecting on nine different debt types.

We have created an internal market incentive mechanism to maximise value from DCAs, whereby a set of pre-approved DCA panel members operate under a regime in which past performance impacts the future levels of work that an agency receives from us. The approach is effective in ensuring that we are able to benefit from the customer service, efficiencies and innovation

of a market driven approach. This method has driven an increase in collection performance rates and also generated a reduction in the cost to collect outstanding debt. Our main business plan documents (the Executive Summary, Chapter 1, Section 6.4.8) has more details.

Our internal market regime means that we implement a rigorous performance management approach for the DCA panel. To ensure there are safeguards to protect customers we use a holistic approach to incentivisation. Quarterly performance and compliance reviews are undertaken with each DCA. In our latest external assessment of our debt management approach Deloitte assessed our approach to DCA performance management as being a key contributor towards our mature industry leading late stage recovery process.

4.4 Debt Sale

UU does not currently sell residential debt to debt purchasers. Work has been carried out to understand the appetite from purchasers for the debt and expected levels of price that we might be able to obtain. We have also considered the operational impacts of implementing this approach.

After balancing the potential gains against the risks involved of selling debt, we have decided not to pursue this strategy at this time. We believe that our focus on improving our early intervention and segmentation strategies will provide the most significant contribution towards achieving our bad debt reduction proposals between now and 2025.

We will continue to review the market place for debt sale in order to understand if the balance of risk versus reward changes significantly enough for us to consider this option in more detail.

4.5 Trace and collect

This activity takes place as part of our DCA management approach. We employ specialist agencies to trace and collect "Leaver debt". This work is managed on a commission only basis, meaning that UU only pays for successful traces and subsequent collections.

In addition to this activity, the residency validation process (see section 5) also plays an important role in identifying whether or not a "leaver" account is in fact a true leaver and whether or not the customer is still actually living in the property.

We are currently developing an internal capability to undertake in-house tracing which will consist of identifying customers who have moved within the current UU area. This will involve the use of data sets supplied by a Credit Reference Agency and will reduce the opex we spend on carrying out this activity by not having to place the account with an external DCA.

4.6 Enforcement

UU uses a comprehensive range of enforcement options as part of our litigation strategy. The PwC external review of our approach identified that we had an opportunity to enhance the level of enforcement activity we were undertaking. As a result, we now utilise attachment of earnings, charging orders, bailiff warrants and High Court enforcement to recover judgements on debt. As in other areas of our debt management strategy the segmented approach we are taking to recovery is delivering increased collection rates.

Once a judgement is obtained on outstanding debt and the customer still does not engage and/or clear the debt we begin the process of enforcement. Internal customer records, CRA data and other third party data is used at this stage to determine the most appropriate enforcement method to use. This represents only a small portion of collections activity, with only a few thousand customers going through enforcement activities each year.

4.7 Field collections

Accounts are placed with field based collection agencies. DCAs who carry out this work are incentivised not only to collect cash but also to capture data about the customer to inform any subsequent action that can take place to either enforce collections or encourage the customer to apply for one of our payment assistance schemes.

Each year we undertake approximately 25,000 visits to customers who are in debt to UU. These visits generate £1.6m cash and provide a valuable source of new information to enable us to bill accurately, for example providing change of tenancy details and void information.

Recently, we have shifted the emphasis of our doorstep engagement activity towards Town Action Plan affordability visits. As a result, fewer traditional field collection DCA visits have taken place. Nevertheless, there is still a role to play for this traditional type of visit and we plan to continue this activity into AMP7.

5 Data quality and validation

PwC identified the following activities as key to demonstrating leading practices for data quality and validation:-

- Validate with external sources
- Control over new customer set-up
- Proof of I.D.
- Manage former accounts
- Void Management

In their assessment of UU's bad debt capability, Deloitte assessed our approach to "data quality and validation" as meeting the leading practices identified by Ofwat / PwC. In their report, Deloitte say:

"UU's activities meet the Ofwat / PwC leading practices. All the activities suggested in the Ofwat / PwC report for data quality and validation are present at UU and running efficiently with the exception of proof of I.D. This is because UU have a number of proxy activities to validate customers' I.D. for example validating their data against Equifax records which means that over 95% of customers' data is validated. Asking for proof of I.D. would be costly and reduce the quality of the customer experience."

UU data quality and validation summary

As a full data share member with a CRA we can utilise key external data sources at all life stages of the billing and collections process. Our regular cleanse and append activity, residency validation activity and use of CRA data within the void process is well defined and maturing well.

We recognise that we do not operate processes that involve using the proof of ID concept but believe that our general approach to data quality and validation is leading the way for the sector and we do not believe that incremental cost benefits could be derived from implementing this solution.

5.1 Validate with external sources

Data validation is a vital element of billing accuracy and subsequently debt management. UU looks to validate customer data at all points throughout the life cycle of a customer account. As part of the process of moving to sharing our data on a monthly basis with CRAs, we embarked on a large scale cleanse and append process of our customer database. This data cleanse was supported with changes to system capabilities, enabling us to validate core customer details at the point of customer take on/move in and to subsequently enrich names and date of birth to improve billing accuracy. As a result we updated c.1.5 million accounts within our customer database.

We now undertake a monthly cleanse and append process where we validate any new customer information obtained with third party data sets, and we also undertake a cyclical cleanse and append exercise on all customer accounts on an annual basis.

We have implemented stronger data input validation tools in our primary billing system to improve the quality of user inputs. We have carried out a programme of education across the whole billing and collections operation to ensure that billing system users understood the value and importance of accurate and complete customer data

We have implemented a new validation process for all information we receive from a third party such as a landlord or letting agent. This new process intrinsically recognises the historic data quality record of different third party data sources, and we now appropriately recognise in our processes that information received directly from billed customers is of a higher quality than that provided by landlords or previous property occupiers.

5.2 Control over new customer set up

As part of our data sharing approach we implement a residency validation process. This means that on a monthly basis we utilise data provided in the monthly file of data provided by CRAs on our whole customer portfolio. The data provided allows us to access information on potential house moves that are taking place or have recently taken place. This allows us to cross-reference this information against our internal data in our billing file.

For example, CRA data might provide a lead to suggest that a customer is in the process of moving home. This allows us to check the account and if the customer hasn't already informed us of the potential move we can make a proactive contact to confirm details. We can also use CRA home move flags as part of enhanced trace and collect processes (see section 4.5).

5.3 Proof of I.D.

As a result of the processes described in sections 5.1 and 5.2, we have validated 95% of all UU billing records. These validated records are shared as part of our payment performance reporting with Equifax. As such, we do not currently implement a policy of proof of I.D for new customers. We consider the cost involved in implementing this activity would exceed the benefits and believe that the work we undertake to collect and verify customer details to be both appropriate and effective.

We believe that there are further improvements that we can make to data validation exercises, and boost validated data percentages.

5.4 Managing former accounts

We have implemented a robust process for former (leaver) accounts. Once we become aware of a customer leaving a property and not informing us of this we implement our leaver strategy. This involves passing the account to a panel of external debt collection agencies who specialise in tracing and collecting debt owed by customers at former properties.

Prior to placing an account with a DCA we carry out the residency validation process described in section 5.1. This confirms whether a customer has actually left the property. As described in section 4.5, we are also developing an internal trace capability and will perform this activity prior to placement with a DCA during AMP7. This will support reducing the cost of recovering leaver debt.

5.5 Voids

Insight from CRAs and data management consultancy specialists indicate that our void management and verification process is a leading approach both within the water industry and in other utility sectors.

Historically we have relied predominantly on prompting direct engagement from homeowners and tenants to receive customer contact details. Where repeated prompts to contact have not elicited a response we have made use of regular void property visits to attempt to ascertain whether or not the property is occupied, and if so to try and get customer contact details.

We have been developing alternative methods for managing our void properties for some time. Our void management process is now focussed on independent verification of property void/occupied status, such as third party validation against CRA data. CRA data provides insight on whether or not there has been any applications for credit at the void property, for example if a customer has applied for a mortgage, bank loan, mobile phone or other credit agreement using the void property address. As a result, our systems and datasets enable a deep understanding of the occupied/void status of the total household property base. See documents S6010 "Residential Retail Business Plan" for more detail on our voids strategy.

We believe this process is robust, likely to be sector leading and is proving a very effective process to manage voids. We have achieved good results, with almost half of void properties positively verified by third parties as being empty. Over 60% of properties yet to be validated have been empty for less than 6 months.

6 Risk mitigation

PwC identified the following activities as key to demonstrating leading practices for risk mitigation:-

- Credit checking
- Pre-payment
- Controlled spend / credit limits
- Usage alerts
- Security deposits
- Stopping supply

In their assessment of UU's bad debt capability, Deloitte assessed our approach to "risk mitigation" as meeting the leading practices identified by Ofwat / PwC. In their report, Deloitte say:

"Risk mitigation activities are substantially in line with the leading practices and standards highlighted by the Ofwat / PwC report, in places the 'to be' model will exceed the PwC standards once current improvement activities are fully implemented."

UU risk mitigation summary

We have a mature process to utilise Automated Meter Reading (AMR) and meter reading data to advise customers of potential issue with the establishment of our dedicated high measured bill process. We are making good progress in developing early intervention scores to feed into our decision-making and strategic approaches for debt recovery.

We recognise there is more we can do in terms of stopping supply to empty properties. We are currently running a trial to test how effective the process of stopping supply can be in combatting water losses and helping to manage voids. If successful, this will continue into AMP7.

6.1 Credit Checking

Currently, UU undertakes credit checking via the data sharing processes described in section 3.7. We receive a defined data block for each customer that we data share. Included within this data block are CRA calculated credit scores and a combination of individual and demographic characteristics. The data is then aggregated to calculate a number of internal indicators that are used to drive both collections strategies and activity to promote affordability tariffs and payment assistance schemes.

We are currently working on taking this credit checking activity to the next stage by developing an early intervention scorecard.

Early Intervention Scores

The provision of a scorecard to identify customers who are likely to fall into difficulties in paying their water bill is central to our commitment to treat customers appropriately. Customers' records will be assessed when a new account is setup, with risk scores being refreshed regularly. These scores will help with early identification of customers who are moving into financial stressed circumstances, and enable signposting of these customers to the most appropriate support service and/or tariff. This will help mitigate the financial stress experienced by customers and support revenue protection for UU.

The development of this scorecard and the supporting customer contact processes are already underway. A wide range of data elements for 50,000 customers have been extracted from UU systems and have been merged with the potentially relevant Equifax data indicators. This data will be used to evaluate the indicators for predictive strength and will then be reduced to those believed to be most relevant. A sample of 10% of the customer base will then be extracted for the most relevant indicators, which will then be built into the scorecard ready for implementation.

Once established we plan to use the early intervention scorecard to carry out the following activities:-

- Explore activities carried out by other companies/industries and identify opportunities to collaborate with organisations in finance, banking, utility and charitable sectors
- Signpost customers to external organisations who can provide more holistic advice and support to customers
- Carry out promotional trials of the assistance schemes available using control groups to test different engagement approaches with customers
- Explore holistic advice to other bills faced by the customers and potential to switch providers

- Encourage customers to engage with us when they are struggling rather than seeking detrimental alternatives such as pay-day loans

As a key output of last January's North West Affordability Summit¹², we plan to undertake the activity highlighted above in the remainder of the current AMP and roll this into AMP7.

6.2 Pre-payment

We recognise that billing frequency can play a key role in mitigating bad debt risk. The segmentation work we have undertaken in conjunction with CACI, described in section 3.1, provides us with an ability to promote different payment frequencies when discussing billing with some customer segments. We foresee that this will be done both reactively and pro-actively by carrying out campaign activity to promote different frequencies of bills.

Similarly, we will adopt the same approach of using the segmentation model to reactively and pro-actively promote different payment methods to customers based on their individual circumstances. For example, we plan to undertake Direct Debit promotional campaigns and combine this with our learnings from behavioural economics projects we have undertaken with Frontier Economics.

Under our current practices a newly measured customer may not receive a bill for up to 6 months. This is due to the timing of our meter reading cycles and can cause issues for customers with budgeting and in some instances, this can reduce their customer experience with us. To address this we are currently adapting our processes and IT systems to build in the flexibility required to carry out meter readings and generate bills within 6 weeks of a customer moving home or getting a water meter. This will help provide customers with an accurate bill relating to their consumption in a timely way and help customers who need to be able to budget appropriately.

6.3 Controlled spend/credit limits

Not applicable to residential retail activities.

6.4 Usage alerts

In June 2017 we launched an improved process for proactively engaging customers with high bills and we are doing more than ever to help customers manage unexpected bill spikes. When a customer is heading towards a bill substantially higher than historic trends, we will proactively contact them. Where appropriate we can offer a leak allowance, revised payment plans and/or seek to spread payments over extended periods. Where high household use is the driver of a large bill we will actively promote water saving devices and offer advice on how small changes in behaviour can help reduce bills in future. Where a leak is the driver of a spike in measured charges we offer our free supply pipe repair service for leaks outside the home or advice on finding a plumber if the leak is inside the property.

Since we launched the new service this dedicated team has proactively assisted over 1,000 customers. Complaints because of high measured bills have fallen by 31% since the launch of the service. We are regularly receiving excellent feedback from customers on how they value this proactive approach:

"I have never ever had cause to praise a utilities business before but my recent experience warrants this. Having received a letter saying my bill was much higher than usual I contacted the number provided and was immediately put through to the High Measured Billing team. I'd been amazed (sic) and delighted by this entire experience. Usually this kind of situation is hostile and takes months to resolve. Amazing job (United Utilities)." High measured bill customer feedback

¹² S2001 "The Affordability and Vulnerability Challenge" Section 3.3

6.5 Security deposits

Not applicable for residential retail activities.

6.6 Stopping supply

Historically, we have not stopped supply to empty properties as part of our approach to income or void management processes. We have undertaken this activity for leakage management purposes.

We recognise that this activity could potentially prompt engagement from new property occupiers. We are currently undertaking a pilot project to determine the effectiveness of this approach. From July 18 onwards we are undertaking a pilot in the Oldham area, where empty properties with consumption over a specified threshold are targeted with correspondence and proactive contact to try and establish occupier details.

If this is not forthcoming we will implement a supply shut-off process. This will only be completed after we have sent pre-disconnection notices warning any possible occupier or owner that the supply will be stopped. We have also established a rapid reconnection process to ensure that if disconnected properties are occupied in future we are able to restore supplies promptly. If the trial proves successful, we intend to rollout this activity further and incorporate into a void management strategy.