

Ref 2.5

# PR19 Household Retail Business Plan

September 2018

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Annex 2: Household Income – Welsh Water. Experian, July 2017.

## 1. Introduction

### 1.1. Purpose and scope of document

The purpose of this document is to support our submission for PR19 with respect to the household (i.e. 'residential' in Ofwat terminology) retail price control for AMP7, the period from 1 April 2020 to 31 March 2025. This document outlines the plans for our household retail business and how these plans will contribute to our longer term strategy, Welsh Water 2050, and deliver improvements in service for our customers.

Following this introductory section, the remainder of this document sets out:

- the strategic context – Welsh Water 2050 – as it is relevant to our non-household retail plan (section 2);
- a summary of the views of our household customers with regard to their priorities for the retail business for AMP7 (section 3)
- a review of our performance in AMP6 and how our AMP7 plans will build on lessons from this period (section 4)
- a description of what we plan to deliver for customers in AMP7, including how these plans will contribute to our long-term vision for 2050 (Welsh Water 2050) and what it will cost (section 5)
- a brief summary of our longer term plans for AMP8 and beyond (section 6).

This plan will help us to meet our six customer promises:

- Clean, safe drinking water for all
- Safeguard our environment for future generations
- Personal service that's right for you
- Fair bills for everyone
- Put things right if they go wrong
- A better future for all our communities.

### 1.2. Relationship to wider PR19 methodology business plan

This Household Retail Plan is part of a larger plan, the Welsh Water Business Plan. This contains greater detail on our customer and stakeholder engagement, how we propose delivering outcomes in AMP7 and beyond, the levels of service we will provide, financial implications and the impacts on customers' bills.

Our plan supports and provides more detail for the household retail sections of the business plan. It has been produced in alignment with Ofwat's final methodology for the PR19 price review, including customer, stakeholder, assurance and long term planning approaches. The plans have been developed around the four themes Ofwat has set for PR19 – great customer service, affordability, resilience and innovation. In addition we have considered:

- The increasing pace of technological change and, in particular, the way in which other retail sectors are transforming the way they engage with their customers.
- The characteristics of our customer base and the affordability of our charges.
- The need to improve the productivity and effectiveness of our operation, in particular taking into account the findings of the study published by

PricewaterhouseCoopers in September 2017 (Retail Services Efficiency benchmarking).

## 1.3. Supporting documentation

Our plan supports and provides more detail for the non-household retail sections of the business plan. It should be read in conjunction with other components of the overall plan, notably the following documents:

- Supporting document 0.3: PR19 Business Plan;
- Supporting document 1.1: Customer Engagement Report;
- Supporting document 1.2: Stakeholder Engagement Report;
- Supporting document 1.4: Welsh Water 2050
- Supporting document 3.2: Supporting our customers
- Supporting document 3.3: PR19 Innovation Strategy;
- Supporting document 3.9: PR19 Costs: Efficiency, Benchmarking and Recovery;
- Supporting document 5.2: PR19 Performance Commitments; and
- Supporting document 5.5: PR19 Outcome Delivery Incentives.

Additional documentation relevant to this business plan includes:

- Labour Cost Forecasting Report; Economic Insight September 2017 (Available on request)
- Household Income Estimates; Experian Q1 2017 (Available on request)
- Evaluating an 'Estimated IMD' approach to modelling the impact of deprivation on debt related retail costs; Economic Insight March 2018 (Supporting Document 2.5.1)

## 1.4. Key challenges

There is significant social and economic diversity across our customer base. However, our research confirms that our customers are heavily over represented in less affluent social demographic groups, when compared to those of other water companies and utilities. Studies show that people living in poverty are also likely to experience other forms of vulnerability and ultimately social exclusion. In addition to higher than average levels of financial deprivation, our customers are more likely to have an 'activity limiting' health problem or be caring for someone with a health problem. Our strategy for AMP7 must acknowledge and respond to this diversity.

At the same time, the way in which our customers are engaging with other service providers is changing, be that energy, mobile phone providers or internet retailers. This in turn is shaping their expectations of the service they want from their water retailer. As well as keeping up with other sectors, we have the capability to look forward and put in place the changes needed for the customers of the future. Young people who are aged between 10 and 17 today will be potential customers in 2025 and we need to be able to provide them with the technology and service they will engage with. However, given our legal obligation to provide a universal service, we also need to make sure that we continue to provide high levels of service to all customers, particularly those who are in vulnerable circumstances and are not digitally engaged. We have committed to the six point 'Keep Me Posted' charter, by which we will continue to offer to all customers the option of receiving all communications

from Welsh Water in the form of paper correspondence. This option is available to customers at any time without penalty or recourse.

In seeking to deliver affordable bills, we recognise that our residential retail costs are above average in the sector and we need to do all we can to improve both productivity and effectiveness. However, this cost differential is driven largely by the particular nature of the customer base that we serve and our approach to cost reduction must be sustainable beyond AMP7, avoiding short term fixes that are detrimental to longer term service to customers.

## 2. Welsh Water 2050

### 2.1. Purpose and context

Our PR19 Business Plan is set firmly in the context of our long-term purpose which is “to become a truly world class, resilient and sustainable water service for the benefit of future generations.”

Following a major consultation exercise with customers and stakeholders we published our 30-year strategy in 2018 - Welsh Water 2050. It sets out the challenges that we expect to face over the next 30 years, and the 18 Strategic Responses that will be required to address them. It also identified and scored areas of resilience strength and areas which require enhancement for almost all aspects of our business.






We acknowledge that it is vital for us to identify and address emerging challenges and harness new opportunities to ensure we don’t store up problems for future generations. We have identified key future trends that are likely to have a significant impact on our service provision, particularly on our ability to deliver on our customer promises.




The 18 Strategic Responses set out how we will mitigate or harness these future trends. They include detail on how we will use research and innovation, the organisations that we will need to work with and how our activities will align with our customer promises and relevant legislation, including the Well-being of Future Generations (Wales) Act 2015.

### 2.2. Future trends

Welsh Water 2050 identified a number of key challenges relevant to our household retail business, including:

*Table 1: Household Retail 2050 Challenges*




	<b>Changes in customer expectations</b> – what our customers expect from their drinking water, in terms of quality and availability, and their acceptance of outages, is likely to change
	<b>Protecting essential infrastructure</b> – ageing water supply infrastructure, and physical and cyber security risks, could limit our ability to maintain a reliable supply into the future
	<b>Demographic change</b> – demand for drinking water will change across our network and more of our customers are likely to be considered vulnerable in the future
	<b>Changes to the structure of the economy</b> – the growth of the digital, knowledge based economy could allow us to realise significant efficiencies in our water supply business, but will also present challenges
	<b>Policy and regulatory change</b> – policy and regulation around water supply could change, especially after the UK’s departure from the European Union, and quality criteria could progressively tighten

	<b>Climate change</b> – drier, hotter summers will increase the risk of supply deficits and increase peak demand
	<b>Environmental change</b> – raw water quality could come under increased pressure due to land use change in our catchments
	<b>Protecting public health</b> – regulatory standards to protect drinking water quality are likely to tighten in the future, and emerging contaminants will present an increased risk to public health

### 2.3. Relevant Strategic Responses

Our Strategic Responses set out how we will respond to the challenges and harness the opportunities. These will be regularly reviewed and revised over time. Relevant Strategic Responses for our household retail business include:

*Table 2: Household Retail Strategic Responses*

	<b>Strategic Response 8: Ensuring affordability of services delivered to customers</b> – ensuring that our services remain affordable for all customers and providing support for low income households through our social tariffs, and benefit entitlement and water efficiency advice.
	<b>Strategic Response 9: Supporting customers in vulnerable circumstances</b> – using data to provide a personalised service, as well as working in partnership with other providers to give appropriate and effective support to customers in vulnerable circumstances.
	<b>Strategic Response 12: Leading edge customer service</b> – develop our culture and technology to provide a personalised, responsive and consistent service to customers through their preferred contact channel.

This plan supports the delivery of the Strategic Responses relevant to this plan as follows:

- **Strategic Response 8: Ensuring affordability of services delivered to customers**
  - Introducing new digital technologies and increasing self-serve, which will reduce the cost of overall residential retail business by £3m. This will establish a platform enabling further efficiencies to be realised beyond AMP7.
  - Increasing the number of households supported by social tariffs to 148,000 by 2025, working with partners to ensure that the most financially disadvantaged people are in receipt of financial support.
  - Introducing more flexibility into our billing and payment systems to support customers in budgeting and managing their finances, as well as reducing the overall cost of debt management activities.
  - Providing money saving and benefit entitlement advice.

- Playing a leadership role in providing employment skills and opportunities to people in our most challenged communities.
- **Strategic Response 9: Supporting customers in vulnerable circumstances**
  - Maximising the opportunities for data sharing, particularly through the provisions of the Digital Economy Act, so that we can proactively target people who require support through our Priority Services scheme quickly and efficiently.
  - Working with other utilities, local authorities and emergency services to explore opportunities to streamline our services, so that customers don't need to apply to several agencies for the support that they need.
  - Working with our network of over 180 partners to improve the range and effectiveness of our priority services, as well as helping more people to access our support.
  - Making better use of community hubs to raise awareness of the support available, in particular rolling out our Water Resilient Community model (which we are piloting in the Rhondda Fach area) to other parts of our supply area.
  - Ongoing training for our people to identify the signs of vulnerability and take action.
  - Establish a more formal relationship with Citizens Advice and other money advice charities.
- **Strategic Response 12 Leading edge customer**
  - Reducing telephone and written complaints by 29% by 2025 (vs 17/18)
  - Expansion of our digital services, including the introduction of a My Account service, whilst maintaining a commitment to retaining more traditional channels for those customers who require them as part of our commitment to the 'Keep me Posted' charter.
  - Providing customers with greater choice and control over the services they receive.
  - Improving our response times for all services.
  - Increasing the use of data and insight within our customer and recovery systems allowing us to tailor our actions according to the circumstances and characteristics of our customers.
  - Establish specialist teams to deal with complex or sensitive contacts, such as bereavement and social tariffs.



## 3. Customer views

Understanding our customers' priorities is key to informing our PR19 plans in general terms, and to underpinning our choice of Measures of Success (to ensure that we cover the issues of greatest concern to our customers), as well as determining the linked performance commitments.

We conducted extensive customer engagement in the form of both quantitative and qualitative research. Specific pieces of research asking customers about their priorities, our proposed Measures of Success, and their willingness to pay for performance improvements. Further detail is provided in PR19 Customer Engagement report (Supporting document 1.1).

### 3.1. Retail customer satisfaction

To proactively monitor and maintain high levels of customer service on an ongoing basis we gather insights derived from multiple sources of customer data such as contact data, complaints and customer feedback data. 'Rant and Rave' is used to survey customers after an interaction with us and the data from this feedback is used to calculate our 'Net Promoter Score' (the difference between the number of positive and negative instances of feedback). This is tracked and analysed in order to understand areas of improvement from customer comments, providing daily feedback to teams and individuals on their NPS and opportunities to improve their customer outcomes.

The graphs below disclose the company level performance for both NPS and the UKCSI scores.

### 3.2. Customer views

For the specific purposes of PR19, we also carried out a range of customer research projects on the attitudes of household customers to the future of the services they receive.

In total, 29,281 customers contributed to the research programme including 175 'future customers'. This was through focus groups, online surveys, telephone surveys and 1-2-1 interviews. Whilst household customers were included in all research projects, the points below highlight the key research projects in relation to the household retail business plan:

- Customer Priorities research;
- Customer Service Expectations;
- Performance Targets (Qualitative & Quantitative);
- Willingness To Pay - Main survey (Qualitative & Quantitative);
- Bills and affordability research;
- Vulnerable customers research;
- Social Tariffs research;
- Business Plan options testing.

The key messages we took from this research for our household retail plan were:

- Affordability and value for money remain a top priority for customers. The majority of customers find the current bill acceptable. However 42% of customers say that paying their water bill is 'a stretch' and 5% say it is not affordable. This means we need to continue to drive efficiency as hard as possible to keep bills down.

- Most customers support social tariffs in principle. The principle of a social tariff is understood and accepted by most customers and the majority of participants found the idea of a reduced price tariff for targeted customers acceptable. The retail business has a key role to play in implementing our social tariffs strategy for PR19 – see supporting document 3.1 PR19 Affordability Strategy.
- Service expectations are increasing across all customer types. Younger and ‘future’ customers are especially interested in the use of mobile applications and social media when dealing with service providers. However telephone contact is still the default method of communication for the majority of our customers. We will therefore continue to provide a range of contact options for customers, including providing a major Wales-based call centre.
- Customers consider our current handling of customers in vulnerable circumstances to be good, and third party stakeholders are supportive of our approach to vulnerability. However, many vulnerable customers that are eligible for help are not currently getting it. Our retail business is on the frontline of our support for customers in vulnerable circumstances. We have developed a new strategy for vulnerable customers – see Supporting Document 3.2 Supporting our customers
- Capabilities such as customer tracking of appointments should be provided as ‘business as usual’ as they are becoming standard practice in other sectors. A new appointments tracking system has been included in our PR19 plans.

Finally, we also derive feedback from customers through day-to-day contact data, including all the complaints we receive, and this has also helped to shape our plans. More information about our ongoing customer engagement can be found in [Supporting document 1.1 PR19 Customer Engagement Report](#), section 3.

#### 4. AMP6 performance

##### 4.1. Customer service

The main focus of our improvement journey in AMP6 has been improving the effectiveness of our online services, whilst driving improvements in advisor productivity and customer service. In the first 3 years of AMP6 we have seen our eContacts increase by 88%, primarily through the growth of social media contacts and they now account for 38% of our total contacts compared to 19% at the beginning of the period. This change in customer behaviour was particularly evident during an operational incident on Boxing Day 2017, when the volume of social media contacts exceeded calls into our call centre.

It has become increasingly apparent that our customers now expect a more responsive service from our web contact channels than the sector has traditionally given. Therefore in 2017 we invested £0.5m in additional resources to bring down our response times to emails from 5 days to 12 hours. Maintaining this response time in the absence of integrated web and billing systems is costly, however we believe that it is important that we meet the expectations of our customers.

*Table 3: AMP6 Contact Volumes (000's)*

	2015/16	2016/17	2017/18
Online forms	127	116	136
iFAQs	-	55	80
Live chat	33	45	62
Online payments	175	196	213
Social media	15	53	167
eContacts	350	465	657
Telephone and written contacts	1,148	1,132	1,056
Total contacts	1,848	1,597	1,713

In the early part of AMP6 we experienced a significant increase in customer complaints. This was due to a small number of unforeseen issues arising from the implementation of our new billing system, together with changes to make our debt management practices more robust later that same year. In response to this, we rapidly invested in training and coaching for our front line employees, supplemented by further systems development and the introduction of a new team that focused on proactively identifying service failures. Our performance has now returned to where it was in early 2015, and we are targeting further reductions over the final two years of AMP6.

Table 4: AMP6 Customer Service Performance

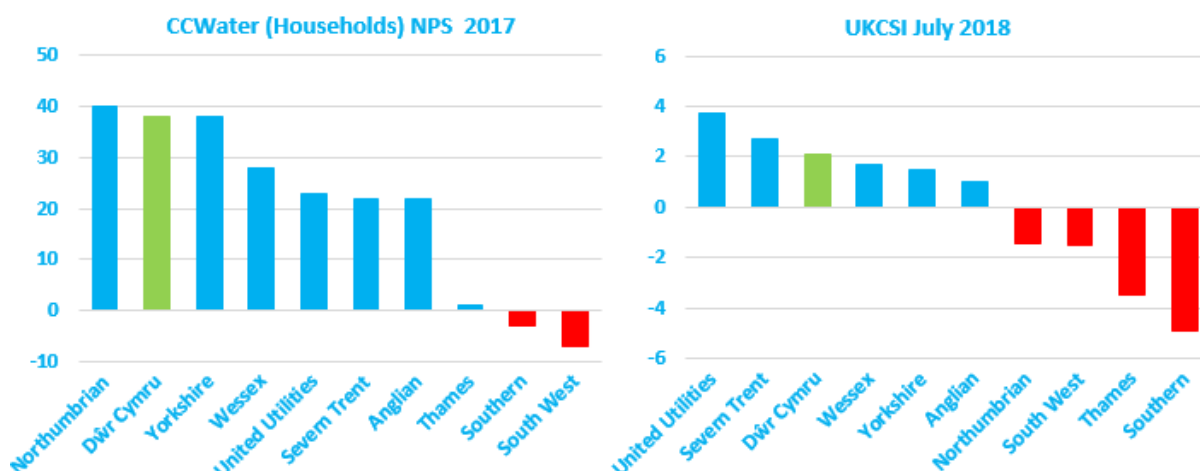
	2015/16	2016/17	2017/18
Complaints	6,052	5,430	3,288
Net Promoter Score	n/a	+55	+64
Customer Satisfaction	4.51	4.41	4.47

We introduced Net Promoter Score (NPS) as a new way of measuring our performance in 2016. Our scores have improved steadily over the last two years, consistently exceeding those of other companies in the sector. We use NPS scores at a company level to identify service failures and opportunities for improvement, and at an advisor level for coaching and daily feedback.

The July 2018 CCWater report provides the full year 2017 NPS scores for water companies, the graph below illustrates this for the WASC cohort where Dŵr Cymru has a score of 38 versus an average score of 20.2. In the report Dŵr Cymru is highlighted as the top WaSC, with strong performance across several key measures and improving seven-year trends.

In July 2018 the UKCSI report score for Dŵr Cymru was 76.8, up 0.4 from the January 2018 survey, third of all water companies. The graph below shows each WASC company position versus the average score for the utility sector 74.7.

Graph 1: Customer Service Score



In terms of the SIM customer satisfaction survey, our performance against the billing element was impacted by the same factors that led to an increase in complaints. Similarly this has improved since we made the system changes mentioned above. Whilst these surveys target a very small percentage of our customers, we recognise that we need to do more to ensure that all customers receive the highest standards of service.

At the time of writing (August 2018), we are part way through a substantial technology programme to upgrade our telephony and web systems with the goal of enabling the expansion of our digital services and greater integration between our contact channels and core systems. This programme will also introduce new functionality to improve customer experience and the effectiveness of our contact management activities. These new functions include:

- ‘Agent desktop’, which will bring together all customer contact information into one place and allow our front line teams to deal with customer queries more effectively and identify underlying service issues affecting customers.
- Integration between our website and billing system for routine transactions, such as meter readings and payments. Crucially this will show customers how their account has been updated, which is a critical capability that an online service must provide.

#### 4.2. Debt management and bad debt

Table 5: AMP6 Collection rates and Bad Debt Performance

	2015/16	2016/17	2017/18
Collection Rates	95.5%	95.7%	96.1%
Debt Management Costs (£m)	8.2	8.8	7.5
Residential bad debt charge (£m)	25.2	22.7	22.6

Since March 2015 we have seen significant improvements in collection rates and the cost of bad debt, and our debt management costs have increased by 20%. This has been driven by the changes introduced by our AMP6 change programme (Mimosa – see below) to improve our debt management activities. These changes include:

- **Improving early stage collections processes, introducing consequences for non-payment.** This included introducing credit reference agency (CAIS) default into the recovery process, redesigning the commercial collections processes to reduce debtor payment days and expanding our litigation processes from a few hundred cases a year to in excess of 19,000 in 2016/17. Activity has settled to circa 13,000 cases in the year just ended.
- **Extensive re-write of Tallyman (our debt recovery system) collection routes** to introduce new treatment paths for different customer groups, applying segmentation based on Land Registry data and new lettering strategies.
- **Introducing new late stage collections processes to ensure that “old” debt was progressed.** This included reworking 40,000 long overdue accounts through the new early stage collection processes, introducing a team to investigate problematic debt areas and establishing a new process for final (gone away) debt.
- **Proactively identifying customers who needed support to pay their water charges,** introducing two new service providers to undertake field visits to customers believed to be eligible for social tariffs and establishing a small community based team to work with local authorities, job centres and around 180 other agencies to target the most financially disadvantaged customers.
- **Developing our insight into the effectiveness of our collection strategies and our customer base.** Over the last 24 months we have established an in-house analysis and configuration capability for the Tallyman system. This small team has significantly enhanced the quality, accuracy and scale of information on our recovery processes. Examples of the improvements delivered are daily dashboards, which are providing the business with daily management information about individual, team and department performance. We are also working with our internal Data Science

team to develop a Propensity to Pay scorecard and integrate that into the Tallyman system, allowing our debt investigation team to target their activities more effectively.

- **Developing our processes to take account of the Non-owner Occupier Regulations** (often referred to as “Landlord Legislation”). This is a relatively new piece of legislation that over the long term will reduce our risk of not knowing who our customer is. However it has required considerable work to raise awareness across the landlord population, working closely with Rent Smart Wales and landlord bodies, establishing a new team to and processes to proactively identify tenanted properties, refresh our landlord database and address data quality issues and, finally, sharing good practice with English companies.

#### 4.3. Social tariffs

We introduced our new social tariff, HelpU, in April 2015 and set ourselves a target of supporting 100,000 customers through one of our financial assistance schemes by 2020. Prior to the introduction of HelpU, the number of customers in receipt of one of our financial assistance schemes had remained fairly static for some time and early take up of the new tariffs was slow. However, since the introduction of a distinctive affordability strategy within the Collections department we are now seeing an increase of 2,000 – 3,000 customers a month. The new strategy included: targeted marketing of the tariff with organisations such as Citizens Advice Bureau (CAB) and StepChange; using field visits to deal with customers with long standing arrears (and low/no credit); and training of our front line teams. At the end of March 2018, we were supporting 106,000 customers.

*Table 6: AMP6 Unique number of customers supported by Welsh Water financial assistance schemes*

Scheme	2015/16	2016/17	2017/18
Help U	3,200	19,800	57,150
WaterSure Wales (inc. former Welsh Water Assist)	33,900	33,600	33,150
Subtotal for social tariffs	37,100	53,400	90,300
Water Direct (DWP)	9,300	7,900	8,200
Customer Assistance Fund (CAF)	2,300	4,200	2,700
Welsh Water Collect	6,100	5,700	4,700
Total	54,800	71,200	105,900

HelpU and WaterSure Wales (including Welsh Water Assist) are social tariffs as defined for the purposes of our PR19 social tariffs Measure of Success. The subtotal for these two is shown in the table above for comparison with our PR19 performance commitment.

#### 4.4. Services for customers in vulnerable circumstances ('vulnerable customers')

Achieving our vision of “earning the trust of our customers every day” means ensuring that *all* of our customers receive a reliable service that meets their particular needs. Our customers do not all have the same needs and it is clear that some customers require support from us above and beyond our core services. Vulnerability can take many forms. The dimension that affects the highest number of our customers is financial insecurity, but we have also developed schemes to ensure that our services are accessible to all and that, when things go wrong, help reaches those in greatest need as a first priority.

Much of our focus in this period has been on making sure that the services we provide are understood by customers, ensuring that our services meet the requirements of customers in vulnerable circumstances and working with other organisations to make sure that those customers who need our services get access to them. This work forms the basis of our strategy and plan for AMP7 and has included:

- Adopting the “priority services” branding, making sure that we are consistent with other organisations (such as energy companies) to provide clarity to customers
- Redesigning our publications and website, using easy read and providing easy signposting for customers
- Entering into data sharing agreements with Wales and West Utilities and Western Power Distribution to receive information about customers on their priority services schemes (with their consent)
- Commissioning the Rhondda Fach Water Resilient Community pilot project to develop insight into the particular issues and challenges for customers in vulnerable circumstances so that we can develop our approaches to priority services and affordability
- Piloting a scheme with BACS to trial a flexible direct debit for financially vulnerable customers
- Funding a debt advisor with Citizens Advice
- Training by MIND for people managers and call centre teams on how to identify signs of vulnerability
- Introducing wellbeing champions to support retail teams
- Developing a network of over 180 organisations to identify best practice within and outside the water and energy sectors.

Welsh Water has the second highest number of customers registered for priority services amongst water and sewerage companies (WASCs). We believe that the measures outlined above will increase the number significantly as we move into AMP7.

*Table 7: AMP6 Total number of customers signed up to priority services*

	2015/16	2016/17	2017/18
Customers signed up to priority services (thousands)	23.7	23.7	26.0





## 4.5. Retail costs

At the PR14 final determination, the residential retail costs allowed by Ofwat required a reduction of 30% in the first three years AMP6 in order to achieve the industry average cost to serve (ACTS) level. Whilst the cost of our customer service and meter reading activities compare favourably with the rest of sector, our costs of debt management and bad debt levels are considerably higher, which reflects the customer base that we serve. The costs allowed at PR14 included a special cost factor adjustment, for the impact of income deprivation on the costs of debt management and bad debt, of £44 million over AMP6. However no allowance was given for indexation of the price control and there was no recognition of the higher average bills for water and sewerage companies compared to water only companies.

Our efficiency plan for AMP6 focused on the areas that required the greatest improvement: bad debt, debt management costs and overheads. We launched our change programme, Mimosa, in mid-2015, working with working capital specialists from PricewaterhouseCoopers to improve the effectiveness of our debt management processes, develop data and customer insight, and drive overall productivity improvements across the retail operation.

When the programme completed in March 2017, as well as having substantially improved recovery processes and introduced new capabilities, it had enabled opex and debt savings of £31 million. Our priority for the remaining years of AMP6 is to develop our customer service platforms in order to support our digital strategies. The first stage of this will be delivered by the end of 2018.

Whilst we have driven improvements in efficiency, we have also had to invest in new capabilities needed to support:

1. Recovery activities, in particular the introduction of specialist teams to undertake detailed, forensic investigation into overdue accounts, and
2. Customers who cannot afford water charges and need support from our social tariffs.

We have therefore introduced;

- A new team to manage the social tariff application and assurance process;
- Two specialist field agencies to visit customers likely to be eligible for our social tariffs and help them through the application process; and
- Our own community based team, working with third parties such as local authorities, housing associations and the third sector to raise awareness of our financial support. For example, they regularly attend food banks to liaise in person with customers in particularly vulnerable circumstances and to provide personalised support to them.

At the end of AMP6 we will have reduced the annual operating costs of the residential retail business by £3.1 million (5%).

Total costs over the AMP6 period will be £40m above the costs allowed by Ofwat in the PR14 Final Determination. This is due largely to additional investment we have made in our debt recovery activities, the costs of administering our social tariffs and the impact of input price pressure (notably wage inflation) on our cost base.

*Table 8: AMP6 Residential retail actual costs compared to PR14 FD including depreciation (outturn prices)*

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>AMP6</b>
FD allowed costs (£m)	51.4	49.8	48.3	46.7	46.6	242.9
Actual/planned costs (£m)	58.1	54.7	56.2	59.0	55.1	283.1
Variance (£m)	(6.7)	(4.9)	(7.9)	(12.3)	(8.5)	(40.2)

## 5. AMP7 Plan

Over AMP7 we will develop our digital services, introduce integrated mobile and web services, make system changes to develop new capabilities such as segmentation (within our customer systems), “champion challenge”, real time activity based costing, real time exception reporting, targeted promotion of services and tariffs, variable billing and payment arrangements and real time system updates. This activity will reduce the retail cost base by £6.4 million by 2024/25 (over AMP7, before input price pressure).

In working through the business plan options, we have considered the impact on service and sustainability. We have discounted options which could achieve significant cost savings over a short period (1-3 years) but would be to the detriment of service targets, this included things such as forcing our customers to switch to a low cost contact channel, increasing the extent of offshoring and reducing our efforts on developing our people.

### 5.1. Strategic priorities and delivery plan

We aim to deliver five strategic outcomes for residential retail customers in AMP7. Through the delivery strategy outlined below we aim to deliver a simplified and personalised service based on data driven decisions which results in outcomes that ensure we will ‘earn the trust of our customers, every day’.

Table 9: AMP7 Residential retail strategic delivery plan

Outcome	Delivery strategy
We are an innovative and data rational business	<p>We exploit systems and technology to deliver a seamless and efficient service to our customers</p> <p>We use <b><u>data analytics and customer insight</u></b> within our core processes and to drive service improvements</p>
Provide a personalised service that meets the needs and expectations of all of our customers	<p><b><u>We know who our customers are</u></b>, what their circumstances are and what they expect of us.</p> <p>Customers are able to select how they contact and transact with us</p> <p><b><u>Customers have control</u></b> over the service they receive from us</p>
Our customers find it easy to do business with us and trust us to do the right thing	<p>Our processes and communications are simple and based on customer not business needs</p> <p>We <b><u>anticipate problems</u></b> and fix them before the customer needs to contact us</p> <p><b><u>Employees take ownership</u></b> of problems &amp; contact customers proactively to let them know that we are putting things right</p> <p>Our frontline processes actively prevent the accumulation of unnecessary debt</p>

	We have a <b><u>flexible and industry leading</u></b> toolkit of recovery activities and technologies to obtain payment from customers who choose not to pay
We provide the highest level of financial and non-financial support to vulnerable customers	<p>We are <b><u>visible and accessible</u></b> to customers in their communities</p> <p>We <b><u>proactively identify and support</u></b> customers who need additional help from us</p> <p>We provide <b><u>leadership</u></b> to other providers of priority services to ensure that vulnerable people receive the support they require</p>
We have a flexible, highly skilled and engaged team	<p>Staff feel fully supported to do the right thing</p> <p>Staff <b><u>own and resolve</u></b> customer queries</p> <p>Coaching and continuous improvement is embedded in teams</p>

## 5.2. Customer service

In developing this plan, we have considered the needs and expectations of our customers. We have used insight from within our business, supplemented by external studies and data to determine the characteristics of our customers and the implications for the service we provide. We have also considered the findings of the study into retail services efficiency that Ofwat commissioned from PricewaterhouseCoopers (PwC) in 2017.<sup>i</sup>

From our externally commissioned studies<sup>ii</sup>, we know that our customers are over-represented in low income groups (47%) compared to the UK as a whole (29%). Furthermore these customers are less likely to be digitally engaged than more affluent households. We recognise that there are significant efficiencies to be gained from expanding the range of digital services, shifting customers to lower cost to serve channels and introducing automation, as recommended by PwC. However, we also have to recognise that we have a universal service obligation and so we are determined that this will not be at the detriment of our service to those customers that are not digitally engaged.

We will develop our web and mobile capabilities to allow as many customers as possible to fully self-serve. Our self-serve facilities will be underpinned by real time interfaces and system updates allowing customers to see immediately the impact of their transactions. We recognise that there is little to compel customers to sign up for a service that they will use at most twice a year. Therefore in developing these services we are looking the functionality required to minimise customer effort (registration and access) and meet their broader requirements (personalisation, consumption information, advice on efficiency and information on other services available).

In our research on customers' service expectations, appointment and job tracking systems were identified as become normal practice across a variety of service providers. Customers expect to be able to keep themselves informed on the progress of jobs. Our current systems

are not able to support this requirement because of the need to pull data from a number of disparate systems. In order to meet customer expectations and keep up with developments in other retail sectors we have, therefore, identified the need for a new IT system to be developed to provide this functionality.

We will introduce flexible billing and payment arrangements that will allow us to tailor our services to the individual needs of our customers. We are currently working with BACS to pilot a flexible direct debit facility for low income customers and we will look to introduce this option for all customers in AMP7. We are currently investigating the opportunities that the new Open Banking protocols will offer our sector and will be looking to expand the scope of our payment channels to accommodate this, as well as introduce more payment agencies such as PayPal and Apple Pay.

We see that there are benefits of being able to offer variable billing frequencies for customers who find it hard to manage their finances and we will explore the feasibility of introducing this, however we also understand that this comes with additional costs and therefore our business case will consider the full extent of costs and benefits.

As noted above, the growth in eContacts has been significant and we will build on the capability we have introduced in AMP6, which includes the first bilingual (English/Welsh) chatbot, and increase the number of customers using these channels.

Our digital services will be underpinned by automation of our routine back office processes, taking away the need for manual interfaces between systems, which are costly and are prone to human error. Together with the introduction of our 'agent desktop' later this year, this will improve first contact resolution and reduce complaints.

We are committed to providing a bilingual service (English and Welsh) to our customers so that we can accommodate their language of choice and currently we have approximately 6,000 customers registered for this service. As we expand our range of digital services and more customers switch channels, we believe that there is potential to increase the take up of our Welsh Language service and we are committing to increasing the number of customers receiving this service to 25,000 by 2025. This target directly supports one of the goals set by the Welsh Government in the Well-being of Future Generations (Wales) Act.

*Table 10: AMP6/AMP7 Measures of Success; Complaints and Welsh Language*

Measure of Success	Definition	2017/18 outturn	2019/20 Target (AMP6)	2024/25 Target (AMP7)
Rt4 Complaints	The number of written and telephone complaints per 10,000 customers	84	76	60
Sv6 Customers on Welsh language register	The number of customers registered for our Welsh language service (000s)	6	10	25

### 5.3. Debt management and bad debt

Our plans for the rest of AMP6 and AMP7 are based on two fundamental principles:

- We need to **prevent** the accumulation of unnecessary debt (**'prevention'**); and
- Where customers do fall into debt, we need to help them develop good payment behaviours (**'cure'**)

Our customer systems can provide us with valuable insight into customer payment behaviour and we have made significant progress in using this insight, together with information from external sources (Land Registry, landlords, and our credit reference agency) to improve billing accuracy and the effectiveness of our recovery actions. We now plan to expand our use of external data to include sources such as Halo (deceased database), Acorn (property level data), information from external debt collection agencies and telephone and email data. This information will be used to:

*Table 11: Data Driven Debt Management Objectives*

Prevention	Cure
<ul style="list-style-type: none"> <li>• Develop customer and property indicators to support our advisors and inform collection activities</li> </ul>	<ul style="list-style-type: none"> <li>• Develop propensity to pay scorecards</li> <li>• Improve contact rates and productivity of debt teams</li> </ul>
<ul style="list-style-type: none"> <li>• Link final debt to 'live' customers</li> </ul>	<ul style="list-style-type: none"> <li>• Early identification of deceased customer</li> </ul>
<ul style="list-style-type: none"> <li>• Reduce the number of void properties</li> </ul>	<ul style="list-style-type: none"> <li>• Final account tracing</li> </ul>

One of the biggest drivers of debt is the large number of low income households within our customer base and helping these customers pay their charges is an important element of our collections strategy. In addition to the proposals for social tariffs over AMP7, we plan to:

*Table 12: Supporting Vulnerability Debt Management Objectives*

Prevention	Cure
<ul style="list-style-type: none"> <li>• Closer alignment with Priority Services Register</li> </ul>	<ul style="list-style-type: none"> <li>• Change the focus of our external debt collection agencies to support our social tariff and water efficiency objectives</li> </ul>
<ul style="list-style-type: none"> <li>• Work with Welsh Government to implement data sharing provisions of the Digital Economy Act, in particular data sharing with the Department of Work and Pensions.</li> </ul>	<ul style="list-style-type: none"> <li>• Redesign the Customer Assistance Fund (CAF) and our underlying processes, based on findings of our recent review, to improve customer payment behaviour</li> </ul>
	<ul style="list-style-type: none"> <li>• Expand our community based team into West Wales</li> </ul>

	<ul style="list-style-type: none"> <li>Create a (virtual) team of experts to handle more sensitive/vulnerable cases</li> </ul>
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As an organisation managing some 180,000 debt cases per annum, we are heavily reliant on systems to support our collection and recovery activities. At the same time, the move to a more digital environment brings risk to the recovery process as it increases the opportunity for customers to avoid engaging with us about their charges. Support for the 'Tallyman' IT system we use for debt management is being discontinued by its provider, so we have included provision for an upgraded system within our investment portfolio. In addition we plan to:

*Table 13: Customer Engagement Debt Management Objectives*

Prevention	Cure
<ul style="list-style-type: none"> <li>Increase the data capture facilities in our systems to include information such as employment status</li> </ul>	<ul style="list-style-type: none"> <li>Leverage the functionality within our upgraded telephony system – dialler effectiveness, answer machine detection and outbound dialler robotics</li> </ul>
<ul style="list-style-type: none"> <li>Tailor our “on boarding” processes so that our activities and contacts are tailored to customer circumstances</li> </ul>	<ul style="list-style-type: none"> <li>Explore the opportunities for more machine learning and robotics within the billing and collection processes</li> </ul>
<ul style="list-style-type: none"> <li>Develop and implement a digital payment strategy</li> </ul>	<ul style="list-style-type: none"> <li>Final account tracing</li> </ul>

*Table 14: AMP7 Measure of Success - Bad Debt*

Measure of Success	Definition	2017/18 Outturn	2019/20 Target (AMP6)	2024/25 Target (AMP7)
BI3 Company level of bad debt	The annual bad debt charge as a proportion of revenue (%)	2.9	2.5	2.0

#### 5.4. Voids and gap sites

Voids are vacant properties which are not billed for water and/or waste water services. Factors influencing the level of 'true' voids are the quality of housing stock and levels of transiency within the population. However the level of reported voids will also be impacted by customer behaviour and a company's income maximisation, billing and debt management practices.

Our metered voids have consistently accounted for 35-40% of voids since 2010 (despite the meter base growing by 20% in that time). We monitor metered voids through our meter

reading cycle, which allows us to identify consumption (and therefore occupation) and ensure that we are billing properties which are occupied.

Managing unmeasured voids is considerably more costly. Our processes include a combination of desktop investigations, letters and site visits to identify and bill occupied voids. We use two external field teams to undertake visits to these properties. Properties which have been void for over three years will be disconnected from the supply in line with water quality standards.

The proposed reduction in voids is based on a 28% improvement in unmeasured voids by expanding our investigations and field activities. We plan to increase visits from once every two years to an annual and six monthly basis depending on the characteristics and history of the property, partnering with organisations (such as local authorities) to improve data quality, knowledge of occupied properties and to link customer property movements. All of which will ensure we are able to improve the accuracy of unmeasured void properties.

Our work with local authorities will also allow us to identify properties of which we have no record.

We have recently commenced a project to convert property Ordnance Survey Address Point Records (OSAPR) references in our billing system to Universal Property Reference Numbers (UPRNs) to align with Ordnance Survey records. The UPRNs cover all buildings and are assigned to every new property at the point of planning approval by Local Authorities. They are traceable through a property's lifecycle of planning, build, split or combination, demolition and as such provides a superior reference for property validation.

Any UPRNs not in our billing system require a routine review, which will support an ongoing commitment to assessing any potential gap sites as part of our quality framework. However by their very definition, gap sites are unknown to us and therefore we cannot quantify how many we have in our area or set a target for reducing them. Taking into account this lack of reliable information, we do not believe that it is appropriate to set a performance commitment for gap sites at this time.

*Table 15: AMP7 Measure of Success; Unbilled Properties (voids)*

Measure of Success	Definition	2017/18 outturn	2019/20 Target (AMP6)	2024/25 Target (AMP7)
BI4 Unbilled properties (voids)	The percentage of connected properties that are void (not billed for water and/or waste water services)	4.3%	4.0%	3.5%

### 5.5. Social tariffs

The extent of the financial support we provide to low income households exceeds that of any other company. At the end of March 2018, we were helping 89,100 customers to pay their charges through social tariffs. Our customers continue to support cross-subsidising the



social tariffs which is currently (2018-19) set at £15.13 for combined water and waste customers. In addition to this, the company forecasts to contribute £7.3 million to the cost of social tariffs in 2018-19 from its 'customer dividends'.

Whilst we have made significant progress in supporting low income households since 2015, both external and internal analysis shows that penetration of our affordability schemes in the poorest communities in our area is low.

Over AMP7, Welsh Water is currently forecast to contribute some £85 million towards social tariffs (subject to the PR19 final determination and the actual financial position of the company over the period). This will support an increase in the number of customers receiving social tariffs to 148,000. We will place greater emphasis on the most disadvantaged communities. These customers typically have little contact with us and therefore it will require us to take a more proactive approach, working with local authorities and customer representative groups. We will establish a specialist Affordability Team to oversee this activity, ensuring that customers and their representative groups receive the right advice on how to manage their water charges. We will increase the size of our community teams, building on our existing network of over 180 accredited partner organisations to ensure that we are signposting our services to the right agencies.

For those customers who are seeking to manage their household finances more effectively, we will provide more advice on money saving options including metering and water efficiency, as well as explore the feasibility of more frequent billing.

*Table 16: AMP6/AMP7 Measure of Success; Social Assistance Schemes*

Measure of Success	Definition	2017/18 outturn	2019/20 Target (AMP6)	2024/25 Target (AMP7)
BI2 Vulnerable customers on social Tariffs	The number of customers who are signed up to one of our financial assistance schemes (thousands)	90	133	148

## 5.6. Customers in vulnerable circumstances

Supporting customers in vulnerable circumstances is one of the critically important Strategic Responses for the household retail business in our Welsh Water 2050 strategy. We know that we need to make our services more flexible to meet the needs of our vulnerable customers. In developing our plans for AMP7 we have undertaken research to obtain feedback from customers that are registered for our Priority Services, as well as establish best practice within and outside the water and energy sectors. Our plan for AMP7 aims to:

- Use our data and systems to identify customers in vulnerable circumstances and to innovate and tailor communications and services for customers and to help our teams make better decisions and identify the best course of action.

- Improve and expand our Priority Services, and improve our understanding of the transient factors that may put customers into vulnerable circumstances and develop ways of addressing them.
- Address financial vulnerability and affordability by having schemes in place to support customers to have a reduced bill, but also providing flexible billing and payment options that help people budget more easily and provide water efficiency and benefit entitlement advice.
- Continually develop our approach by working with and building on our network of over 180 accredited partners to improve and enhance what we do.
- Train and support our teams so that they understand and can identify the factors that make our customers vulnerable and provide them with the knowledge and skills to respond.

Our detailed strategy is outlined in our document 'Supporting our customers – Working at the heart of our community' (Supporting document 3.2), in which we have committed to:

- Supporting 100,000 customers through our Priority Services Scheme by 2025
- Providing financial assistance to 148,000 customers by 2025 (see above)
- Establishing a multi-utility forum to improve priority services across Wales, Herefordshire and Deeside
- Undertaking regular surveys to gauge satisfaction with our priority services
- Creating at least 5 new Water Resilient Communities by 2025
- Establishing an annual conference for practitioners in our region
- Establishing a development scheme that will prioritise housing renovations that support vulnerable customers return from hospital to their homes
- Providing help for all customers in financial difficulty
- Establishing a specialist team to support our vulnerable customers
- Maximising the opportunities for data sharing with third parties to support customers in vulnerable circumstances.

*Table 17: AMP6/AMP7 Measure of Success; Vulnerable Customer Volumes*

Measure of Success	Definition	2017/18 outturn	2019/20 Target (AMP6)	2024/25 Target (AMP7)
Sv5 Vulnerable Customers on priority services register	Customers signed up to our Priority Services Register (000s)	26	52	100

### 5.7. Costs

Over the course of AMP7, costs will be reduced by £6m (13%) before the impact of input price pressure. A total of £10 million will be cut from our costs between 2018 and 2025 (19%).

*Table 18: Residential retail business plan*

	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Direct cost	22.50	25.36	23.76	25.59	25.32	24.73	24.00	23.23
Bad Debt	21.58	19.78	17.27	16.70	15.74	15.21	14.27	13.86
Overheads	9.42	9.03	8.70	6.51	6.46	6.51	6.36	6.29
Operating costs (17/18 prices)	53.50	54.17	49.73	48.81	47.51	46.45	44.63	43.38
Input price increases	-	0.93	1.78	2.60	3.58	4.44	5.21	6.01
Operating costs (outturn prices)	53.50	55.10	51.52	51.41	51.10	50.89	49.84	49.39

#### Input costs forecast

The retail household cost base is made up as follows as of the end of AMP6: bad debt charge (33%); staff costs (29%); bought in services (38%). All of these costs are subject to some degree of annual cost inflation which will put upward pressure on our cost to serve:

- 90% of the bad debt charge relates to wholesale charges which will be subject to an annual indexation allowance
- Wage inflation is expected to rise by 13.3% over the business plan period<sup>iii</sup>.
- The drivers of our bought in services are staff costs (for example IT support, postal services) or customer bills (for example debt collection agency costs).

Therefore our plan includes £21.8 million for the expected increase in these costs over the AMP7 period as a whole.

### 5.8. Benchmarking – PWC retail services efficiency review

In 2017, Ofwat commissioned PWC to undertake a review of retail services efficiency, working with the same team of working capital experts that supported our debt improvement programme (outlined in 5.2 above). As a result there are very substantial overlaps between our debt improvement programme and the recommendations of the PWC Retail Efficiency Review for Ofwat. Our planned recovery processes incorporate all those recommendations which are cost beneficial for our particular customer base.

The table below outlines our strategic investment plan priorities for the remainder of AMP6 and duration of AMP7 which overlap with the PwC recommendations for the industry. Key priorities include;

1. Expansion of our management of void properties.
2. More frequent and advanced billing and payments.
3. Proactive management of customer data in order to tailor collections and provide real consequences of payment avoidance.
4. Improvement of the availability and take up of affordability schemes.

*Table 19: Household retail strategic investment plan AMP6/AMP7*

<b>Retail Efficiency Review Priority</b>	<b>AMP6 delivery</b>	<b>AMP7 plan</b>
<b>Proactive management of customer data</b>	Expansion of voids management process to include visits, engaging two specialist agencies to undertake these visits on our behalf, and leveraging the Non-Owner Occupier Regulations (known as the "Landlord Regulations").	Double the number of void visits to ensure that all empty properties (est. 80,000) are visited at least once a year, reducing the number of void properties overall.
	Introduction of Debt Investigation Team to undertake forensic investigation of non-performing accounts.	Develop system capability to link final debt to 'live' customers.
	Training to all front line staff on the data capture and data validation, highlighting the impacts on debt.	Develop customer and property indicators to support our advisors.
	Introduction of naming and data capture conventions for front line staff.	Early identification of deceased accounts.
	Establish Data & Analytics capability within Retail team enabling; data quality and accuracy monitoring, reporting and managing errors and issues. As well as a full range of other analytical support to the business.	Final account tracing.
	Data purchase trials for telephone numbers and email addresses.	Increase the data capture facilities in our systems.
<b>Tailored collections</b>	Extensive re-write of Tallyman (recovery system) collection routes to introduce new treatment paths for different customer groups, applying segmentation based on Land Registry data and new lettering strategies.	Tailor our 'on boarding' processes so that our activities are tailored to customer circumstances.  Develop propensity to pay scorecards for front line teams.

	Developing our insight of the effectiveness of our collection strategies on our customer base, establishing an in-house analytical capability within the Retail business. This small team has significantly enhanced the quality, accuracy and scale of information on our recovery processes. Examples of the improvements delivered are daily dashboards showing individual, team and department performance, which are providing the business with daily detailed management information about performance.	Explore further opportunities for data sharing and data purchase to improve our insight into customer circumstances and target our affordability and recovery activities accordingly.  Develop customer and property indicators to inform collection activities.
	Developing a Propensity to Pay customer segmentation model with our Data Science team, allowing our debt investigation team to target their activities more effectively.	Develop more 'Propensity to' models and integrate with our front end systems.
<b>Move to more frequent or advance billing</b>	Not progressed at this stage. Detailed investigation required to understand customer impact – the largest driver of contact is the issue of a bill, and more frequent metered billing may require more meter reads. Other considerations include likely system changes and impact on charges.	Undertake cost/benefit assessment of changing bill frequency.  Introduce more flexible payment options, for example flexible direct debit (currently investigating this option with BACS).
<b>Improvement of the availability of affordability schemes and increase take up</b>	Introduction of HelpU in April 2015. 57,118 customers on scheme by end of March 2018.	Change the focus of our external debt collection agencies to support our social tariff and water efficiency objectives.
	Number of customers receiving financial assistance at the end of March 2018 was 105,864, compared to 59,386 in March 2015, an increase of 78%.	Redesign our Customer Assistance Fund to improve payment behaviour.
	Introduction of 'reconnection' visits to customers identified as being financially vulnerable. Using specialist field agents, we visit customers in their homes, explain the support that we provide and where appropriate sign them up to one of our schemes.	Establish an in-house specialist team to provide targeted advice to customers
	Introduction of community liaison team that works with local authorities, job centres and the third sector (over 180 organisations at the end of March 2018) to raise awareness of our social tariffs and to provide training to their employees.	Expand our community based team into West Wales.  Work with Welsh Government to implement the data sharing provisions of the Digital Economy Act, in particular

		data sharing with the Department of Work and Pensions.
	Provide funding for debt advice officer at local CAB office.	Establish a more formal arrangement with CAB and other money advice charities.
<b>Provide real consequence to address payment avoidance</b>	Introduction of credit reference agency (CAIS) default into the recovery process, redesigning the commercial collections processes to reduce debtor payment days and expanding our litigation processes from a few hundred cases a year to in excess of 19,000 in 2016/17. Activity has settled to circa 13,000 cases in the year just ended.	Introduce a second credit reference agency into our recovery processes.
	Developing our processes to take account of the Non-owner Occupier Regulations. This is a critical piece of legislation that over the long term will reduce our risk of not knowing who our customer is. However it has required considerable work to raise awareness across the landlord population, working closely with Rent Smart Wales and landlord bodies, establishing a new team to and processes to proactively identify tenanted properties, refresh our landlord database and address data quality issues and, finally, sharing good practice with English companies.	Continue to progress non-paying accounts through courts and hold landlords to account to their obligations under the Non-owner Occupier Regulations.
<b>Increase the level of customer prepayments</b>	The number of customers paying by direct debit has increased to 65% in March 2018.	Introduction of more flexible payment arrangements that meet the needs of our customers.

### 5.9 Innovation and efficiency

As well as this major programme of innovation in our retail efficiency programme, we will also transform the way in which our household retail business operates through the introduction of new technology, new ways of working and providing our people with new skills over the course of AMP7. This includes:

- Creating a digital platform that supports all our of customer journeys, not only routine transactions

- Greater use of data to understand customer behaviour and use that insight to support the decisions taken by our front line teams and provide a more personalised service to customers
- The introduction of automation technology, including robotics and artificial intelligence, into our customer contact activities, building on the innovation (for example our bi-lingual chatbot) we have introduced in AMP6.
- New ways of co-creation and partnership working to improve our services.
- Establishing a permanent horizon scanning capability to ensure that our service, process, technology and ways of working compare favourably with innovators in retail services.

Our PR19 Initiatives and projected spend are outlined below:

*Table 20: Residential retail strategic investment plan AMP7 Outturn Prices*

Strategy	Capabilities	AMP7 Spend (£m)
Data & customer insight	<ul style="list-style-type: none"> <li>- Develop customer insight models and integrate learning into customer systems, enabling advisors to make risk based decisions and tailor actions accordingly</li> <li>- Develop “champion challenge” capability to allow the business to test new marketing or collections strategies and make evidence based decisions</li> <li>- Activity based costing for collections strategies</li> <li>- Data sharing with third parties</li> </ul>	0.6
Personalised Services	<ul style="list-style-type: none"> <li>- Integrated online and mobile account management functionality</li> <li>- Dialler/SMS integration with customer systems</li> <li>- Skills based routing</li> <li>- Variable payment arrangements</li> <li>- Variable billing</li> <li>- Debt system replacement</li> <li>- Bill redesign</li> </ul>	16.4
Support for vulnerable customers	<ul style="list-style-type: none"> <li>- AMP7 Social tariff strategy</li> <li>- Variable payment arrangements</li> <li>- Variable billing</li> </ul>	1.5
Easy to do business	<ul style="list-style-type: none"> <li>- Real time jeopardy management reporting</li> <li>- Speech analytics</li> <li>- Contact Centre MI</li> <li>- Skills based routing</li> </ul>	2.4
Team Capability & skills	<ul style="list-style-type: none"> <li>- Contact centre operating model</li> <li>- Knowledge portal</li> <li>- Management development and succession</li> </ul>	0.7

IT systems to improve customer experience	<ul style="list-style-type: none"> <li>- Implementation of a major new IT system</li> <li>- New appointment tracking system provided</li> <li>- Ability to keep customers informed about the progress of jobs automatically</li> </ul>	20.0
<b>Total</b>		<b>42.0</b>

#### Cost reduction plan

*Table 21: Cost reduction plan (before input price pressure)*

<b>Strategy</b>	<b>AMP7 Cost reduction (£m)</b>
Data & customer insight	0.2
Personalised Services	3.1
Support for vulnerable customers	2.0
Easy to do business	0.3
Team Capability & skills	0.0
IT Systems to improve customer experience	0.7
<b>Total</b>	<b>6.35</b>

The plan delivers Opex cost reductions of £10m between 2017/18 and 2024/25, an improvement of 19%, £6.4m of which occurs in AMP7. Headcount reductions over this period equate to 9% over AMP7 and will be achieved through higher productivity and reduced error rates, but the biggest driver of efficiency will be the move to a fully integrated digital service offering to customers.



## 6. Outlook to AMP8 and link to Welsh Water 2050

A large number of our customers in 2050 have yet to be born, and therefore trying to anticipate the service they will expect of their retail service provider brings some challenges. It is vital that the plan that we put in place for AMP7 provides us with the flexibility to adapt as these preferences become apparent.

It is also likely that there will be even greater divergence in the preferred contact channels for the various customer groups we serve. Given that we have a universal service obligation and our company vision is to earn the trust of all of our customers, we will need to maintain high quality traditional contact channels, as well as investing in the latest, digital services.

Our operational strategies – innovation and data rational business, personalised services, easy to do business, supporting vulnerable customers and digitally skilled teams – have been developed in response to customer feedback, benchmarking of best in class retail operations and engagement with regulators and customer representative groups. They directly support the following Welsh Water 2050 Strategic Responses:

*Table 22: How AMP7 priorities overlap with Strategic Responses*

	<b>SR8: Ensuring Affordability for our customers</b>	<b>SR9: Supporting Customers in Vulnerable Circumstances</b>	<b>SR12: Leading Edge Customer Service</b>
Data Rational Business	✓	✓	
Digitally Skilled Teams	✓	✓	
Easy to do Business	✓	✓	✓
Personalised Service			✓
Supporting Customers in Financial and Non Financially Vulnerable Circumstances	✓	✓	

In developing our plans for AMP8 we will again be guided by the views and needs of our customers, our successes and failures in implementing our AMP7 plans, and the rapidly changing retail landscape including learning from best-practice in the water industry and beyond.

## References

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<sup>i</sup> See <https://www.ofwat.gov.uk/wp-content/uploads/2017/10/250717-Ofwat-Retail-Services-Efficiency-12.pdf>

<sup>ii</sup> Social Tariff Strategy (for Welsh Water), Economic Insight, November 2017 – see Annex 1  
Household Income Estimates Q1 2017, Experian – see Annex 2

<sup>iii</sup> Labour Cost Forecasting Report (for Welsh Water), Economic Insight, September 2017