Independent review of affordability support for financially vulnerable water customers in England and Wales

Wessex Water response

Thank you for the opportunity to input into this important and welcomed review of affordability support in the water sector. We hope the review will identify some quick wins, considering the impact of COVID 19 on the economy and household finances, alongside changes that can be made for PR24 and beyond.

Detailed answers to the specific questions can be found in the Appendix.

Our key points can be summarised as follows:

- Water use should not be rationed by customers' ability to pay.
- In an ideal world, a combination of financial education, national minimum/living wage and the benefits system would provide sufficient support to enable customers to afford their ongoing financial commitments including water bills.
- Without that, water companies should step in as part of their wider social purpose. Indeed, companies have signed up to a Public Interest Commitment to eradicate water poverty by 2030 which we believe is the socially responsible outcome, delivering maximum public value.
- This review should look for quick wins as we enter COVID 19 recovery as well as ambitious medium to longer term changes. Our COVID Assist tariff is a good example of a tariff that was mobilised quickly to meet the needs of a new cohort of customers impacted directly financially by the pandemic.
- It's important to look at affordability support as a whole. Social tariffs are not the only solution. They have their place alongside metering, water efficiency support, flexible payment plans or payment breaks, Water Direct, debt repayment schemes and income maximisation services.
- The outcome of this review should be an affordable and therefore sustainable water bill that reflects customers' ability to pay. There should be a common definition of 'affordable' agreed by government.
- Where social tariffs are proposed, they must result in affordable bills. We shouldn't focus simply on driving up numbers of customers on social tariffs if the bill reduction is insufficient to meet their needs.
- We need to address the 'postcode lottery' of affordability support that currently exists both in eligibility criteria and level of support. To do this, we propose a minimum national social tariff, mandated by government that provides the customer with an affordable bill. Any discount to ensure this level is met should be funded by individual companies' customers.
- Any national tariff or scheme could be accompanied by a suite of enhanced locally developed support to tackle cases of more severe hardship. This model is like the Warm Home Discount in energy which is available to a mandated core group as a minimum but to a broader group through specific supplier defined eligibility criteria.
- Social tariff reach is reduced by the need to seek broad support from customers for cross subsidies on their bills and there are regional differences in willingness and ability to pay. Cross subsidies are commonplace across society and already inherent in other aspects of water charging. If affordable bills is approved by government as an outcome that should be delivered for society, this should remove the need for broad customer support to be sought for any national social tariff. This should ideally

be extended to locally developed schemes which would benefit from this approach but if not, then a threshold should be set, only above which does customer support need to be sought.

- It's never just about water. Customers will normally be struggling with multiple debts many of which are classed as higher priority. The framework put in place must encourage and make it easy for customers to receive holistic support and advice, alongside assessing ability to pay, which can only be achieved through effective working partnerships with the advice sector, which water companies fund.
- We must make sure customers and stakeholders/partners are fully aware of the support available now and in future and it is easily accessible. Data should be made available to water companies to directly passport customers onto social tariffs or support schemes.
- Consideration must be taken of any incidence effects of transitioning customers to any new scheme and protection put in place for any customers that may no longer qualify.

We hope you find these comments helpful.

Best wishes

S. Lindsay

Sue Lindsay

Director Customer Policy & Engagement

Appendix – Detailed question responses

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

   The water industry has made great strides in supporting customers in vulnerable circumstances including those in financial difficulty. Over 1 million customers are already receiving lower bills, with companies committed to further increasing numbers on social tariffs by 2025 and eradicating water poverty in the longer term.

   The recent pandemic has had a major impact on the economy and household finances. Water companies have worked collaboratively to introduce new mechanisms to support customers, such as payment breaks, and many are introducing COVID 19 specific support tariffs for those new cohorts of customers starting to emerge who are struggling to pay their bills for the first time. This review should consider these as potential quick wins for wider implementation.

   The most successful companies offer a wide range of support for customers in financial difficulty to enable them to afford their ongoing water charges and repay any debt. Social tariffs are not the answer on their own.

   Using Wessex Water as an example, we have been developing our affordability offering since the early 2000's and offer a plethora of support through ***tap*** that includes metering, water efficiency advice, flexible payment plans, payment breaks, payment direct from benefits, debt repayment schemes, social tariffs and funding for debt advice provision, financial capability and hard to reach projects out in the community. Our customers benefit from a tailored solution to meet their own financial situation with discounts of up to 90% on their bills.

   Ongoing water bill payments are directly determined by the customers' ability to pay which, for our main social tariff, is assessed through the provision of independent, holistic debt advice and income maximisation. This is successful as customers can get back on track and into sustainable payment behaviour. Our Assist customers were previously poor and sporadic payers and, once on the tariff, they pay up to £50 more which more than offsets the cost of administration of the tariff. The tariff was originally introduced as a win-win tariff and continues to be almost self-financing to this day with a minimal cross subsidy.

   Our Restart debt repayment scheme is proven to help customers get back on track. Restart is a 2-year programme that can be combined with a lower rate tariff for ongoing water charges. Customers pay their ongoing affordable water bill and make a nominal contribution to their debt. We reduce their debt by a matching amount at the end of year 1. In year 2 customers continue to pay their ongoing charge and contribute towards their debt but at the end of year we will write off all remaining debt. More than 90% of customers on our Restart scheme continue to pay their water bills at the end of the second year. Other similar schemes operate successfully in other company areas.

   COVID 19 has led to some changes to ***tap*** to recognise the need to protect new cohorts of customers coming through who have never been in financial difficulty before. Alongside other water companies we introduced longer payment breaks to give customers breathing space and these have been very effective. More recently, working with our expert partners, we have developed COVID Assist. As our Assist tariff is already available to anyone struggling to pay, we have modified the onboarding process for the group of customers coming through who are not yet in debt, have been directly financially impacted by COVID 19 but are likely to be able to get back on track within a relatively short period of time. For this group, they are being allowed onto the tariff for 6 months without the need to seek debt advice, one of the normal eligibility criteria for the tariff. If they wish to remain on the tariff for longer then they need to seek advice. We are using a triage process in our call centre and online to identify this group and asking customers what they can afford to pay before placing them on one of the Assist bands.

By taking this approach we are avoiding this group falling into debt in the first place and protecting capacity within the advice sector. This is an approach other companies could take as a quick win to aid COVID 19 recovery.

We should remember it's never just about water. Customers who are financially vulnerable will normally be struggling to pay or falling behind on multiple bills many of which are classed as higher priority than water. Partnerships are key to effective delivery of affordability support as partners in the debt advice sector can provide independent, holistic advice including income maximisation and make sensible offers to all creditors within a sustainable financial budget. There are many good examples of effective partnership working like our own across the sector.

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

We need to start with the fundamental principle that water use should not be rationed by customers' ability to pay. The water industry has signed up to a Public Interest Commitment to eradicate water poverty by 2030. We believe this is the socially responsible outcome, which delivers maximum public value.

The current framework has led to a postcode lottery in terms of affordability support which needs to be addressed. Although companies provide a range of support, customers still face a landscape in which the level of discount and ability to access support for an essential service is determined by where they live. National partners, such as National Debtline, struggle to manage the myriad of company schemes when their staff are dealing with their clients.

Support can also be determined by whether a customer has a single or separate provider for their water supply and sewerage services. We have removed this barrier in our joint Wessex Water/Bristol Water area through joint billing and harmonisation of our policies.

If you consider social tariffs alone, bill reductions vary significantly, and do not in all cases reduce bills to a truly affordable level that matches ability to pay. If you consider our Assist tariff, 63% of the 14,950 customers are on Bands 1 and 2 which equates to a discount of around 90% or a water bill of around £1 a week. This contrasts with customers who are 'just about managing' such as low-income pensioners, where we find a smaller discount of around 20% is enough to ease their financial budgets. The historic focus on numbers of customers on schemes, has in part driven this behaviour and companies have chosen to offer smaller discounts of below 50% to reach larger numbers of customers.

In terms of access to support, eligibility varies greatly particularly for social tariffs. In some cases, they are only available to customers in receipt of certain means tested benefits and in others they are determined by a household income level or bill to income ratio. Our research was very clear that customers do not favour tariffs being limited to only those on benefits so our Assist tariff is available to anyone who cannot afford their ongoing charges be they on benefits, in low paid work or a combination of both.

Our proposed solution to this postcode lottery would be to introduce a minimum national social tariff that is mandated by government and provides the customer with an affordable bill, the definition of 'affordable' agreed by government.

The industry has commissioned CEPA, whose work is ongoing, to further understand water poverty, how best to measure it, establish a baseline position of water poverty across England and Wales and quantify the current gap in support. The initial suggestion for a definition linked to this work is that a water and sewerage bill should be no more than 5%, or possibly 3%, of a customer's disposable income. Any discount to ensure this level is met should be funded by individual companies' customers.

A nationally agreed tariff could be accompanied by a suite of enhanced locally developed support to tackle more severe cases of hardship. This is like the Guaranteed Standards Scheme where companies have a set of prescribed service standards and compensation to adhere to as a minimum but have then enhanced those Promises in their local versions of GSS.

We also see a similar approach in the energy sector where the Warm Home Discount is available through all suppliers of a certain size to a core prescribed group but supplemented by greater support for a broader group through specific supplier criteria.

WaterSure is an existing national tariff with a common name and eligibility criteria. But it isn't the answer to water poverty as it is limited to metered customers on benefits and the bill is simply capped at the average bill level. It only really protects certain low-income customers from bill shocks.

If a national scheme is introduced, we should have clear and simple common eligibility criteria and easy onboarding to not only help customers but also our partners. Working at a national level will also facilitate joint promotion. We have attempted to design a national tariff in the past so lessons should be learned from that work. Tariffs like Assist are very flexible but are more resource intensive for companies and debt advice partners. A tariff based on household income value or bill to income ratio could be easier to administer. Companies will also need time to make potential changes to their billing systems.

Whatever is decided in this review, companies need to be agile and able to enhance their support to suit their customers' needs. This has been evident in the industry's response to COVID 19 where some companies have struggled to make changes to their social tariffs or support schemes.

There is also a potential postcode lottery in funding for social tariffs and limitations to the current cross subsidy approach. Our views on this are provided in our response to question 5.

In question 1 we promote the benefits of strong partnership working with the advice sector. Although this is evident in many companies it could be improved and potentially mandated.

Finally, water companies are data poor as they don't have contracts with their customers and landlords are not legally obliged to provide information on their tenants. Customers need to apply for support with their bills. We need to continue to push forward on data sharing with relevant third parties including the Department of Work and Pensions to allow companies to directly passport customers onto social tariffs and we should mandate landlords to supply information on their tenants.

Likewise, we should facilitate data sharing with the debt advice sector. If an agency helps a customer, they should be able to share their details with other creditors to either mark the account as a potentially vulnerable customer or follow suit in terms of applying a support scheme. By way of example, National Debtline support many more customers each year across our region than we see in terms of direct referrals onto our support schemes.

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

Although we lack a common definition of water poverty, water companies accept they are not currently supporting all customers in financial difficulty. This is in part due to the makeup of the support available but also to recognised barriers to identification of and engagement with this group of customers.

Our response to question 2 above identifies some of the gaps or limitations in the current arrangements including access to data, postcode lottery within existing support schemes and variable partnership working.

Customers who are 'just about managing' need to be better supported as they often cope by going without other essentials. It's very difficult to identify these customers as they are unlikely to be in debt or missing payments and there may be cultural or societal barriers to engagement.

One example is that lower income pensioners tend to fall into this category. We have around 80k pensioners in our region on pension credit, but they were always grossly under-represented on our schemes. So, we introduced a 20% discount for this group to free up their budgets and to bring us in line with other sectors who provide lower rate or free services to this group. Some water companies have a similar approach but not all.

The number of 'JAMS' is likely to grow in number as COVID continues to impact the economy and household incomes. We refer in our response to question 2 about a new cohort of customers that we are supporting to recover from the impacts of COVID. There may be others appear as recovery continues and any government support is amended.

Staff have also identified and received push back from customers who are using a lot of water but don't have one of the prescribed benefits to qualify for WaterSure. Although not on a perceived low income, their water bill is often significantly above average due to a medical condition they can't control.

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

Companies have included projections for social tariff growth within their current business plans. If these projections are exceeded, which is likely to happen due to COVID 19, then many will need to do further customer research to gain support for additional cross subsidy. If this can't be achieved, then customers may be refused access to social tariffs or affordability support which is unacceptable.

There are stark differences in willingness to pay for cross subsidies across the country and in very deprived areas, the burden is potentially starting to fall on those who are, themselves, only just about managing.

As mentioned above, many company schemes do not, in our view, address water poverty. Our evidence shows that many customers in real hardship need more significant discounts to achieve an affordable bill.

The capacity of the debt advice sector is also questionable in the longer term particularly with local council funding decreasing, agencies having to find alternative funding routes and increasing reliance on volunteer resource. COVID 19 is adding further pressure on the sector. We believe water companies should fund the advice sector at a regional level to recognise increase in footfall in local agencies.

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

Currently most of the funding for social tariffs comes from cross subsidies on other customers' bills with companies needing to seek broad support for the level that customers are willing to pay. Many customers have quite entrenched negative views on the principle of cross subsidies, and it is becoming increasingly difficult to gain support in already deprived areas of the country.

The lack of available cross subsidy has stifled reach in some companies' social tariffs and means that worthy customers may be unable to access support moving forward.

Customers also often question the need to seek their permission for cross subsidies that they consider immaterial. For example, Wessex Water sought support for a 50p annual cross subsidy for its Assist tariff and even customers who were completely against cross subsidy in principle questioned the need to ask them about such a small amount.

Cross subsidies are commonplace in society, for example when you buy a bus ticket you are subsidising the cost of free bus travel for elderly customers. They are also inherent in other aspects of water charging. If affordable bills is approved by government as an outcome that should be delivered for society, this should remove the need for broad customer support to be sought for any national social tariff.

This should ideally be extended to locally developed schemes which would benefit from this approach but if not, then a threshold should be set, only above which does customer support need to be sought.

Some companies have chosen to directly fund additional cross subsidy from profits and others, like ourselves, have chosen to share outperformance by funding debt advice and financial capability projects or outreach services in the community.

Some stakeholders have suggested that all companies should fund social tariffs from profits. We do not support this approach. However, if this review reaches that conclusion, then this should be mandated by Ofwat, as the economic regulator. Funding should not be dependent on outperformance by individual companies. All companies should operate to the same rules with the same % of profits used to fund tariffs. Without this, we will simply create another postcode lottery.

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

We have had a wide range of affordability support in place for many years, but our challenge has been to raise awareness and increase take-up. Looking at our Discount for low income pensioners, we have just under 21,500 on the scheme but understand around 80,000 in total may potentially qualify.

As discussed above, the most effective way of tackling this issue is to provide the water industry with access to data such as benefits data so customers can be directly passported onto support schemes. The customer has no action to take.

In the absence of that, we have set out a full range of initiatives to tackle this issue in our vulnerability strategy, Every Customer Matters. Initiatives sit in four workstreams; using data wisely, growing partnerships, community engagement and improving the customer journey. All were co-created with our partners.

A copy of our strategy and examples of initiatives is attached to illustrate what we believe works well.

At the heart of our work is partnerships not just those in the debt advice sector who directly refer on to our schemes but to over 200 partners who interact in some way with customers in vulnerable circumstances. They advertise, signpost or directly refer on to our support schemes and work with us on joint community-based initiatives. We have funded a variety of successful projects in the community to improve financial capability and a number of outreach services in deprived harder to reach areas working with our partners and we share data with them to identify gaps in affordability support in their local areas.

Partnerships need to be maintained. For example, we introduced PartnerHub, a digital tool to manage relationships with our partners and make it easy for them to find information on our schemes, book training, order resources and have the chance to network and share ideas. Feedback from our partners has been excellent and the Hub very well used.

We have also used customer insight to make improvements to our schemes. A recent example is research we've undertaken with low income pensioners who would be eligible for our 20% discount. This has helped us identify improvements to our processes and communications that we have been able to put in quickly to break down barriers to uptake. A copy of the research debrief is attached as the themes are likely to be common to other water companies and may be useful to consider in this review.

Communication is key. Customers need clear and simple calls for action and an easy application process to follow. Customer journey mapping can help facilitate this along with advice from partners or lessons from other sectors.

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

   It is difficult to compare water to other sectors as we are unique in that we have a duty to supply and no contracts with our customers. We are therefore data poor.

   In many other sectors, debt is also fixed and there is no ongoing charge. Energy is perhaps the closest to water, but they can still disconnect and have prepayment meters.

   In terms of best practice, many other sectors have vulnerability strategies or guidance and national bodies, such as MAPS, run best practice groups or produce creditor best practice guidelines and publish helpful research. Wessex Water sits on a number of national groups and we find these very helpful, but water companies are not heavily represented. We could push for more cross sector working and sharing of best practice.

   Other sectors are also strong advocates of financial education and financial literacy. We fund projects of this nature, but more can be done in this area.

   Involving stakeholders in the design and oversight of our schemes has been hugely beneficial to us as they can bring best practice insight from other sectors. Our vulnerability advisory panel (previous affordability advisory group) has been instrumental in the evolution of our affordability schemes bringing with them their own expertise and learning from other sectors.