

Date: 15 December 2020

By e-mail: yourviews@ccwater.org.uk

Dear

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

Thank you for the opportunity to contribute to this call for evidence.

Affordability is one of the strategic priorities of our business plan. We have a long track record of providing innovative solutions to address affordability and vulnerability, reflecting our regional circumstances characterised by lower than average incomes and higher than average bills meaning water poverty is more prevalent in our South West Water service area.

Over the last decade, across the industry, there has been a step change in the breadth and depth of support available to customers who struggle to pay their water bills. Companies continue to develop thinking in this area and through UKWIR's Big Questions and WaterUK's Public Interest Commitments, are working together to progress an industry-wide definition of water poverty, understanding of the drivers of water poverty and evaluating approaches to reducing water poverty, which we hope will lead to the development of a national water poverty strategy supported by government.

While we welcome the review of affordability support for financially vulnerable customers, we believe that unless there is a proposal for a radical overhaul of the industry approach to providing support, whether through social tariffs or otherwise, the best approach would be to support the work being co-ordinated through WaterUK to deliver the Public Interest Commitment to make bills affordable for all households paying over 5% bill to income ratio and developing a strategy to end water poverty.

Detailed responses to the questions raised in the call for evidence are attached at Appendix 1, we have also enclosed the Addressing Affordability and Vulnerability section of our business plan, and a previous publication on the benefits of partnership working to deliver support.

If you have any questions regarding our response, or would like further information regarding our approach to addressing affordability, please let me know.

Yours sincerely

Appendix 1

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

Toolkit approach

For the majority of customers water bills are affordable, but we are acutely aware that some customers struggle to pay and for these customers a one size fits all approach will not work.

We believe that a toolkit approach is the most effective way to deliver support for households that are struggling with their bills. The current arrangements provide a great deal of flexibility for companies to develop a range of support measures that can be applied to meet the needs of consumers in their regions.

The UKWIR report, “Defining water poverty and evaluating existing information and approaches to reduce water poverty”, recognises that there is a range of influencing factors that impact customers’ ability to pay, and recommends a toolkit approach that is not solely reliant on social tariffs, and which supports companies in ensuring their affordability strategy reflects the particular drivers and trends within their regions.

Although they did not use the same terminology, it is clear from Defra’s June 2012 guidance on company social tariffs, that Government expectation was that social tariffs would form part of a suite of measures, with the guidance stating that when companies brought forward social tariffs they should:

“outline how the social tariff complements other measures that can tackle water affordability problems”, and

“outline how the social tariff complements advice on water efficiency”.

A toolkit approach recognises that there are a broad range of reasons why households may be facing difficulty with their bills, which is also reflected in the varying terminology that has been used in this call for evidence. “Affordability”, “financially vulnerable”, “struggling to pay” – although there can be a great deal of overlap between these terms, they are not necessarily interchangeable and are suggestive of the multiple drivers that households may be susceptible to that impact their ability to pay.

Understanding the drivers of affordability allows us to provide a holistic approach to supporting customers that doesn’t focus on a single solution but can provide multiple interventions to address a household’s needs.

Breadth of support

Through our toolkit approach, our schemes have lifted customers out of water poverty and delivered millions of pounds of financial support to customers who struggle to pay their bills. We have achieved this by ensuring that customers receive the support that is best suited to their circumstances:

- Flexible payment plans
- ReStart, payment matching to clear debt
- FreshStart, fund to support customers new to debt
- Support tariffs
 - WaterCare Tariff

- WaterSure Tariff
- WaterCare+
 - Maximising incomes through benefit entitlement checks
 - Lowering bills by reducing consumption through water and energy efficiency audits
- Metering – dual billing. By providing unmetered customers with a dual bill they can try a meter safely while still paying an unmetered bill and the choice to switch will be evidence based.

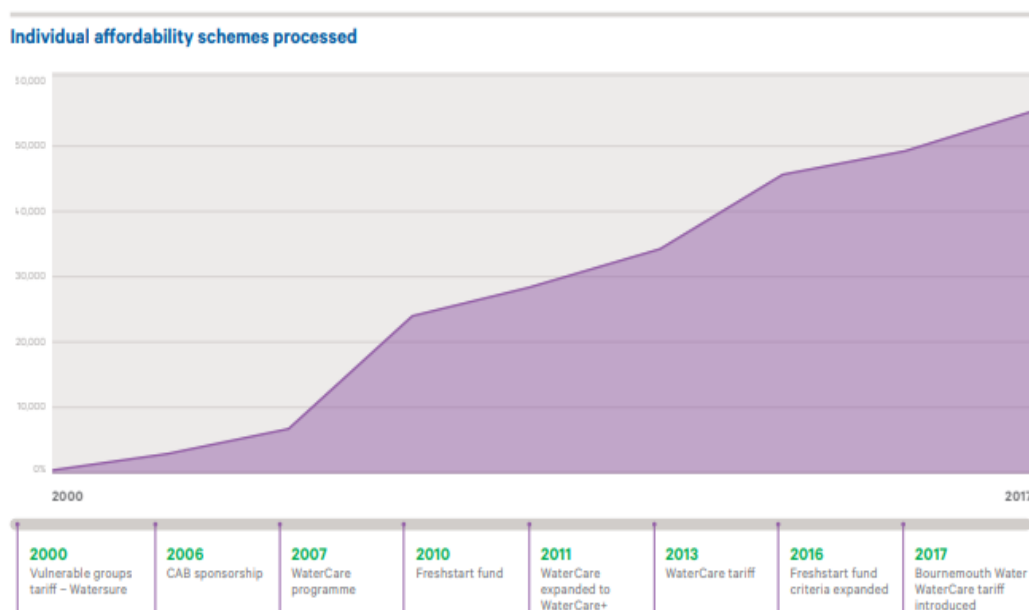
There are currently 30,000 customers benefiting from a support tariff in our region (WaterCare Tariff and WaterSure Tariff). Our WaterCare Tariff is currently providing around £1.5m of bill discounts and not only supports customers on low incomes through the provision of reduced bills, it is also effective in lifting the majority of customers out of water poverty, improving payment habits and reducing debt.

Through our WaterCare+ scheme, introduced in 2006, we have identified over £15m in additional benefit income for our customers, and through water efficiency measures reduced customers' bills by £0.3m per year. Through ReStart payment matching we have, since 2006, supported nearly 16,000 customers to clear their debt, and our FreshStart fund has provided £1.5m in grants to over 3,000 customers in the last ten years.

At PR19 we reviewed the effectiveness of our schemes in supporting customers. The outcome of those reviews was included in the Addressing Affordability and Vulnerability supporting document for our business plan which we have attached to this response. We found that across the toolkit, our schemes were lifting customers out of water poverty, supporting customers to reduce consumption (and therefore their bills), increasing household incomes and where customers had received support under our toolkit, we were more likely to see a change in their payment behaviours, paying more and more frequently.

Increased volume of support

As the range of solutions in our toolkit has expanded, we have seen continuous growth in the volume of support we provide. To the end November 2020, customers have benefited from over 65,000 individual affordability support schemes.



Partnership working

We believe that working in partnership with local and national organisations is highly effective in promoting the support available and making it more easily accessible, including to hard to reach households. We understand the value of partnership working to deliver support and have many long-established relationships in place with a variety of organisations.

This effective partnership working helps us to reach out to the “struggling silent” among our customers who would not otherwise realise that they are entitled to support which could dramatically reduce their bills, and provides access to harder to reach customers who are reluctant to deal with us directly.

A key component of the work we do in engaging with customers who need help is the relationships that we have built up with social housing providers across the region. Our current partnerships mean that we can reach 86% of social rented households. By working in partnership with social housing providers we are able to identify the communities which are considered among the most socially and financially deprived in our region and target our efforts in those areas.

We provide training on all our affordability and vulnerability support to third-party organisations across our region. During the last five years we have worked with 120 organisations and delivered training to 2,200 of their staff and volunteers. This level of outreach means that customers are able to gain advice and support through trusted third-parties and also raises awareness of the support available among harder to reach customer groups.

COVID-19 response

The flexibility of a toolkit approach has allowed companies to respond to the impacts of COVID-19 in an agile way that reflects the varying degrees of economic impact that the pandemic and associated lockdowns have had on household finances. For example, in the South West we had a particularly high increase in the number of households claiming universal credit (a 132% increase compared to 110% for England), this has meant more households are eligible for our social tariff and we have adapted our application process to make this easier given lockdown restrictions.

Renewals for our support tariffs were suspended, with tariffs automatically extended for a further year. We eased the requirements to provide documentary evidence and accepted new applications in good faith over the telephone and online, additionally WaterSure Tariff applications for medical reasons were accepted without GP evidence. These actions were taken to ensure that vulnerable customers and those who were shielding did not need to leave their homes to post documentation or place additional burden on GPs.

As part of its COVID-19 response, the Government provided a temporary £1,000 uplift in Universal Credit, we have excluded this from the income calculation for our WaterCare Tariff to ensure that customers who are benefiting from this uplift do not become ineligible for the tariff or receive a lower discount than they would under normal circumstances.

Our WaterCare Advisors would normally be working in the community and undertaking home visits to provide accessible support to vulnerable customers. Since March 2020 our advisors have been conducting “virtual home visits”, with c.2,700 undertaken to date, which have resulted in 2594 interventions delivering over £1m of financial support, with c.£0.5m of this being new or additional benefit income for our customers.

Case studies

Customers often benefit from more than one element of our toolkit and for some, the help we offer, directly or through our partnership network, can be lifechanging.

Mr P was identified as likely to be eligible for support, and benefitted from a variety of elements of our affordability toolkit:

- Through income maximisation we identified that he was eligible for housing benefit and council tax support, with a total additional income of £8,120 pa
- WaterSure tariff, reducing his bill by £865 pa
- Water efficiency home audit including installation of devices
- ReStart set at £9.50 per week to pay his ongoing bills and clear his outstanding debt of £2,900

The combination of these interventions is equivalent to an additional c£9,000 pa income for Mr P, and through ReStart he will be clear of his water debt within two and a half years.

Our WaterCare Advisors go above and beyond supporting vulnerable customers who need our help the most.

One of our advisors has recently supported a very vulnerable customer who was struggling to pay their water bill due to going through cancer treatment.

They were able to complete a WaterCare application over the telephone and the customer was accepted onto the WaterCare Tariff, giving him a 15% reduction on his bill and completed an application for a FreshStart grant to clear his debt.

The customer also explained he was meant to be shielding but was struggling without a washing machine which was particularly challenging given the side effects of his treatment. Our Advisor utilised our partnership network to put the customer in contact with a charitable organisation that delivered a new washer dryer later that day.

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

Definition and metric

We believe that an industry definition of, and objective metric for measuring, water poverty along with a shared understanding of the issues and drivers of financial vulnerability would improve the ability of companies to collaborate on sharing best practice and developing innovative support mechanisms that can be flexed to adapt to regional differences.

Work has already begun on this through WaterUK and UKWIR and while recognising that this is an ongoing effort, we support the recommendations of the UKWIR report, “Defining water poverty and evaluating existing information and approaches to reduce water poverty”, namely:

- development of an industry-wide metric for measuring water poverty

- water companies should build on existing work to assess the drivers of water poverty and future pressures on water poverty in their regions
- development and refinement of strategies for alleviating water poverty
- a wider water poverty strategy supported by government

National social tariff

A national social tariff could be seen, as a means to address perceived unfairness of regional arrangements – which have been dubbed a “postcode lottery”.

While we are not opposed to a national social tariff per se, we believe that if the industry is to take this step it should be to a full national social tariff, with national cross-subsidy, and not merely an alignment of eligibility or discount amount with regional funding.

The water industry already has a national tariff with a single set of eligibility criteria in WaterSure, customers on the same benefits and in the same circumstances have bills capped at the level of the regional average bill and funded by an in-region cross-subsidy. Defra’s guidance on social tariffs was clear that the Government view was that company social tariffs would supplement WaterSure and provide an opportunity to *“address local water affordability in light of local circumstances, needs and customer views”*.

Any national social tariff would need to be carefully designed to ensure that the “postcode lottery” unfairness issue is not merely transferred from one design element to another, for example:

- An alignment of financial support whether to a fixed rate, or a fixed percentage discount, does not reflect that there are variances in regional bills. This approach would therefore provide no remedy to the “postcode lottery”
- Aligning eligibility criteria, similarly merely shifts the unfairness. While customers would know that they are eligible for support regardless of the area they live in, the depth of support would remain variable. Additionally, some regions will have a greater prevalence of household meeting the qualifying criteria, resulting in a larger number of eligible customers and therefore increasing the bills of non-eligible customers and potentially creating additional affordability issues for customers who do not meet the standard criteria

A true national social tariff, whereby eligibility criteria and financial support are aligned and that is nationally funded, could overcome some of these issues, but would likely require enabling legislation and a shift in Government policy from the existing guidance.

It should also be noted that, at the time the guidance on company social tariffs was issued, the Government view was that *“companies are best placed to design schemes which meet the needs of their own customers and...that national consistency is neither feasible nor necessarily desirable”*.

Therefore, any proposal for a national social tariff would likely need to demonstrate the provision of effective support beyond that which exists already through the combination of WaterSure, company social tariffs, and other affordability measures. Further, the cost of administering any funding flows between companies would need to be justifiable in the context of the financial support provided to customers.

Current social tariff guidance requires companies to undertake consultation with customers, in order to obtain support for the social tariff, the overall level of support is also driven by customers through willingness to pay. Were a national social tariff to be introduced with a uniform criteria and levels of financial support, funded at a national level, it is unlikely that levels of customer support and willingness to pay would be uniform across the country.

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?

The gap or limitations in the current arrangements predominantly lies with the social tariff, which is one element of the range of support companies offer. The limitations are:

- The amount of support a company can offer is constrained by customer acceptability of the proposals which include the level of help and who it is levied at
- Social tariffs are regionally funded which leads to variability in the levels of support provided and eligibility.

Analysis and modelling conducted to support development of our performance commitment to have zero customers in water poverty by 2025, shows that around 14.4% of households in our region are in water poverty (5% bill to income ratio), not all of whom are eligible for the current social tariff.

There is no single solution that will bring all of these customers out of water poverty, for some metering alone will provide sufficient reduction to their bills. Others will be lifted out of water poverty through a combination of water efficiency measures and income maximisation. For those households still in water poverty at this stage (c.40% on a pre-COVID assessment) a social tariff will be applied.

Having identified that some customers require a greater bill reduction than 50% in order to bring them out of water poverty and that there are other households in water poverty that are not currently eligible for the tariff due to the benefits requirement, we are phasing in changes to our tariff to address these issues.

Our customers support this approach. They favour an objective assessment of affordability based on a bill to income ratio, and the provision of help through a series of measures with discounted bills being applied as a last resort when measures such as metering, income maximisation and water efficiency are not enough.

These changes will support us in delivering our performance commitment for all customers to have an affordable bill, at the 5% bill to income ratio.

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?

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

The benefit of the current arrangements is that there has been scope to allow companies to design, review and update their affordability schemes to suit changing circumstances and to develop new and innovative solutions tools to meet customer needs.

As stated in response to question one, the ongoing industry response to the affordability impacts of the COVID-19 pandemic has demonstrated the robustness and agility of the industry to respond to a changing landscape.

However, we recognise that the current arrangements may not fully meet the needs of financially vulnerable households and we would expect the economic impact of the pandemic to exacerbate this. As such, we fully support the work being undertaken through WaterUK and UKWIR to define a common measure of water poverty and to develop an industry understanding of the key drivers of

affordability. This would support companies to work together to understand the potential future pressures on financially vulnerable households and develop a range of flexible solutions.

Through the WaterUK work we are, as an industry, establishing a baseline position of water poverty to understand the scale of the challenge required to meet the stated Public Interest Commitment. From this, and an understanding of the toolkit elements best suited to provide support a sustainable funding model can be developed.

Funding arrangements must be considered as a whole, companies fund affordability measures beyond social tariffs and we must be wary of unintended consequences of limiting the range of support available should company funding for one area of support be mandated. Mandating funding for one area of support may not only result in a reduction in the range of affordability schemes on offer but could stifle the development of innovation in this area, neither of which would be in the best interests of customers.

The support that can currently be provided through social tariffs is currently limited through the requirement to obtain customer support for an acceptable level of cross-subsidy. While we do not believe it is necessary to move away from the cross-subsidy model of funding for social tariffs, we believe there may be benefit in reviewing how these cross-subsidy levels are set and whether cross-subsidies are regional or national.

The most appropriate methodology for deriving cross-subsidy levels will depend upon any proposed changes to social tariffs that may arise from this review. As stated above, should a national social tariff be proposed, we would expect national funding to support this, for example through inter-regional cross-subsidies.

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 raise awareness of our schemes through a wide range of activities. Our staff are trained to listen for and recognise triggers, both in what customers say and how they say it, to identify customers who may be in vulnerable circumstances and to adapt their approach as necessary, offering additional support where needed whether through support tariffs or other affordability schemes. We utilise digital promotions on social media and our website, proactively reach out to customers who may be in financial difficulty and adopt a targeted approach to promoting our schemes.

Our WaterCare Advisors regularly attend community events and drop-in sessions with a variety of organisations and community groups across the region, and provide pop-up surgeries at social housing provider rent offices and community centres, and arrange home visits for customers who would struggle to complete application forms. We also regularly visit over 20 job centres across the region to provide access to our affordability support. In addition, we provide training on our schemes to staff and volunteers of partner organisations across our region and in the last five years have trained 2,220 people across 120 organisations.

We ensure that our schemes are accessible to customers through a variety of routes. Customers can access our schemes through our contact centre and website or via Citizens Advice and our Water Debt Gateway which provides support to other agencies with training and advice on our water affordability toolkit and is accessible to debt advice organisations across the region.

To improve access to our WaterCare Tariff for customers in water poverty we will, as part of our phased changes, be updating our eligibility requirements to move to a bill to income assessment

which will ensure the right households are getting the level of help they need to lift them out of water poverty and limit the cross-subsidy burden on others to ensure bills are affordable for all.

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?

The energy industry benefits from a national fuel poverty strategy with a clear definition of fuel poverty. While we don't believe that the current or proposed definitions of fuel poverty are transferable to the water sector, we do believe that there are inherent benefits from a shared understanding across companies, stakeholders and government of the issue to be addressed.

Poverty, in all forms, is a national social issue regardless of whether national or local solutions are best applied to alleviating it. This is reflected in the range of funding methods applied to support under the national fuel poverty strategy. Support is funded through a mix of customer cross-subsidy (the Warm Home Discount), and through general taxation e.g. winter fuel payments. The strategy also supports a range of measures providing either bill discounts, payments from DWP (winter fuel payments), and grants for installation of energy efficiency measures through the Energy Company Obligation (Affordable Warmth).

That is not to say that the solutions identified in the energy industry are without fault. The Warm Home Discount has a government mandated level of support that large suppliers in the industry must meet - £320m funding (across all the companies) and a single discount level of £140. This results in limiting in the number of customers who are eligible (c.2.3m) and although a single, flat payment may appear to address the fairness issue in respect of a "postcode lottery" of support, it does not reflect that there is regional variance in bills, meaning the depth of support is variable – some households will receive a bigger percentage reduction on their bills than others by virtue of where they live.

However, as stated at question two, we believe that an industry definition of, and objective metric for measuring water poverty, supported by a water poverty strategy endorsed by government would allow the water sector to work with a shared understanding of the issues and drivers of financial vulnerability and would improve the ability of companies to collaborate on sharing best practice and developing innovative support mechanisms that can be flexed to adapt to regional differences.