

# CCW Call for Evidence Southern Water response

15<sup>th</sup> December 2020



from  
**Southern  
Water** 

Southern Water welcomes the independent affordability review being undertaken by CCW on behalf of the Government. In these increasingly challenging economic times, it is more important than ever to ensure that we are supporting those of our customers who are in difficult financial circumstances, whether that is due to a temporary economic shock or longer term financial challenges.

There are two key challenges in supporting the financially vulnerable –

- identifying those who are in genuine need of assistance
- providing the right support for the individual

At the same time any framework needs to be designed and delivered in a way that does not place undue burden on bills as this would simply put more customers into financial difficulties.

These are not easy issues to resolve and it will take a co-ordinated approach by Government, regulator, consumer advocates and water companies to develop a sustainable solution that gives genuine benefit to those who need it most.

Answers to the specific questions are below and Southern Water are more than happy to discuss in more detail if required.

#### *Question 1 – what works well in terms of the current arrangements for supporting households that struggle to pay their water bills*

The fact that the regulatory framework allows water companies to offer discounts off bills and also to cap water bills in some circumstances is helpful in terms of supporting households who are struggling. Southern Water offer a range of discounts between 20%-90% - we believe that this allows us to tailor our support to the individual customer's financial circumstances. We also operate a "passporting" system with the other water companies that operate in our region – if a customer qualifies for the social tariff offered by their freshwater supplier, we will automatically give a 25% discount on their wastewater bills. In addition, the referral system that Southern Water operates with key partners (such as Citizens Advice bureaux, Christians Against Poverty, StepChange) allows us to offer assistance to a much wider range of customers.

#### *Question 2 – In what ways could the approach to supporting financially vulnerable households be improved*

As mentioned above, the regulatory framework enables water companies to provide financial assistance. There are, however, some elements of this framework that are overly restrictive and prevent an agile response to changing circumstances. This is particularly the case with the framework for social tariffs. The requirement to link the amount of support available to the amount customers declare themselves willing to pay to support others has two significant impacts –

- it becomes difficult to make quick decisions in relation to the level of support offered and the number of customers it is offered to, particularly if a company is close to the overall limit imposed by their customer base. It cannot be right that companies are constrained from offering immediate support by a need to consult with their customer base in order to release the support required.

- A “postcode lottery” becomes inevitable as the amount of support a water company can provide is limited by the generosity of residents in their region rather than the need of those in difficult financial circumstances

The COVID pandemic and the consequential economic impact has crystallised these limitations and it is possible that some customers might have lost out on support because of them. At Southern Water we are lucky to have a generous customer base and, as we haven't hit our theoretical cap, we have had the room for manoeuvre that allowed us to make the eligibility criteria for our social tariff more generous as a temporary measure to help those impacted by COVID.

The Water Direct scheme (where customers can have their water bills taken directly from their benefits) is another area that could be improved. For customers who struggle, for whatever reason, to manage their finances but want to keep up with their bills, the ability to have their water bills deducted directly from their benefits can be a real help and stop them from falling further into debt. Unfortunately, the administration of the scheme is not as efficient as it could be. Applications can take weeks to be assessed, making simple changes (such as a change of address) requires the whole process to be re-started, payments are sometimes stopped with no notification and it is impossible to make urgent changes if errors have been made (which can sometimes lead to customers having too much taken out of their benefits). If improvements could be made to the running of this scheme it would definitely help customers who are perhaps more chaotic in relation to managing their finances to reduce, and stay out of, debt.

*Question 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?*

Aside from the issues mentioned above, one of the key limitations in current arrangements is the identification of those who need help and the ability to differentiate between those who cannot pay and those who simply don't want to pay. At Southern Water we are fully aware of the scale of the challenge in our region. Research undertaken by PwC to underpin the development of our PR 19 Business Plan suggested that around 245,000 customers would qualify for our social tariff based on an income eligibility threshold of £16,105 (the level our threshold was set until our recent temporary increase). The number of customers who are receiving support through our social tariff is tracking significantly below this level – indicating that many households are missing out on support they would be eligible for. This is not through lack of effort or willingness to try innovative approaches (such as the water bill surgeries held at Job Centres), it is simply the eternal challenge of identifying those who need help when they do not put their hand up (because they aren't aware of the help available, because they are too proud to ask or because they cannot bring themselves to face their difficulties).

Unfortunately there is no simple answer to this particular challenge. There are a number of things that can help to a certain extent (see below) but what is really needed is a concerted effort by all those who come into contact with households who are currently in, or may in future be in, financial difficulties to ensure that holistic advice and help is given, including in relation to water bills. There is also a need for all those organisations (public and private) who hold data that might help identify customers who are struggling financially to look for ways that data can be shared within the bound of data protection regulations.

Some more specific suggestions include –

- The data-sharing arrangements with DWP that a leading group of water companies are about to start implementing (including Southern Water) will help to a certain extent but the restrictions placed around the process in order to comply with data protection requirements make it less of a boost than it could be – it also does not currently cover data on Universal Credit recipients (though there are plans in place to remedy this over time).
- Strengthening partnership arrangements will also help – ensuring that all organisations who deal with people in some form of financial crisis are aware of the help that can be offered by water companies
- Making more efficient use of community engagement to maximise reach. This works particularly well across utilities. We all have limited resources so if we share messaging to reach out to those who need help then we should be able to cover more ground.
- More campaigning by national reach organisations (including CCW) to promote greater awareness generally of the help available.

*Question 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?*

The current arrangements may be sustainable as far as Southern Water are concerned (in terms of the room for manoeuvre in relation to the design of our social tariff) but the issues flagged earlier in this response means that maintaining the status quo would not be delivering the best outcome in terms of meeting the needs of financially vulnerable households. Therefore we believe that changes do need to be made to ensure there is a more robust framework that allows the financially vulnerable to be more effectively supported. This framework needs to look at financial support but also support for water efficiency – with the vast majority of Southern Water customers having a metered supply, improving water efficiency is an important element of helping customers with their water bills.

It is difficult for one company to set out a comprehensive plan of action that will address all the challenges faced in supporting the financially vulnerable. What is really needed is a comprehensive strategy developed by, and with the support of, Government, regulators, water companies and third sector organisations who work with the financially vulnerable. Southern Water would be very willing to support such an initiative and work with relevant parties.

*Question 5 – Are the current arrangements for funding social tariffs fit for purpose? If not how should they change?*

As noted above in response to question 2, there are two fundamental issues with the way the current arrangements for social tariffs are structured – they prevent quick changes in support offered and they lead to a “postcode lottery” in terms of eligibility and availability of support.

Identifying the need for change is straightforward, developing a replacement framework is much more challenging. There are two clear principles that must underpin any new arrangements –

- Customers should be able to reach out to the same level of support (or at least to an agreed minimum level) regardless of where they live
- Support levels should not be dependent on levels of customer generosity

Perhaps the simplest framework would be to agree a minimum standard of support and minimum eligibility thresholds, with companies having the freedom to go above and beyond should they be able to. The impact on customers’ bills can easily be monitored by the regulator. This sort of framework would limit the element of “postcode lottery” by having a guaranteed minimum level support and also make it easier for third sector organisations to advise clients on what support might be available.

The main issue with this approach is the differential financial impact it will have on water companies. The proportion of eligible customers will vary from region to region, meaning that the financial impact will also vary between companies. In addition each company faces a different set of financial challenges, whether that is in relation to infrastructure investment, metering programme roll-out, etc. Which all means that some companies will see a greater financial impact than others – this is not an element that can be ignored given the knock-on implications for bills and infrastructure investment.

This is not an insurmountable issue, but simply demonstrates the complexity of delivering a fair solution for all in a regulated market. The first step to resolution has to be developing a robust evidence base. The work CEPA are doing on behalf of Water UK will be a good start in understanding the relative impact of water poverty across individual company regions but more work will be required to understand the full financial implications and assess different options for providing support. This work should be undertaken in collaboration between the industry and regulators to ensure a shared understanding before decisions on new arrangements are made.

*Question 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?*

At Southern Water we are always looking for new ways to promote the support that we offer, though this has been a particular challenge during the pandemic as this has ruled out one major element in the lack of face-to-face engagement with customers and local communities. Working with partners is critical in this area – so many of our customers disclose their financial difficulties to other organisations. The more that we can do to help ensure that as many organisations as possible are aware of our offerings, and how to get the customer the help they need, the better. We have worked hard, through a dedicated team, to build strong relationships with national-level organisations (such as Citizens Advice) and more local, community based organisations. Where possible we have direct referral mechanisms in place so we can provide immediate help to the customer without them needing to contact us.

In the same way that other companies do, we make use of social media, our website and local radio for promoting our assistance as well as carrying out targeted campaigns (by phone, email or letter) to try to reach as many people as possible. As mentioned earlier, there is a role for CCW and other major national organisations to do more campaigning at the macro level to raise awareness of the help with water bills that is available. But this needs to be combined with partnerships on a more local level, including with local authorities (who could play a significant role given their knowledge about their local areas).

Applying for financial assistance needs to be as straightforward as possible. At Southern Water we streamlined our application process as part of our response to COVID. There is a balance to be struck between ensuring customers can easily apply whilst, at the same time, ensuring that sufficient information is provided for companies to be certain we are helping those who need it most. It is critical to provide options for applying through various routes – phone, email, webform, paper form. Different customer segments will be more comfortable with different means of communication, it is important that all options are there so we do not inadvertently discriminate against certain customers. Allowing trusted third parties to make referrals on behalf of customers (with their consent) works well as it removes the need for the customer themselves to make the application.

*Question 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 would be worth learning lessons from the energy sector's journey in tackling fuel poverty (including the introduction of the Warm Homes Discount). There are many practical and policy lessons that could be learned and pitfalls to be avoided.