

Thames Water response to [Call for Evidence, Independent review of affordability support for financially vulnerable water customers in England and Wales](#)

Summary

In response to the call for evidence from DEFRA's affordability review led by CCW Thames Water has provided a response consisting of key recommendations, a summary of the support Thames Water provides those struggling to pay their bills and responses to the seven questions posed in the call for evidence.

If you would like to discuss any of this content please contact Peter Cotton.
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1) Key recommendations

Overall, the arrangements in place across the Water Industry have created a very strong set of propositions that support customers. However, we note that the support is inconsistent and has flaws when it comes to creating sustainable funding at a scale that the country will need at times of financial uncertainty. Once the support schemes put in place for Covid unwind, such as mortgage holidays and the furlough scheme, household finances will be stretched as the economy reshapes.

Recognising the scale of potential impacts and the need for greater awareness and utilisation of the support available, our key recommendations for this review are:

- The creation of a shared vision and strategy across the water sector that all stakeholders endorse, while leaving room for innovation will ensure that supporting arrangements can be optimised. Agreed measurable outcomes are needed to monitor the effectiveness of meeting this vision.
- The agreement to a minimum standard set of propositions across all water companies so that customers and third sector advisors become more familiar with the available support, while still leaving room for innovation.
- The creation of a single social tariff scheme across England and Wales - unlocking cross subsidy support with a data led legislative mandate available to 100% of eligible customers, underpinned by data sharing with the Department for Work and Pensions (DWP) for initiation and ongoing eligibility verification.
- To meet the scale of ambition the social tariff could be aligned with Energy to create one single 'essential service discount tariff' that becomes a widely recognised service. We appreciate that this may not be possible within the scope of this review, but it should still be a goal to aim at.

2) Thames Water's current support

The current arrangements have allowed Thames Water to create a holistic set of propositions that support customers that have incurred a permanent or temporary reduction in income, described in figure 2.0 and 2.1.

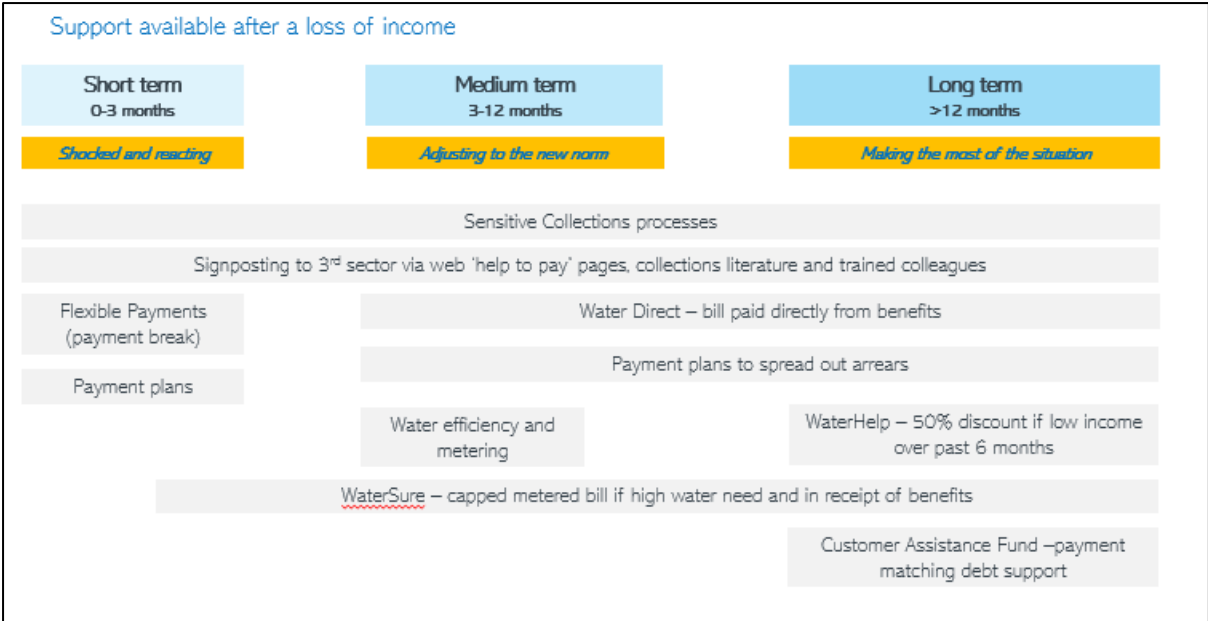


Figure 2.0 – Propositions provided by Thames Water to support customers struggling to pay their bill

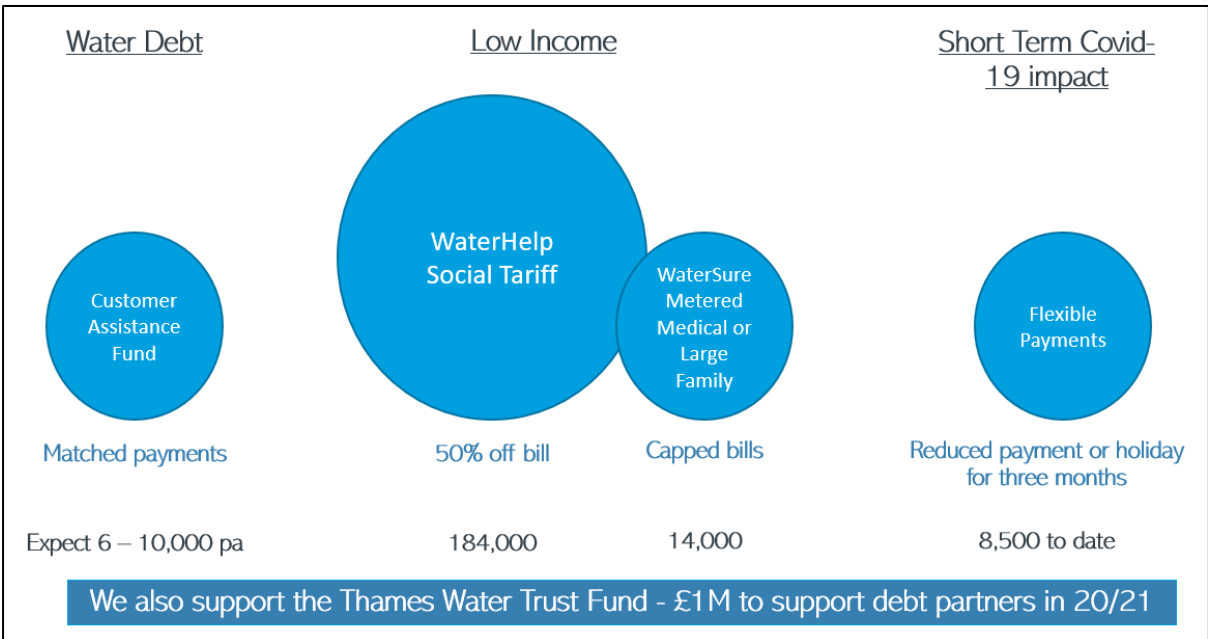


Figure 2.1 - Volumes of customers supported by these services at October 2020.

These services will be required more than ever going forward. We note that during the global financial crisis in 2008/09 it took seven years for unemployment rates to return to pre-2008/09 levels, and there was a corresponding gradual increase in debt as customers steadily tightened belts before defaulting, see figure 2.2

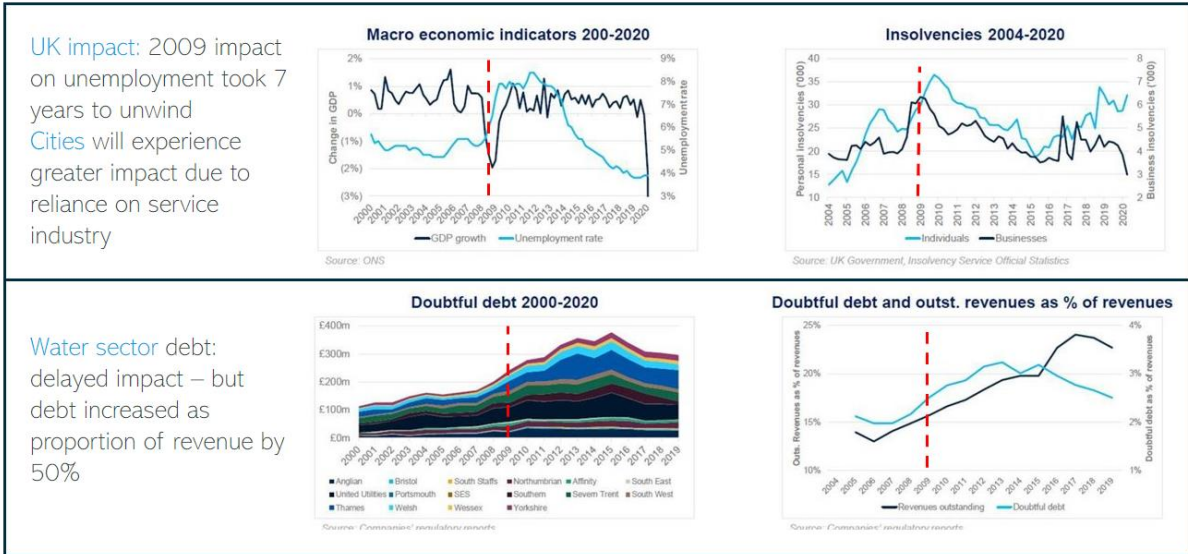


Figure 2.2 – Macro economic factors and the impact on the water sector

2.1) Thames Water’s Social Tariff

Using the arrangements that enable social tariffs we were able to design our scheme in a way that ensured 90% of customers eligible would be able to access support. To do this we:

- Utilised external data from Experian to forecast the volume of customers on a low income in our region.
- Asked customers to support us meeting the needs of 90% of these customers (300k) at a cross subsidy of £11.
- We worked to align our simple and accessible eligibility criteria with our overlapping Water Only Companies (WOCs) that provide a water service to 2.2m of our 5.5m household customers, so that customers would be able to benefit from discounts on both elements of their bill at the same time. Discount levels received for the social tariff are not aligned between Thames and WOCs but this was agreed to be of a lesser importance to aligning on eligibility.
- From our social tariff WaterHelp customers receive a meaningful 50% discount. Careful consideration was taken to balance volume of customers supported, size of cross subsidy, simplicity and accessibility.
- Initially it was proposed to have three tiers of support – 25%, 50% and 75% - however with operational experience we are not planning to implement this now.
 - We have witnessed other companies with tiered levels of support seeing most customers ending up on the highest level of support. Customers and third sector advisors would naturally attempt to achieve this, and it has hard to audit data to deny the highest level of support.
 - Moving customers from an initial 50% discount to a lesser amount could create some bill shock. Maintaining existing customers at a 50% discount when new applicants in the same situation only experience a 25% discount could potentially breach condition E of the Water Industry Act.
- A dip sample of customers at design phase shows that billing collection rates for customers who move to a social tariff improves from 41% to 68%, demonstrating how the tariff makes bills more affordable. Updated data is in development as we embed our new billing system.

- We have ensured access to the social tariff is signposted during operational journeys. In particular, the collections process and our migration of 300,000 Local Authority and Housing Association customers to a direct billing relationship.
- We use the deprivation index as a guide and those living outside the lower deciles we audit and / or ask for evidence in addition to a declaration of income. See Appendix 1.
- The stages and impacts of our approach is shown in figure 2.3.

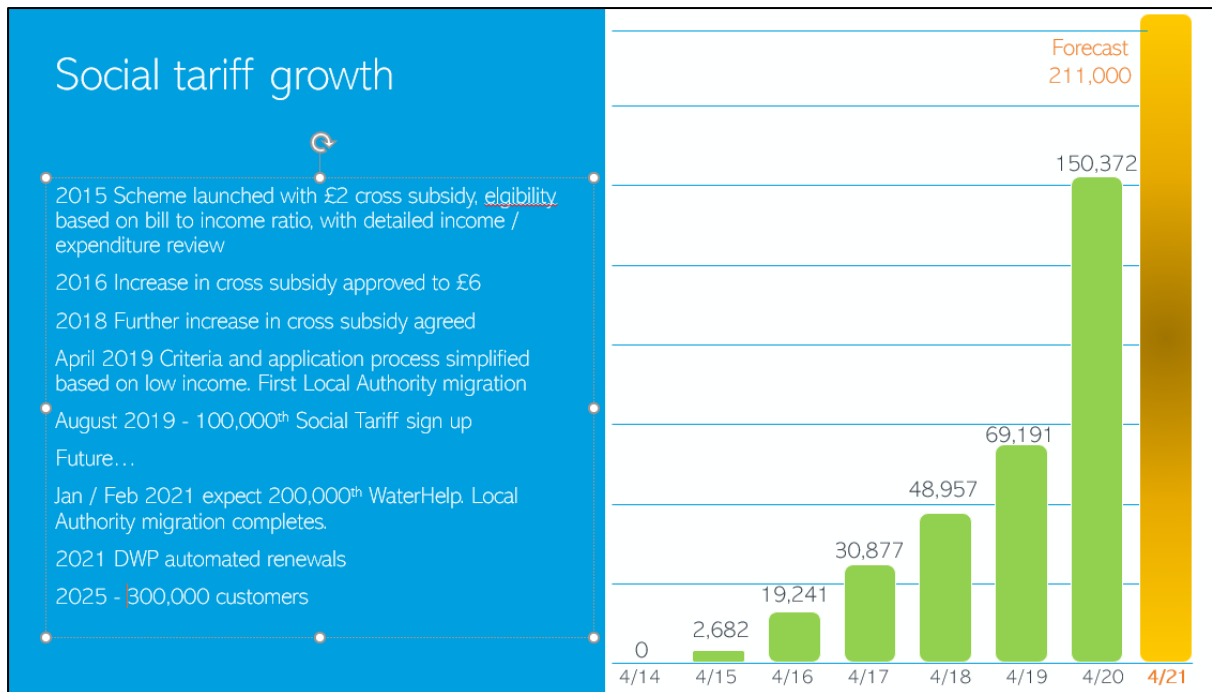


Figure 2.3 – Evolution of Thames Water’s social tariff

The next step in our social tariff is to create a frictionless renewal process utilising data from the DWP under the Digital Economy Act (DEA). At the time of writing we have just received the final Data Sharing Agreement and expect to be able to share data for WaterSure renewals in Q4 of 20/21 before moving on to sharing data for WaterHelp renewals in 21/22.

The growth in customers utilising the social tariff contrasts with other Affordability services is shown in figure 2.4.

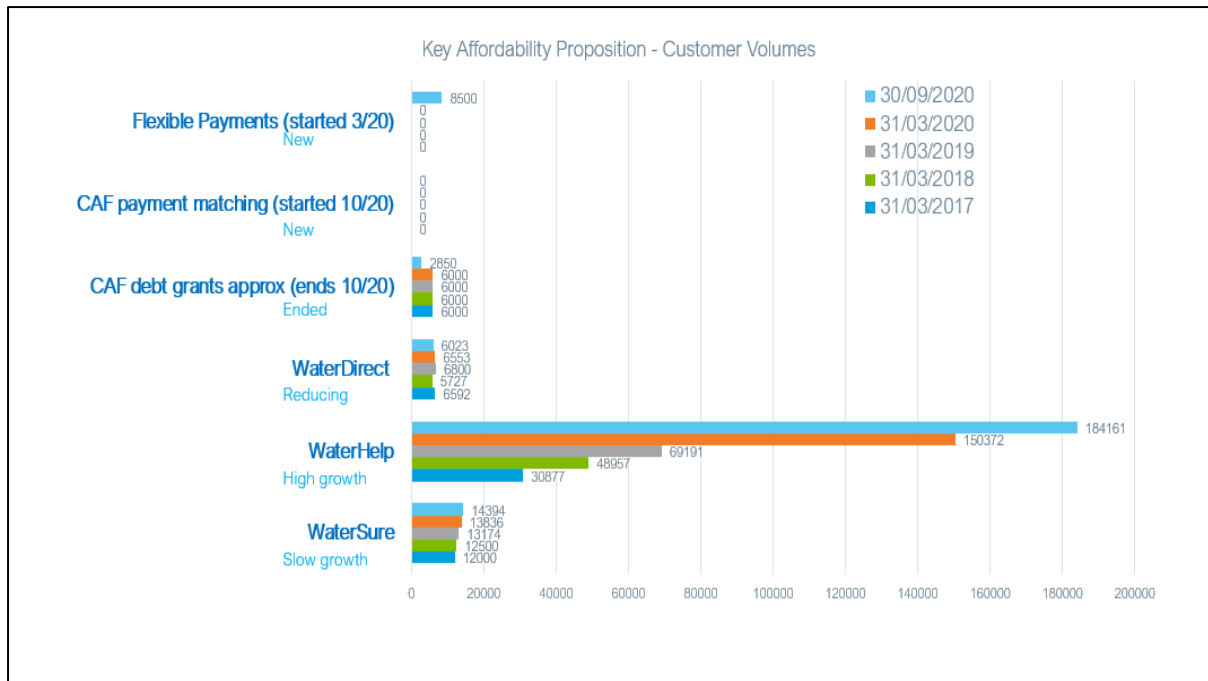


Figure 2.4 – Volumes of customers supported by Thames Water’s affordability services 2017 – 2020

2.2) Other Support mechanisms provided by Thames Water

- Our debt support scheme – the grant providing **Customer Assistance Fund** – has remained static in terms of customer volumes supported as the demand is capped by the available budget. As of October 1st 2020 we have invested in a new scheme which is based on payment matching principals. While this is more complex to administer, it will allow customer numbers to increase compared to the grant based model as customers must be willing to commit to paying their current charges and a contribution towards their debt.
- **WaterSure** has only seen small growth. This is largely due to the overlapping eligibility of WaterHelp and WaterSure, with WaterHelp having a more generous level of support for most customers. Additionally, our metering penetration being at less than 50% of household properties excludes a large number of households from WaterSure.
- **WaterDirect** has seen a reducing trend of customer volumes. We understand this to be due to a changing hierarchy of prioritisation for payments between creditors, putting water debt below debts due to the government and others.
- Our payment break scheme, **Flexible Payments**, saw an initial surge of 5000 applications during the first nationwide lockdown in April / May 2020 facilitated by an accessible webform. However, since May applications have slowed to an average of 5/day in September / October and the time of writing we have had just over 7,000 applications. Compared to a mortgage holiday the cash flow benefit of moving a water bill payment back three months is not as attractive to customers.

We will be reviewing this proposition in the light of Breathing Space as there overlaps in the proposition. To support this review we undertook customer research where 80% said that the payment break helped manage their household finances, but 61% saying that they will or may struggle to keep on top of payments now that the break is over.

- We **signpost and refer** customers to independent debt advisors, though:
 - Our vulnerability training contact centres and customer facing teams
 - Our more highly trained Extra Care team and field based Customer Reps
 - On our website and within our literature, particularly collections correspondence
 - We make referrals to Auriga Assist as part of water efficiency ‘Smarter Home Visits’, with over 1000 referrals made in 19/20 and checks for unclaimed benefits made. Where unclaimed benefits are identified for a household the average value is £2,669 of annual income.

- Additionally, our shareholders fund the **Thames Water Trust Fund** which has charitable objectives of supporting customers in the Thames Water region that struggle to pay their water bill. Thames have donated £10m since 2009. The Trustees have used these funds to create debt advisor positions in deprived locations across our region that would not have existed without our support. We are the largest charitable donor of debt advice in our region as a result. The Trust also funds a Hardship Fund which provides on average over 1000 customers a year with essential household white goods.

We survey our customers on a quarterly basis as part of our ongoing customer insight programme. One question is ‘do you struggle to pay your water bill’ and we have seen a decreasing trend in this since surveying started in 2012, see figure 2.5. However, we mainly attribute this to the economic situation improving since the 2008/09 global financial crisis more than our support provided. Due to the volume of customers in our region we can only support those with the highest needs.

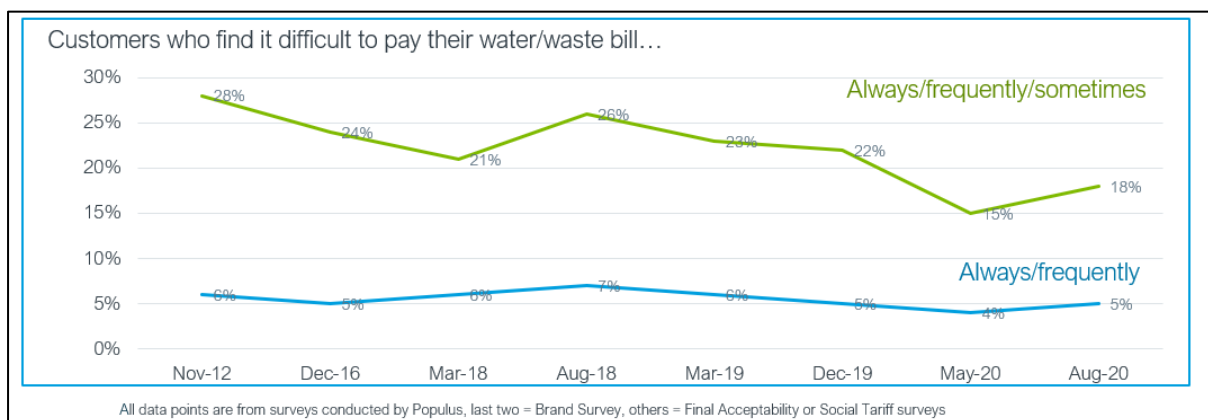


Figure 2.5 – customers perception of their ability to pay their Thames Water bill since 2012

3) Response to the Review’s questions

Q1. What works well in terms of the current arrangements for supporting households that struggle to pay their water bills?

- The arrangements have motivated Thames to provide a holistic set of propositions.
- Our social tariff provides meaningful levels of support to a significant and growing population in a simple and accessible way. It’s grown to be the largest in the UK by volume.

- The guidance behind social tariffs has allowed a range of social tariff propositions to be developed and lessons shared within the industry.
- The Digital Economy Act (DEA) 2017 has opened the door for data sharing with government agencies, principally the DWP, and potentially automate most yearly renewals.
- Water Direct is a strong proposition that provides an easy way of taking the worry of water bill away for customers in receipt of benefits.
- Metering allows many customers to reduce their bill by only paying what they use for and creating a motivation to use water more efficiently. If the property can't be metered the Assessed Household Charge is a good proxy with 7% of our customer base on this type of bill.

Q2. In what ways could the approach to supporting financially vulnerable households in the water sector be improved?

- A shared vision and strategy that all stakeholders buy into that shapes future creation of new arrangements and optimisation of existing arrangements.
- Measurable outcomes, such as the measurement of water poverty work led by Water UK currently, that would indicate success or point to where focus should apply.
- Greater alignment between water companies would promote greater understanding from customers and the third sector of propositions available and increase the chances of those needing the help most receiving it. From our research, see figure 3.1, those who need the help most are less aware of the support available.
- WaterSure is hampered by an onerous application process requiring annual provision of evidence. A lighter touch governance could allow more customers to benefit.
- The data sharing opportunities the DEA promises could have been achieved more quickly and been in place prior to the inevitable slow down caused by Covid.

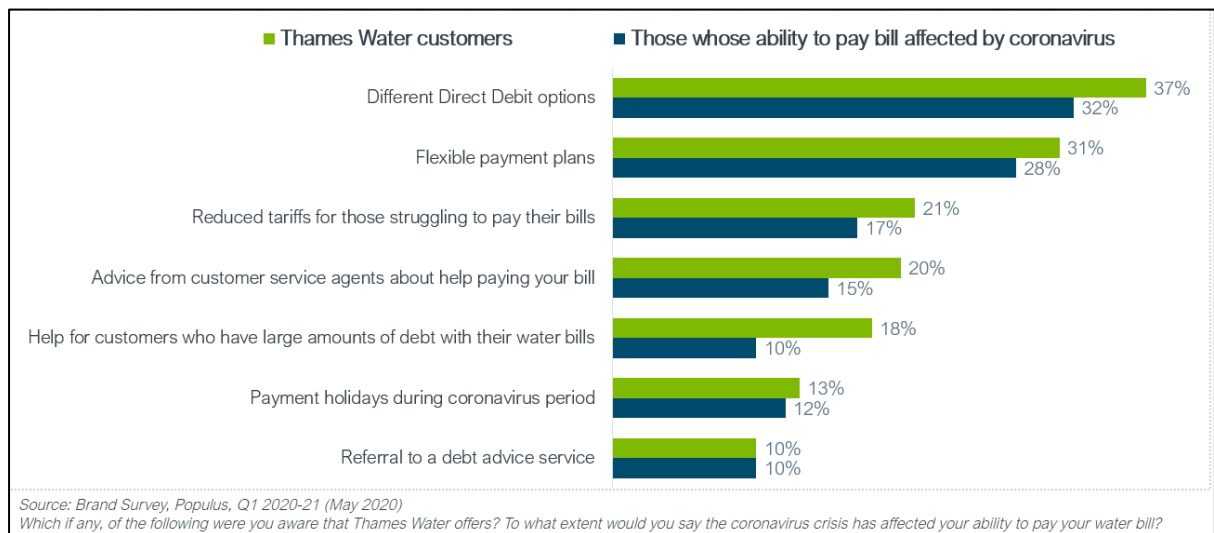


Figure 3.1 – Levels of awareness of affordability services

Q3. 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 arrangements themselves are sufficiently broad enough not to exclude households.
- Single occupier households are easier to target, spend more of their income on bills (12% of income spent on bills and other housing expenses compared to two adults spending 8%). Households with single incomes are one of the largest segments in poverty and struggling to pay their bills. In 2017, single parents had the highest proportion of households in fuel poverty of all households (25.4%). For couple parents, the figure was around 15% (See Appendices 2a, 2b, 2c. In 2017, single parents had the highest proportion of households in fuel poverty of all households (25.4%). For couple parents, the figure was around 15%

Q4. 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?

- Payment matching schemes to support customers with debt have the potential to be revenue neutral by encouraging better payment behaviour.

Q5. Are the current arrangements for funding social tariffs fit for purpose? If not how should they change?

- While some companies have managed to undertake customer research that has supported a cross subsidy sufficient to meet the needs of the target proposition of the eligibility criteria of the tariff. Not every company has this which prevents harmonisation of support across the industry.
- Even those companies with generous levels of cross subsidy have finite levels of funding that means if the target population grows significantly, as could happen in a post Covid period, decisions will need to be made on reducing the level of discount provided. Further customer research could be provided, but this creates risks in potential reductions in support for cross subsidy. Both these situations lead to various levels of bill shock.
- Ultimately there are only two sources of funding – tax payers and bill payers. It is noted that shareholders provide support to those struggling to pay their bill at some companies. At Thames our shareholders fund the Thames Water Trust fund with over £7m donated over the past 11 years.
- Social tariffs require a sustainable and consistent funding source which create difficulties for Shareholders to fulfil that role for a number of reasons:
 - Shareholders support would be discretionary and proportionate to the level of dividend received. This would lead to differing levels of support would lead to bill shock as the number of customers, or the scale of support, would fluctuate depending on their generosity.
 - Additionally, while companies that are at the top end of the efficiency scale would have dividends greater than the anticipated rate of return which could be used to fund social tariffs, there will always be companies at the bottom end of the efficiency scale due to the nature of yardstick comparative competition. These companies won't have excess dividends to use for social tariffs.
 - Further, some companies may be better serving their wider customer base if they were able to invest excess dividends into certain operational areas such as water mains infrastructure or reducing sewer flooding. Being restricted to using a certain

level of dividends on funding social tariffs may be at the expense of providing a better service overall. Given companies have varying priority lists and Ofwat's priorities for companies are not limited to water affordability at the expense of everything else, a mandated shareholder funding could be detrimental to the overall service offered.

- As an alternative to the current arrangement, if the scale of ambition is there to support it, a policy mandated level of cross subsidy could be created to support a particular target audience. For example, the cost of providing a meaningful discount to everyone on a certain means-tested benefit could be calculated and modelled with sensitivity analysis to make a robust scheme. The scheme would have to be carefully designed to balance the competing needs of:
 - minimising cross subsidy
 - targeting support at those that need it most
 - a simple eligibility criteria and accessibility and access to data for continued monitoring of eligibility.
 - providing a meaningful discount.
- With the data available to Government this design could be undertaken with a reasonable level of accuracy. The starting point would be the amount of cross subsidy that is reasonable to have access to and then align a meaningful level of support to a defined target audience.
- This would require adjustments to the current social tariff arrangements:
 - Agree common criteria for eligibility
 - Cross subsidy within region of water company would not require customer willingness to pay research
- This cross subsidy could be done at a national level to even out bill impact as there are uneven numbers of customers needing support around the country, however this would create greater complexity in making the change happen.
- With respect to the level of support provided by a nationally social tariff, greater alignment would be required. Our recommendation is that only one tier of discount is provided to simply the practical implementation.
 - While academically a discount could be tiered to be proportionate to need the benefits are marginal. Additionally, a further 25% reduction in a water bill doesn't change the customer's overall ability to manage their household finances and the customer would need other bills to be reduced. This isn't about water poverty but about poverty.
 - Some other water companies experience of tiered levels of support has seen the majority of customers obtaining the highest level of support. Customers and third sector advisors would naturally attempt to achieve this and it has hard to audit data to deny the highest level of support.

Q6. 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?

- To raise awareness of this on a company by company basis beyond the current level is difficult as there are many areas for water companies to address consumer behaviour in addition to affordability support, for example priority services, water efficiency, value for

money and other public value messages. Embedding affordability products into debt advice best practice, such as Citizens Advice, Money Advice Trust’s National Debtline and Turn 2 Us has been achieved already. This is done at a company level with the exception of Watersure and WaterDirect which are common products.

- In our latest research, shown in figure 3.2, three quarters of customers are aware of at least one method that Thames Water supports customers to reduce their bill.
- To really penetrate our message on Affordability support, a national scheme that creates a national vocabulary supported by third sector organisations would be required.

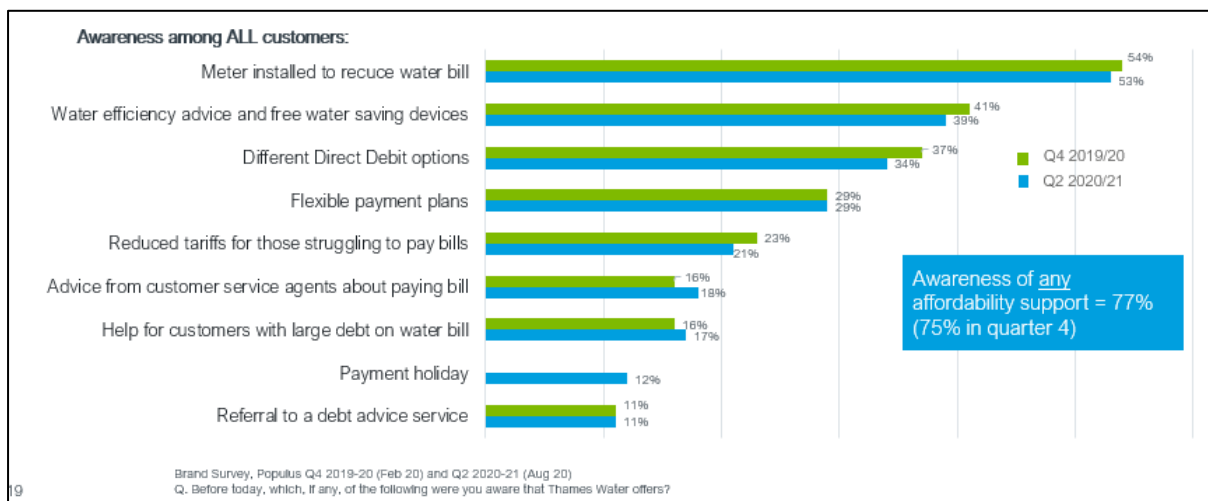


Figure 3.2 – Customer awareness levels of different affordability propositions

- This could be further amplified by combining with Energy to create an ‘essential service tariff’. As Energy bills are higher there is greater incentive for customers to take action. We appreciate that this is unlikely to be achievable within the current policy framework but it could be a long term target. Steps towards this such as data sharing and common eligibility criteria could be explored.
- Most companies already have a variety of channels including voice, webforms and paper applications.
- The main barrier for customers applying is often demonstrating eligibility which may require a level of literacy and numeracy from people who are already in vulnerable circumstances and many suffering from mental health issues. When undertaking our renewals process for our social tariff we find that only 8% of customers that don’t respond are actually over our income threshold – that’s half the number that don’t understand the ask or can’t work out their income. See Appendix 3.
- The key to unlocking the identification of those who are eligible without creating hurdles to demonstrate through provision of paperwork comes through data sharing. This can be applied for both renewals of customers already in receipt of support but also for proactive targeting where the data share agreement permits. Taking this approach to its extreme if the support scheme is designed correctly proactive registration for support could be applied through data matching without the customer even having to apply, or just confirm their situation. Cleary, sufficient cross subsidy is required for this.
- Creating a frictionless service for customers does not mean an invisible service, and renewal notifications can be used as a point to build trust and inform customers of other services.
- Data sharing with local authorities in addition to the DWP would further enhance the coverage and accuracy of this way of working.

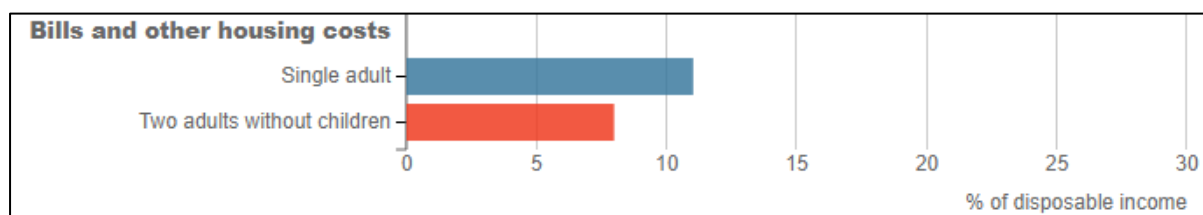
Q7. Are there any particular lessons from other fields or sectors, which may be transferable, that the water sector should take account of in shaping its future approach?

- No specific best practice identified.

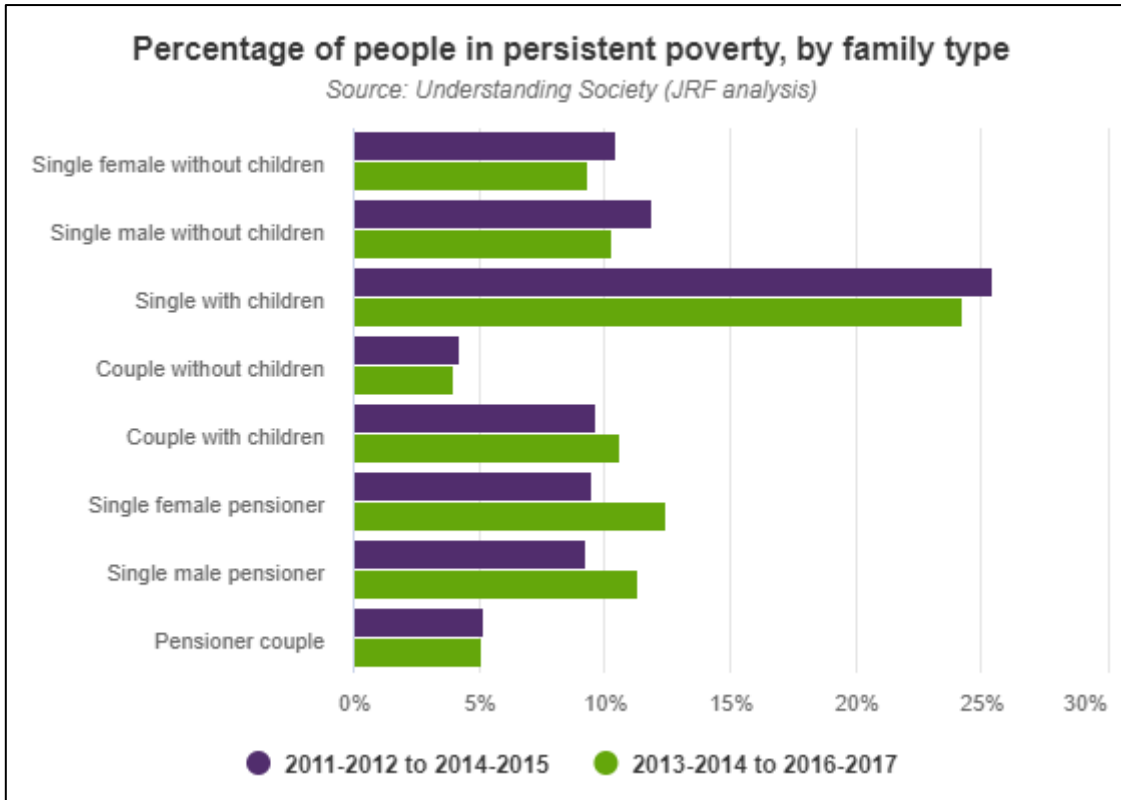
Appendix 1 – Matrix for using Index of Multiple Deprivation to decide on evidence levels

Index of Multiple Deprivation Decile	Gross declared income £12,000 or less	Gross declared income between £12,001 and £15,000	Gross declared income £15,001 or more
1	Accept	Accept	Accept
2	Accept	Accept	Accept
3	Accept	Accept	Accept
4	Accept	Accept	Accept
5	Accept	Accept	Accept unless concerns
6	Accept	Accept	Accept unless concerns
7	Accept	Accept unless concerns	Accept unless concerns
8	Accept	Accept unless concerns	Request evidence
9	Accept unless concerns	Accept unless concerns	Request evidence
10	Accept unless concerns	Request evidence	Request evidence

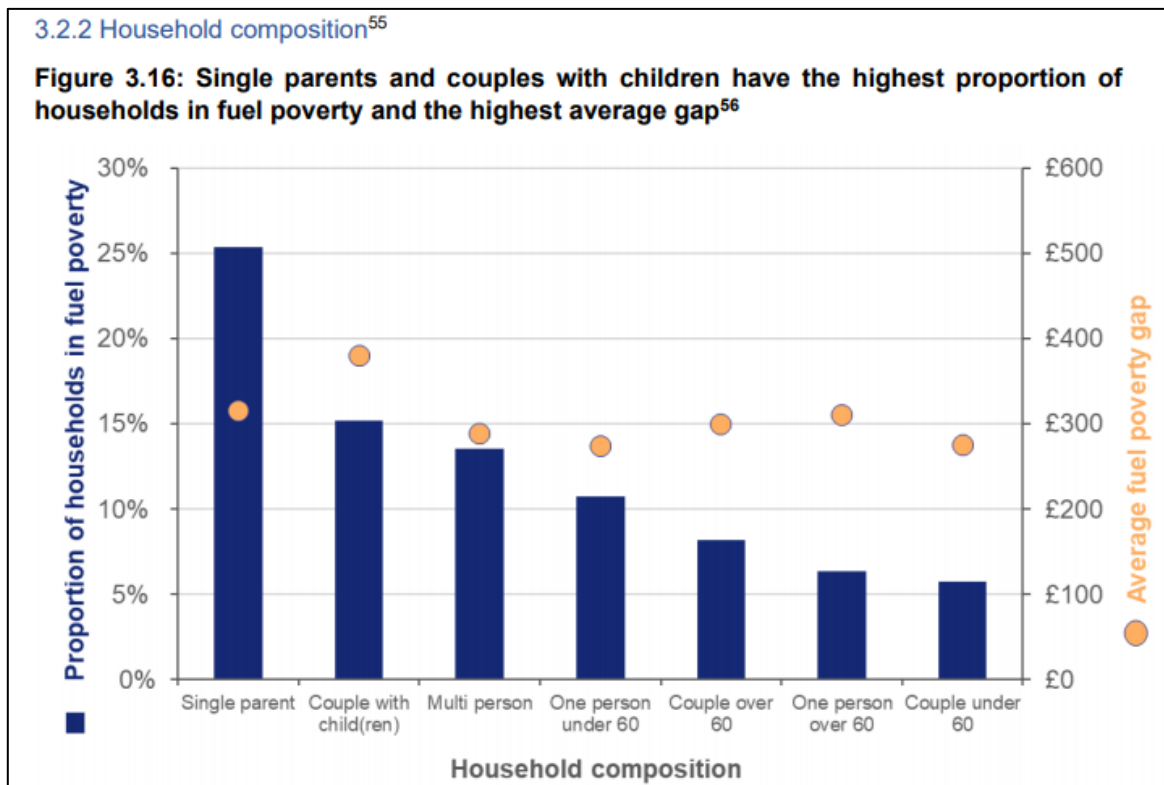
Appendix 2a – Percentage of income spent on bills and housing costs (source ONS [The cost of living alone report](#) April 2019)



Appendix 2b – Percentage of people in persistent poverty, by family type (source Joseph Rowntree Foundation <https://www.jrf.org.uk/data>)



Appendix 2c – Fuel Poverty by Household Composition (Source Department for Business Energy and Industrial Strategy - [Annual Fuel Poverty Statistics in England, 2019](#) (2017 data) - page 33)



Appendix 3 – Reasons given for not responding to request for renewal information

