

# CCW Affordability Review

## Call for evidence – 15/12/20

The UK faces enormous challenges in the future. We have a growing population, rising consumer expectations and most pressing – the need to respond to climate change and the impact this has on water supplies, but also the impact on flooding. At the same time, we cannot ignore the fact that bills are unaffordable for some customers. On top of this we have the impact of Covid-19 which has created more polarisation in the country, with unemployment forecast to rise and at the same time the UK savings ratio has increased from 6.8% of disposable income to 29% of disposable income in April and June.<sup>1</sup>

When these facts are combined it is apparent that the sector needs to rethink its approach to affordability. We need to find a way that allows us to deliver the twin objectives of:

- Ensuring water is affordable for all; and
- Supporting increased investment for future generations of customers.

The most effective way to deliver these outcomes is through more effective and targeted support for those who struggle to pay. This includes better identification of such customers and making the process for support much easier, potentially through national eligibility criteria. This type of national collaboration on customer support could deliver a range of benefits, including supporting more effective customer engagement to make customers aware of the support available.

At the same time, there is a need to assess what magnitude of cross subsidy is needed to ensure bills are affordable for all. Although there are a range of tools we can, and do use, to provide support to customers (e.g. payment plans) inevitably some customers require a discount to their bill. Given that the sector has a range of hidden cross subsidies (such as those between rural and urban customers and measured and unmeasured customers) it raises the question of whether a different approach is needed. We note in other sectors Government plays a more active role in defining what is an appropriate cross subsidy and perhaps this should be considered in water. If this is not possible then we think the sector should consider different types of tariffs, such as the winter-help in the energy sector.

As a sector, by providing more effective and targeted support for those who struggle to pay we can create the ability for customers to fund the investment that is needed to provide resilient water and wastewater services for all customers in the future.

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

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<sup>1</sup> Bank of England. <https://www.theguardian.com/business/2020/dec/07/uk-covid-savings-haldane-bank-of-england>

Severn Trent recognise the importance of offering a wide spectrum of support to customers in different circumstances and in different stages of their debt journey. We have increased our level of support substantially in AMP7 in recognition of the number of customers struggling financially.

For customers who need help with arrears we provide support via the Trust Fund, Payment Matching and Water Direct. Customers also need short term help and support is offered in the form of a Payment Break and Payment Plan concessions to help lower charges for a short period of time. For those customers in need of help with their current or future bills we have the Big Difference Scheme and Watersure. This ensures we have the correct support for the specific needs of the customer and allows our teams to have a more robust conversation.

In response to the call for evidence we gauged opinion on our current range of support schemes from customers through our 'Tapchat' online community. The overwhelming response from those who engaged with us was that we already provide a wide range of schemes and there were no significant gaps to the types of schemes we offer.

As well as having one of the lowest bills in the sector, we also offer the most beneficial reduction available through social tariffs meaning a customer can pay as little as £35 per year for water charges. We are confident we have an effective forward plan for AMP7 for reforming our Social Tariff and will continue to challenge ourselves to identify the correct customers, to match with the appropriate financial support.

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

To improve affordability in the sector, particularly in the context of a need for more investment, it is critical that we better identify and support those who need help.

One weakness with the current system is that each company's social tariff offers a bespoke scheme meaning there is no consistency across the sector. Some form of standardisation on eligibility criteria (and even naming) could make it easier for customers to understand what help is available and get that support when needed.

Similarly, company contributions are often delivered in different ways. Some offer additional support via Trust Funds/charities as we do and others provide it through debt reduction schemes. Although this innovation is helpful to a degree, it also leads to confusion for customers. It would be helpful to have a debate on whether we think commonality in this space is helpful to improve awareness.

The industry currently has bills which differ significantly across regions. This coupled with social tariffs based on local surveys of willingness to pay leads to varying financial reductions for customers depending on where they live. This ultimately creates a postcode lottery for what people pay for water and wastewater services.

We would encourage four key focus areas for future improvement:

1. Standardising aspects of the eligibility criteria across the industry
2. Building larger industry wide partnerships and potential data sharing across other sectors, to help identify those customers who are in need

3. Flexibility in the approach. Vulnerability is not a static concept and companies should have the ability to evolve their own approach as they learn.
4. Greater clarity in who is responsible for what aspects in social tariffs. Having Government, Ofwat and CCWater issue a clear statement would allow for companies to respond more quickly to any changes to external circumstances like Covid.

Delivery of these would allow for wider, cross-industry understanding and customer awareness of support schemes improving our reach and ability to match customer needs to the correct schemes.

**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?**

Overall, there are some positive aspects to the current arrangements. Since 2013, we have been tracking unaffordability every quarter and have seen the concern reach an all-time low this year. However, this doesn't mean we shouldn't worry about affordability – rather what it suggests is that the current arrangements have allowed us to tackle the easier opportunities, but to make further inroads we should see what opportunities exist for further improvement.

Some limitations that we have identified include

- Clarity on the responsibility of different parties. At times there seems to be some confusion about the role of different parties in designing and approving the affordability framework, particularly as it relates to social tariffs. We think CCW, Ofwat and Government might want to provide a refreshed statement on this that would allow companies to move at speed if such a scenario like Covid happened again
- We also believe that we can identify customers across other industry groups and learn from best practice. Pensioners provide an example of a group of customers who may need more help. For those in receipt of Pension Credit Severn Trent suggest exploring the benefits of the 'Warm Homes discount'. Taking the evidence provided by the energy industry the water sector could look to adopt a similar model, and as such provide more targeted campaigns and raise awareness
- We also recognise that the topic is heavily focused on a response to financial vulnerability, rather than prevention. By focusing on the number of customers on schemes, and therefore supported, we are missing an opportunity to educate and prevent customers from requiring support. We believe an industry focus on holistic support and reaching customers earlier in their journey is critical to sustainable change.

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

As stated above we believe that there is a gap in the industry wide prevention that as such leads to focus on the schemes a customer can benefit from once they are in debt. This impacts the ability to offer sustainable options which support the future needs. This limitation can be evidenced by the industry response to Covid. The speed by which solutions were identified and delivered could have been improved with greater prevention strategies and clarity on the responsibility of different parties.

We suggest improved data sharing, consistency in core schemes and better collaboration with Debt Advice agencies would enhance the delivery of financial support.

Specifically, regarding social tariffs, the current method for funding does have limitations. These can be summarised in two points:

1. Due to it being supported by willingness to pay the sector's provision of social tariff support is a postcode lottery. Ultimately customers in different areas of the country can access different scales of financial support. Customers in Wales are happy to contribute upwards of £20 each to support those struggling to pay. In comparison customers in the Yorkshire region contribute £1.75 each
2. The size of the bill is also not factored into schemes. For example, a customer getting a 50% reduction from their Severn Trent bill is likely to be better off than a customer getting a 70% reduction from a higher bill in a different area. We encourage the sector's approach to focus on the net bill people pay (measured against the context of income) rather than percentage tariff reductions alone
3. The industry is not required to consult on other customer cross subsidies such as bad debt charge or Watersure support scheme. The process for gaining such consent from customers does not allow us to react quickly to economic downturns such as Covid nor does it allow for long term planning or framework, which could lead to the industry being slow to react.

These inconsistencies lead to large differences in the numbers of customers supported though social tariffs across different areas of the country e.g. Thames Water supports more than 150,000 customers, while Yorkshire Water supports around 25,000. Bespoke criteria for each company mean that customers eligible for a reduction in one region are not eligible in other regions. At present around 900,000 customers are supported via affordability schemes, however an estimated 3 million customers struggle to pay their bills meaning there is a considerable gap still to fill. The situation is likely to increase due to the economic climate and the impacts of the Covid-10 pandemic. This is why we support standardising the eligibility criteria for social tariff and a common approach to funding.

**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 believe two key issues need to be addressed:

1. Improved identification of customers

## 2. Better awareness of schemes and advice available

To improve the identification of customers the delivery of support should be focused on eliminating Water Poverty across the sector (those customers paying >5% of income on bills) rather than on absolute number of customers supported through schemes. In order to achieve this Severn Trent support the work of CEPA to formally define Water Poverty and recognise the need to improve identification of customers in need.

Once a consistent definition has been agreed data plays a critical role for the future offer with two clear opportunities:

- Better use of data can support the need for identification of the correct customers. Central Government could also help more in identifying those low income/vulnerable customers via methods such as recent data sharing of shielding/vulnerable customers.
- The Department for Work and Pensions process could also be much improved to increase awareness/take up of deductions from benefits and allowing customers who pay via this method to remain on it for current charges and not just arrears. Overall, data sharing is key to helping us identifying those customers who need most support.

Currently due to the differences in schemes customer awareness of support schemes is low. National eligibility criteria for social tariffs could support more effective customer engagement to make customers aware of the support available.

These critical steps would allow for consistency in messaging across the industry and wider, allowing for other organisations to appropriately signpost customers, as well as targeted campaigns from groups such as CCW.

### **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?**

Severn Trent are happy to engage in conversations regarding best practice. We do however recognise the need for this to be done appropriately and with care due to the risk of approaches being specific to an industry and our obligation to provide a service which we are unable to withdraw.

We believe the Water industry can learn from the approach used by energy companies. This is evidenced by the use of the 'Warm Homes discount' which awards the equivalent of £140 p/y automatically to customers in receipt of Pension credit and other means tested benefits. This approach would be a positive step forward for two reasons:

1. Automatic award of support without the need for extensive applications based on a known need
2. Easier to raise awareness and promote due to the criteria being clearly defined, and consistent across the industry

A national approach to identification, alongside better data sharing would go some way to creating a faster and more targeted strategy to prevent and support.