

December 2020

Ofwat's response to CCW's call for evidence for the independent review of affordability support for financially vulnerable water customers in England and Wales

About this document

This document is our response to the independent review of affordability support for financially vulnerable water customers in England and Wales being carried out by CCW. As part of its review, CCW has issued a call for evidence to gather insights and evidence from a range of sources to inform its findings, conclusions and recommendations. These will be published in Spring 2021.

We welcome the opportunity to respond to CCW's call for evidence. This document provides our response based on our understanding of water affordability support arrangements available to customers. We are committed to working with CCW and other stakeholders throughout the duration of its review as it considers and tests different options for improving the support available to residential customers.

Our role

We are a non-ministerial government department that was established in 1989 when the water and sewerage industry in England and Wales was privatised.

We operate under a legal framework that provides, among others, a clear mandate for intervening on behalf of customers in vulnerable circumstances whilst carrying out our relevant functions. Section 2 (2A) (a) of the Water Industry Act 1991 stipulates that we shall have regard, non-exhaustively, to the interests of individuals who are disabled or chronically sick; of pensionable age; on low incomes; and residing in rural areas. We also act in accordance with the respective statutory strategic policy statements published by UK and Welsh Governments.

Customers are at the heart of our strategy and we want to encourage the sector to improve lives through water. In '[Time to act, together](#)' published in October 2019, we said that: "We want to see water companies transform their ability to serve customers and respond to the full diversity of customer needs, particularly those in vulnerable circumstances."

Support for financially vulnerable customers through the regulatory system

In December 2019 we made our final decisions on the price, service and investment packages for the 17 water only and water and wastewater companies in England and Wales for 2020-25 (the '[2019 price review](#)'). We focused on four essential themes that we considered beneficial for customers and water companies alike.

One of our themes was "affordable bills for all," which challenged companies to improve efficiency and deliver water bills that are affordable for all, including those struggling to pay. We assessed water companies' business plans to ensure that they were addressing affordability and vulnerability. As a result of our challenges, water companies have committed to:

- provide help to nearly 1.5 million customers to pay their bills by 2025; and
- reduce residential average bills by 12% before inflation during 2020-25.¹

In our 2019 price review we provided a greater focus on vulnerability than ever before, but we recognise there is more to do. In particular, the Covid-19 pandemic has resulted in many families and individuals facing uncertain futures.

CCW's 2019-20 Water Matters research found that 1 in 10 customers considers their water and sewerage bills are not affordable (1 in 8 in Wales only). This suggests that, even before the pandemic, around 3 million households may have needed help with their water bills. Given the transient nature of vulnerability, it is important that companies offer tailored support to those in need.

Current arrangements for supporting households that struggle to pay their water bill: What works well and what might be improved?

In the context of the Covid-19 crisis, Ofwat's CEO Rachel Fletcher wrote to the leaders of the water companies in March and July 2020, setting out our expectations for how water companies should respond, including on support for vulnerable customers. She asked companies not to be distracted by any fear that the regulatory regime would act as a barrier to them prioritising the needs of all of their customers, including vulnerable customers, and the safety of their staff.

Water companies have demonstrated what works well in how they have responded positively to the pandemic by providing increased assistance to customers, especially those in vulnerable situations. All companies have offered payment deferrals, and are in the process of tailoring payment plans to support customers as these deferrals come to an end. Companies also initially paused all debt collection activities, suspending court applications on unpaid bills and stopping enforcement visits. Several companies proactively contacted their customers, including those on their Priority Services Registers, to highlight the affordability schemes that are available

¹This is subject to review by the Competition and Markets Authority on appeals against our decisions by four companies.

for them to access. Across the sector, more customers are being helped through schemes that guarantee lower bills, such as WaterSure and social tariff support.

While companies have undoubtedly stepped up to the challenge of helping customers during the crisis, this review provides a timely opportunity for taking stock of current arrangements and considering potential solutions for addressing future affordability challenges.

Improving the sustainability of current arrangements – social tariffs

Currently there are significant variations across companies in the numbers or proportions of customers assisted by social tariff schemes, as well as variances in the level of support received. There are further differences in who is eligible to receive assistance which means some households in need of support will miss out depending on which water company area they live in.

It is for each water company to ensure that any social tariff it offers complies with the Defra or Welsh Government guidance,² including having regard to the need for appropriate consultation with customers and CCW. Ofwat must also have regard to the guidance when regulating charges. We will consider any regulatory impacts, including for example on charges and revenue reconciliation, in the normal way and with regard to the circumstances.

To better understand social tariff scheme capacity, we issued a request for information in May 2020 to all water companies. The information they submitted clearly showed that they continue to take different approaches to social tariff schemes, with differing eligibility criteria, levels of discounts and cross-subsidies per customer.

At that time, we found that forecasts of social tariff uptake were uncertain, and companies were considering a number of different options to deal with growing demand for support. Some companies were planning to reduce the discounts available to stretch scheme capacity. Other companies were already re-consulting with customers to extend provision.

CCW's review therefore provides an opportune moment to look at the latest picture. In doing so, there are some key questions that merit consideration through the review:

- What are the key features of social tariffs that should apply consistently?

² See Defra, 'Company Social Tariffs: Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010', June 2012. See also, Welsh Government, 'Guidance to water and sewerage companies and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under section 44 of the Flood and Water Management Act 2010', February 2013.

- How might an appropriate balance be struck between schemes meeting local circumstances and moving towards a more standardised approach?
- What should be the role for customers in developing tariffs, given the majority of schemes are currently being fully funded through other customers' bills.
- Finally, who should pay for support and whether it should always be customers rather than companies or wider government, as well as whether there is more of a role for third parties and partnerships in helping to manage affordability pressures.³

How could the sector's approach to promoting and delivering support be improved?

We think that improving the sector's approach to promoting and delivering affordability support should be considered in the round by focusing on (backstop) protections, support and prevention activities:

- **Backstop protections**
- **Support for customers in financial distress**
- **Prevention activities.**

Backstop protections are important for ensuring that those customers who are struggling with their bills get the support they need. In 'Time to act, together', Ofwat has already committed to considering the case for a 'treating customers fairly' licence condition as one form of backstop protection for customers.

More generally, the review presents an opportunity to take stock of the affordability support landscape and consider whether a more consistent offering on affordability support is appropriate. This should include consideration of social tariff scheme eligibility and support levels across water companies as one form of backstop protection for customers in need of support. Any changes proposed by the review to develop a more standardised approach will require careful consideration, particularly to ensure that any changes do not inadvertently remove support from certain customers who continue to need it.

One immediate lever with potential for facilitating changes to the support architecture is revising the existing Defra and Welsh Government guidance. Should the review conclude there is a need for greater consistency of approach in social tariff schemes, the guidance offers an immediate route for influencing company behaviour. For example, developing a minimum set of standards within the guidance

³According to CCW's Water for All report, only three companies (United Utilities, Dŵr Cymru, and Yorkshire Water) currently contribute to their social tariff schemes, rather than relying solely on cross-subsidy.

has potential to encourage schemes to be more aligned around key criteria, while also maintaining some flexibility for companies to still go beyond the minimum and continue to innovate.

There are other areas within the guidance where changes might be considered. For example, if Defra were to amend its guidance to state that a higher percentage of cross subsidy is acceptable, this could give companies more leeway to increase the amounts of social tariffs. It may also be possible to develop the guidance further around what constitutes appropriate customer research and broad support from customers. Any immediate changes will require careful consideration and we would welcome working closely with CCW in this area. Legislative change is a further potential option that should be considered by the review as an additional lever beyond updating the existing guidance.

Support for customers in financial distress is another important area that merits focus from this review to ensure that support mechanisms are promoted and accessible to the needs of individual customers. Improved engagement is vital if customers are to become aware and be able to access the variety of options that support their individual circumstances. Information that is accessible to, and also addresses the needs of, different customers in the format that works best for them and delivered through a range of communication channels is central for companies being able to engage effectively with their customers.

So, we do think there is significant scope (even before any extension of existing financial support schemes in the water sector) for companies to do more in this area, in terms of engaging with customers and using the information they gather from these increased interactions to get customers in financial vulnerability signed up to appropriate support at key trigger points.

Improved engagement and use of data from interactions could also help companies in other areas. For example, CCW and Ofwat's joint report on complaints practices highlighted (among other things) that companies should improve their understanding of complainant satisfaction, make better use of data and the experiences of complainants in vulnerable circumstances.⁴

This should include working across the sector and with other utility companies to provide straightforward and consistent information for staff on areas of commonality, which will make the process for accessing support easier for customers. There are some good examples of companies working hard to provide a joined-up service to customers and these should become the norm across the sector.

⁴See CCW and Ofwat joint report on complaints practices, November 2020: <https://www.ccwater.org.uk/research/ccw-and-ofwat-joint-report-on-complaints-practices/>

Support for customers in financial distress should also include greater flexibility and innovation around billing and payment methods. For example, billing at shorter intervals, instead of annually or bi-annually, has the potential to reduce outstanding amounts for customers; this will help them to cope better when they are faced with multiple payment demands. There is scope for companies to do even more in terms of offering people flexibility in how they pay their bills. For example, allowing customers to pay more in some months and less in others has the potential to help complement peoples' irregular incomes.

Prevention activities: Finally, prevention of affordability problems should be as important as looking at how to help people when they are faced with that difficult situation. This calls for a better understanding of different groups of customers and their needs, as well as understanding of the drivers of the affordability problems so that effective bespoke approaches to prevention can be considered. Prevention activities therefore should also be reflected on by this review with the aim of helping customers before they fall into financial vulnerability.

The sector's public interest commitment is one proactive example of voluntary effort being made by the water industry to tackle and prevent water poverty. The review is an opportunity to consider whether industry ambition might be encouraged further and whether there is scope for more voluntary collective action in aid of customers at this time.

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

We think it is worthwhile considering learning from other sectors in finding out what works, particularly in promoting the ease of navigation and accessibility by customers in need of support. More generally, the consideration of water alongside other essential services is important given water is often the last bill to be paid due to the ban on disconnections – with potential knock-on implications for other customers' water bills.

The use of auto-enrolment in other sectors (such as the Warm Home discount scheme in the energy sector) is an area that may merit consideration by the review, with a view to making it easier for water customers to access support. The sharing of data with agencies, Government bodies and other parties will be an important enabler to making progress on this issue. The best solutions may mean water companies working closely with other utility providers and other Government departments, such as DWP – building on work already taking place in the sector and completing the work on PSR data sharing promptly.

Making better use of technology also has a role to play in ensuring support is appropriately targeted, including automatically stopping access to support should people's circumstances change for the better. Again, this is likely to be through improved cross sector data sharing, innovative approaches to understanding changing circumstances such as through open banking developments, as well as promotion of improved data sharing between different sectors, more collaboration with DWP, Citizen's Advice and charities.

Finally, in shaping the sector's future approach, the review should strive to be ambitious in making a tangible difference to customer outcomes. In so doing, it should seek to strike a better balance in delivering workable solutions and being pragmatic about what might be achieved over short and mid to longer term time horizons. There are different tools and levers available to improve outcomes for all water customers and it will be important for the review to weigh up the pros and cons of different courses of action, as well as being mindful of possible unintended consequences from any changes prioritised. For instance, any moves to remove the requirement for the level of actual cross subsidy to have broad support from customers will allow companies to potentially raise bills for other water customers without support. We know many people at this time face problems paying their bills so raising bills further may tip other customers into problems, creating more need.

We will welcome the opportunity to work with CCW in thinking through the implications of different choices and options ahead of its review reporting in Spring 2021.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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