

## **CCW's Independent review of affordability support for financially vulnerable water customers in England and Wales**

Sustainability First is an independent think tank and charity focused on promoting economic, social and environmental wellbeing in public utilities including the water sector.

We welcome CCW's independent review of affordability support for financially vulnerable water customers in England and Wales and the opportunity to respond to your Call for Evidence. We are happy for this response to be published and to be contacted to discuss any of these areas further.

In conducting its review, we draw CCW's attention to four pieces of research we have undertaken:

- Our independent report for UKWIR, with CEPA, on 'Defining Water Poverty and Evaluating Existing Information and Approaches to Reduce Water Poverty (2020)'. The latter involved a literature review, two information requests to water companies into current practices and four stakeholder meetings. It outlines six key drivers for water poverty and a toolbox of approaches companies can take to tackle the different causes of water poverty in their different regions.
- Our Project Inspire 'Energy for all – Innovate for All' report (2018) which contains more than 70 case studies of cross sector practice to improve service quality for customers in vulnerable situations. This comprises four practical guides to standard, good and innovative practice, including to help companies with: 'Affordability – supporting customers on low incomes and in debt'; 'Identifying customers with additional needs' including those in financial difficulty; and 'Improving access' to services<sup>1</sup>.
- Our social and distributional impacts of decarbonisation and climate adaptation in the UK report (2020)<sup>2</sup> which is of relevance when considering future affordability challenges.
- Our Fair for the Future Thriving Communities Partnership case study<sup>3</sup> which summarises cross-sector approaches to affordability and hardship by Yarra Valley Water in Australia.

In addition, at the start of the pandemic we published the think piece 'Consumer Vulnerability: Given Covid-19 and Net Zero, what should the medium to longer-term

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<sup>1</sup> [Innovation for vulnerability \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk/images/publications/innovation_for_vulnerability)

<sup>2</sup> [Microsoft Word - Social impacts FINAL REPORT 8.6.20.docx \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk/images/publications/microsoft_word_-_social_impacts_FINAL_REPORT_8.6.20.docx)

<sup>3</sup> [https://www.sustainabilityfirst.org.uk/images/publications/fair\\_for\\_the\\_future/SF\\_The\\_Thriving\\_Communities\\_Partnership\\_Case\\_Study\\_26.3.19\\_FINAL\\_1.pdf](https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_The_Thriving_Communities_Partnership_Case_Study_26.3.19_FINAL_1.pdf)

approach be to ensuring affordability of essential utility services<sup>4</sup>. This paper importantly raised questions around whether the current cross-subsidies in the water sector and other utilities had reached their limits – particularly given the quantum of the pandemic’s affordability challenge. Since we published this piece, we note that it has become apparent that the affordability and national debt pressures are unlikely to be short-term. In short, these issues will not disappear and therefore will require a strategic approach.

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

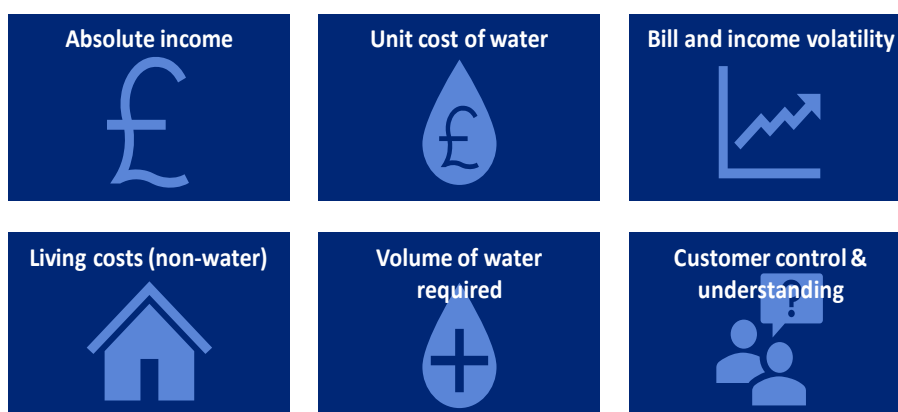
Water poverty does not exist in isolation and must be considered in the context of wider poverty, and the particular characteristics of water services.

Water poverty, like poverty more generally, does not normally have a single cause, nor does it impact people in the same way. Rather, it is complex and multi-faceted; households can fall into water poverty, or be at risk of doing so, for a variety of reasons. In some cases, stresses occur simultaneously, with households struggling to manage multiple demands on the resources they have available to them. Any approach to ensuring water affordability needs to recognise this.

In consultation with consumer groups, water companies and wider stakeholders, Sustainability First identified **six key drivers of water poverty**. Water companies have different levels of control over these six drivers, but they have a role to play to supporting customers in all instances.

**These are important to consider when evaluating current approaches and designing any future strategy.**

Six key drivers of water poverty



<sup>4</sup>[https://www.sustainabilityfirst.org.uk/images/publications/bridging\\_corona/Consumer\\_Vulnerability\\_Ensuring\\_Affordability\\_Final\\_150520.pdf](https://www.sustainabilityfirst.org.uk/images/publications/bridging_corona/Consumer_Vulnerability_Ensuring_Affordability_Final_150520.pdf)

Put briefly:

1. **Absolute income** - A household's level of absolute income is representative of the resources that household has available to them in order to meet their needs. Income can be made up of a variety of factors, such as income from employment, pension or state support. According to Joseph Rowntree, a person's level of income must be able to cover the cost of a range of goods and services, including housing, childcare and transport costs, if they are to meet minimum living standards in the UK. This level can vary significantly depending on location, as well as the number and characteristics of dependent individuals. Where the level of income prevents a household from meeting its needs, this can lead to water poverty.

In 2020 there have been significant changes to income from employment and state support, impacting individual households and communities differently depending on a range of factors including the sector in which they are employed. There is uncertainty regarding levels and continuation of state support such as furloughing. Going forward this will influence the levels of water poverty.

2. **Unit cost of water** – water rates vary across regions, depending on factors such as water scarcity, network size, infrastructure investments, regulatory arrangements and company efficiency. Therefore the cost of using the same amount of water can differ across the UK. This is likely to impact on both metered and non-metered customers who must contribute to a greater or lesser amount towards network company costs.
3. **Income and bill volatility** - In addition to a permanently low income, households can face transient issues with paying their water bill as a result of temporary income changes or due to ongoing volatility of income. For example, a customer may be temporarily unemployed, or they may not have a salaried job but instead have an income which varies from week to week as a result of the number of hours they are contracted. Where this leads to difficulty paying their water bill, the customer can fall into a cycle of debt (potentially also relating to non-water living costs) which can lead to more permanent water poverty. Covid-19 has led to greater income volatility.

In addition to income volatility, metered customers can also face bill volatility. While water bills are relatively stable from one month to the next under normal circumstances, volatility could occur as a result of billing issues which lead to a back-bill or an erroneously high bill for example. In addition, when a metered customer experiences a water leak which significantly increases their water use. This can have similar implications as income volatility for those customers who are close to facing affordability challenges under normal circumstances. Some bill volatility may have arisen because of increases in water use as a result of Covid-19 (see point 5 below).

4. **Non-water related living costs** - Households have a number of inescapable costs, or living costs, that they must meet. These can include, but are not limited to, housing, childcare, food, transport, and the cost of utility bills. For households with tight budgets (i.e. where the level of household income is near the level of inescapable

costs), an increase or decrease in one living cost can either put them at risk of being unable to pay all of their bills or make it easier to pay bills respectively. This is particularly pertinent in the case of water, as this is often the 'last' bill to be paid.

It will be important to understand the impact of Covid-19 and future changes such as Brexit on households wider living costs, and how this impacts water affordability. E.g. travel costs may have decreased for those who are working from home for the first time, but non-water utility bills may have increased with usage shifting from work to home and children at home more during the day.

5. **Volume of water required** - Each household requires a certain volume of water for drinking, bathing and basic sanitation and food preparation in order to meet basic living standards. Bills for unmetered households, although they can be based on household size and occupancy, are not directly related to the volume of use. However, for the growing number of households with water meters (which needs to be factored into future projections), volume will directly impact on their bill. For these households, water poverty could be caused or exacerbated by high water use, for example resulting from low levels of water efficiency (e.g. due to household appliances with low efficiencies) or high need due to a particular medical condition.

Covid-19 has resulted in an increase in domestic water consumption e.g. increased clothes and hands washing, plus day-time usage which was paid for by employers shifting to domestic bills where customers are metered. In addition, there is evidence of increased water usage for leisure or 'pleasure' related reasons during the pandemic e.g. greater use of paddling pools in warmer months and longer baths and showers.

6. **Customer control and understanding** - The inability of a customer to understand and control factors that relate to their cost of water and billing can create affordability issues. For example, water companies report that some new bill payers do not always realise that they have to pay for water, or do not understand how or what to pay which can result in debt building up with resultant consequences. Metered customers may not understand how to, or not have the information and tools to regulate water use or to prevent leakages. Customers may also lack understanding and awareness of services available to help them. For instance, if a customer is on a payment plan which is semi-annual, and is unaware they can change their billing frequency, they may be less able to plan and budget for the size of their bill. Covid-19 has resulted in a reduction in face-to-face support services which risks those that are hardest to reach, facing further barriers to accessing financial help.

**We consider these drivers provide a useful framework for structuring analysis of approaches to ensuring water affordability in England and Wales.**

**Importantly each of the drivers may apply to a different extent in different regions. A good understanding of these drivers should play a fundamental role in appropriately designed and targeted strategies** which reflect regional differences. Furthermore, as indicated, the prevalence of these different drivers of water poverty has been impacted by

Covid-19 and they may evolve differently depending on the future pressures on water poverty in England and Wales. e.g areas with high levels of pensioners on low but stable incomes may be less adversely impacted by Covid-19 should Furlough support be withdrawn, than those areas with high levels of households working in the service industry, who may have been on reduced hours or face redundancy.

As part of our independent research for UKWIR we reviewed the support provided by water companies. We identified six categories of measures in our report and then mapped these measures against the different water poverty drivers:

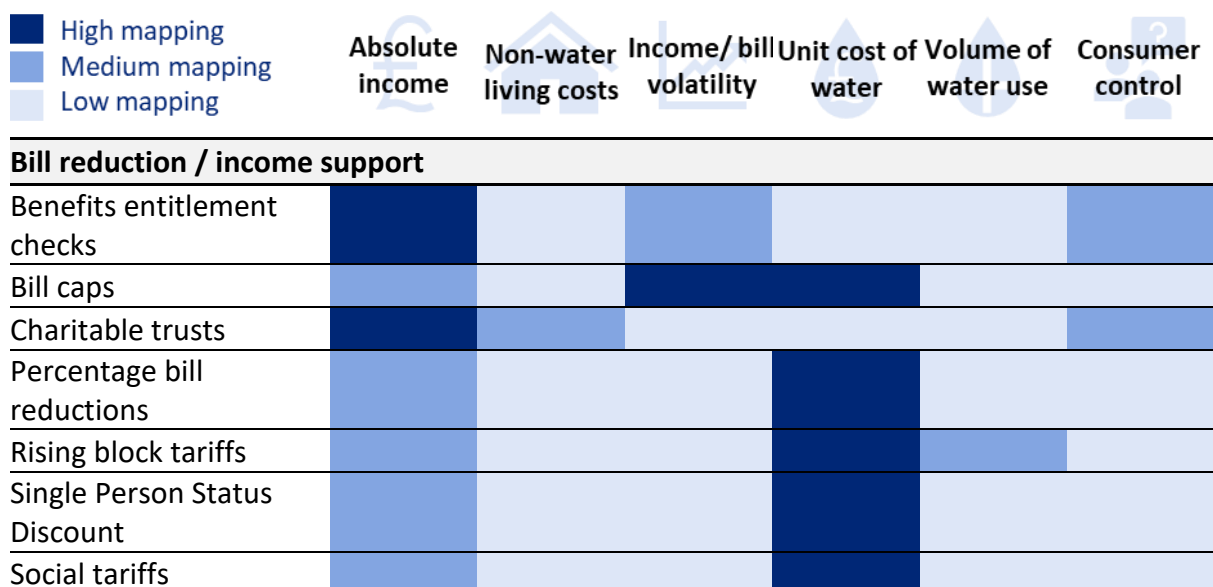
Categories

1. Bill reduction/income support
2. Support with financial management of bills or budgeting
3. Water efficiency measures
4. Information and behaviour change interventions
5. Water provider practices (e.g. companies not back billing, or offering safeguard tariffs when moving customers onto water meters to prevent unexpectedly high bills)
6. Cross utility practices

More detail can be found in our report.

**The diagram below demonstrates that a key strength of current approaches is the wide range of support made available by water companies to tackle these different drivers of water poverty.** It shows that no one measure tackles all the drivers.

**Our research concluded that while social tariffs are vital, companies need and will continue to need a suite of approaches to comprehensively tackle water poverty. Any future policy must ensure that companies have a ‘toolkit’ of measures that reflects the needs of its area.**



High mapping  
 Medium mapping  
 Low mapping

£ Absolute income  
🏠 Non-water living costs  
📄 Income/ bill volatility  
💧 Unit cost of water  
🚰 Volume of water use  
👤 Consumer control

	Absolute income	Non-water living costs	Income/ bill volatility	Unit cost of water	Volume of water use	Consumer control
Water Charges Reduction Scheme	Medium	Low	High	High	Low	Low
WaterSure	Medium	Low	Medium	High	Medium	Low
<b>Financial management</b>						
Debt write-off	Medium	High	High	Low	Low	Low
Financial management support	Low	Medium	High	Low	Low	High
Flexible payments	Low	Low	High	Low	Low	Medium
Payment holidays	Low	Low	High	Low	Low	Medium
Payment matching	Medium	Low	High	Low	Low	High
Water Direct	Low	Low	Medium	Low	Low	Medium
<b>Water efficiency</b>						
Efficient appliance provision	Low	Low	Low	Low	High	High
Equity release	Low	Low	Low	Low	High	High
Free leak repairs	Low	Low	Medium	Low	High	Medium
Network leakage repairs	Low	Low	Low	High	Low	Low
Retrofits	Low	Low	Medium	Low	High	Medium
Water audits and 'health checks'	Low	Low	Medium	Low	High	High
<b>Informational / behavioural change</b>						
Debt advice	Low	High	Medium	Low	Low	High
Education schemes	Low	Medium	Low	Low	High	High
Promoting self-identification	Low	Low	Low	Low	Low	High
Promoting water efficiency	Low	Low	Low	Medium	High	High
<b>Provider practices</b>						
Community Hubs	Medium	High	Medium	Low	Low	Medium
Inclusive design	Low	Low	Low	Low	Low	High
'Making Every Contact Count'	Low	Low	Low	Low	Low	Medium
Proactive identification	Low	Low	Low	Low	Low	Medium
PSR eligibility	Low	High	Low	Low	Low	Medium
Removal of back-billing	Low	Low	High	Low	Low	Low
Removal of charges	Medium	Low	High	Low	Medium	Medium
Simplified applications	Low	Low	Low	Low	Low	High
Targeted support	High	Low	High	Low	Low	Medium
<b>Cross-utility approaches</b>						

	Absolute income	Non-water living costs	Income/ bill volatility	Unit cost of water	Volume of water use	Consumer control
Community champions	Low mapping	Medium mapping	Low mapping	Low mapping	Low mapping	High mapping
Data sharing	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Medium mapping
Harmonising support	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Medium mapping
Knowledge sharing	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Medium mapping	Low mapping
Passporting	Medium mapping	High mapping	Low mapping	Low mapping	Low mapping	Medium mapping
Referrals	Low mapping	High mapping	Low mapping	Low mapping	Low mapping	Medium mapping
Signposting	Low mapping	High mapping	Low mapping	Low mapping	Low mapping	High mapping

**Another key advantage of the current approach is it allows water companies flexibility.**

This is important at a number of levels:

- It enables water companies to more easily respond to transient vulnerability i.e. help a person temporarily having problems paying bills and not just those who meet a fixed criteria e.g. in receipt of certain benefits.
- Gives frontline staff the autonomy to respond to individual customer needs - it won't be possible to anticipate and legislate for all scenarios where a customer may require help so this is necessary.
- Enables companies to set eligibility criteria relevant to their areas e.g. higher income thresholds which reflect differences in the cost of living.
- Enables companies to deliver approaches tailored to their communities, not only supporting customers once they have fallen into financial difficulties, but to take preventative action when they are at risk of falling into problems.

Importantly, it is essential to **safeguard the current system that does not allow customers who can't afford their water bills to be disconnected**. In the US millions of households are without water. During the pandemic this has resulted in them being 'shut-off', facing increasing hardship, unable to wash their hands, leading to both individual and societal health concerns. This is not to underplay the problems faced by water customers in England and Wales who aren't disconnected but are still forced to ration use and face the stresses of and consequences from debt collection proceedings.

Lastly, some companies work with customers in financial difficulties and stakeholders that represent or support them **to co-create support schemes** including tariff design. This is very positive and should be encouraged as part of any approach.

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

**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 assessed?**

Agree a single cross-industry metric for measuring water poverty

We consider a consistent cross-industry metric to be an essential first step in the development of a coordinated water poverty alleviation strategy. This would help the water industry to:

- work towards a shared understanding of the scale of the water poverty challenge in the UK (today and in the future)
- develop common objectives that allow for targeting of initiatives to alleviate water poverty
- track progress against these objectives
- raise the profile of water poverty as an issue while ensuring an appropriate level of scrutiny.

As part of our independent research with CEPA for UKWIR we proposed that a ‘percentage of disposable income’ metric is taken forward for detailed design development and testing. We welcome that Water UK has built on this and commissioned research to confirm a standard methodology for assessing water poverty and to establish a baseline position of water poverty across England and Wales.

Improve the consistency of support with a common water company support package but allow flexibility beyond this

We advocate for all companies to offer a common minimum level of support for those in financial difficulties, while providing companies with the flexibility to tailor their approaches to adapt to local need beyond a given minimum level of service. Importantly, required minimum service levels or rather **‘levelling up’ should tackle all six drivers of water poverty**, not just apply to social tariffs. So should include:

1. Bill reduction/income support e.g. a core social tariff with potentially core eligibility criteria beyond which companies could have their own criteria to reflect regional needs and enable flexibility to respond to individual needs.
2. Support with financial management of bills or budgeting e.g. minimum requirements around payment options and communications.
3. Water efficiency measures - this is especially important given the role water efficiency plays in supporting wider sustainability goals including the move to net zero and resilience in water stretched areas. Also, due to increased domestic water consumption as a result of Covid-19.
4. Information and behaviour change interventions

The bar for minimum standards should be set at a ‘good practice level’. The rationale for the latter is:



- CCW and water company research shows that customers have low awareness of the support available to help them with their bills<sup>5</sup>. Lack of consistency of financial support available between different water companies even in the same sector can make it hard for advisors and other utility companies to communicate what help is available to those that most need it. Having a common core service should better facilitate communication of support available, raising awareness and take-up.
- There is a lot of good industry practice in supporting customers in financial difficulty, flagged by regulators, CCW, Citizens Advice<sup>6</sup> as well as Sustainability First's Innovate for All<sup>7</sup> report but this is not uniformly adopted by all water companies. Water companies have historically been slow to adopt innovative approaches which would benefit customers. In particular the industry could do a lot more to empower customers to better manage their finances e.g. offer greater flexibility of payment options, payment reminders, better use of open data and behavioural interventions to support budgeting and encourage take up of support. There is also scope for significantly improved strategic partnership and multi-agency working.
- There is no current minimum standard with social tariffs, this is only prescribed within the guidance for WaterSure. By setting minimum eligibility criteria, companies may be better placed to utilise the powers of the Digital Economy Act for data-matching and could undertake an auto-enrolment process, reducing complex administration costs and ensuring those most in need of support receive it.

### Improve targeting of support

CCW's question asks who is missing out on support given current approaches. Our research for UKWIR concluded that the industry needs to better understand not only who is in water poverty, but **who is most at risk of harm from water poverty** within those who are struggling financially if they don't receive support. This information would help ensure water companies can prioritise limited resources at those most in need.

We encourage CCW to:

- Systematically map the customer segments that are struggling with affordability, particularly post Covid-19 as new kinds of households are facing affordability challenges for the first time. South East Water's affordability stakeholder event in the autumn 2020 highlighted that the overwhelming majority of organisations supporting customers in financial difficulty had seen a change in the profile of people seeking support. In particular, from people who had been made redundant, furloughed or are self-employed. This event also flagged the value of medical social prescribing related referrals.
- Work with relevant stakeholders to systematically identify water affordability related vulnerability risk factors i.e. those factors that mean a customer is more likely to suffer harm if they can't afford water. This could involve systematically ranking existing PSR needs codes and also considering new vulnerabilities that might not be on the PSR. For example, customers with certain long-term health conditions

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<sup>5</sup> [Water-Matters-Highlights-report-2019-2020.pdf \(ccwater.org.uk\)](#)

<sup>6</sup> [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Covid-19%20Good%20practice%20for%20Energy%20Suppliers%20\(180320\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Covid-19%20Good%20practice%20for%20Energy%20Suppliers%20(180320).pdf)

<sup>7</sup> [Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017](#)

may not only be more likely to suffer water poverty as they have higher non-water living costs and require higher levels of water to stay healthy but could also be significantly more likely to suffer harm if they ration water. These particular high-risk conditions from water poverty need identifying. Despite the fact that water customers can't be disconnected, some customer segments, such as those with mental health problems may suffer more detriment as a result of being put into debt pathways with the resultant anxiety that that causes.

It has been proposed that a similar approach to the Warm Home Discount scheme in the energy sector might be considered. This has a core group with common eligibility, and then a broader group which provides companies with some flexibility. If this kind of approach is adopted, it will be important to ensure that any core group genuinely are the most in need and that the approach doesn't result in already limited support being withdrawn where it is most needed.

Citizens Advice's analysis of energy support schemes identified that there is a disparity between retired and working age households in terms of levels of support, with the former receiving more than the latter<sup>8</sup>. This is in part as they are easier to identify. This is especially relevant as rates of poverty are now higher for working age families than retired households, and that many people on benefits live with 'negative budgets'<sup>9</sup>.

It is important in particular to ensure that any reliance on passport benefits doesn't result in detriment to the **working poor** and **self-employed** who are increasingly facing challenges especially post Covid-19.

We support calls therefore for a new industry taskforce, which is cross-sector, led by the government to work towards modernising vulnerability support across essential service sectors.

#### Review the scale of support provided and organise a transparent debate on funding options once the Call for Evidence is complete

The scale of support and the funding available for financial support varies from water company to water company dependent in part on the willingness to pay (WTP) in that area and any top-up from shareholder funds (i.e., the available funding). Linking support to WTP, where the research methodology is robust, arguably provides a degree of legitimacy for customer cross-subsidy. However, it can result in a situation where areas of highest need receive some of the lowest levels of support. This variation is on top of regional variation in water bills to start with.

**It is clear that the current system needs improving to be more effective at tackling water poverty and also to meet current and likely future need (see below).**

#### *Step 1: Assess the need*

We believe that the approach adopted should be driven by an objective assessment of the

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<sup>8</sup> Citizens Advice (2020) Citizens Advice response to BEIS's Warm Home Discount Scheme 2021 to 2022 consultation

<sup>9</sup> Citizens Advice (2020) Life on Less than Zero - [Life on less than zero - Citizens Advice](#)

support that is required. CCW should start by assessing the need for affordability support, the distribution of that need (both short and longer-term), and then determine the appropriate policy framework in order to meet that need in a 'fair', progressive, consistent and sustainable manner across England and Wales.

The National Audit Office notes that WaterSure and social tariff schemes for water only reach 260,000 households whereas the Warm Home Discount Scheme (which largely replaced social tariffs) in energy reaches 2.2m households<sup>10</sup>. While average energy bills are significantly higher, this does raise the question as to why there is such a disparity in the scale of support across these two essential services.

*Step 2: A debate on funding options*

Once 'need' is established there should be a public national debate in both England and Wales on the kind of support provided and funding options. Ideally this should be a cross sector debate that considers the interdependencies between essential services and wider support provided in those countries.

There are three obvious options on the table for who pays for any increase in financial support:

- a) *Customers continue to pay via a cross subsidy* – historically Government's preferred option. This could explore the potential for customers in relatively 'wealthier' regions cross-subsidising support in areas of higher deprivation. In energy, the Warm Homes Discount Scheme Core Group includes a reconciliation process between companies which enables this kind of approach. This would overcome existing issues where customers in different areas show different willingness to pay to support social tariffs, which may itself be a reflection of economic circumstances. However, unlike competitive energy markets, customers cannot switch to a cheaper deal if they don't like the overall unit water price. There are also wider fairness and consistency considerations, especially for those struggling to afford their bills in 'wealthier' areas. This includes the fact that the unit cost of water varies across England and Wales due to other reasons. It raises the question as to why customers should be expected to cross subsidise another region on affordability when they might pay a relatively higher amount than another region does, for example, to ensure flood protection due to their location. It is possible that this approach would be unpopular among many customers who have to pay more as a result, on top of, in some instances an already higher than average water bill.
- b) *Government or rather citizens via taxation*, which is likely to be more progressive and fairer in terms of 'ability to pay'. There is arguably already a precedent for this. For example, the government's Winter Fuel Payment which is between £100-300 and paid automatically regardless of income to those who are eligible<sup>11</sup>, or South West Water's £50 bill reduction<sup>12</sup> which is a state contribution which recognises the additional cost of cleaning the country's bathing waters in that area. The former could be adapted to become an essential services allowance.

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<sup>10</sup> National Audit Office (2017) Vulnerable Consumers in Regulated Markets p.9 [Vulnerable consumers in regulated industries \(nao.org.uk\)](https://www.nao.org.uk/publications/2017/07/vulnerable-consumers-in-regulated-markets/)

<sup>11</sup> [Winter Fuel Payment - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/winter-fuel-payment)

<sup>12</sup> [The £50 reduction \(southwestwater.co.uk\)](https://www.southwestwater.co.uk/press-releases/2017/05/24/50-reduction/)

- c) *Companies from profits*. Or perhaps a combination of these. It would be useful to understand how many companies currently contribute to financial support from their own profits and the materiality of that contribution to date.

We acknowledge there are challenges as to how any approach can be done in a progressive and equitable way that customers (and indeed businesses) see as 'fair'.

Given the links between water poverty and wider deprivation there are key questions to be answered around to what extent water companies should be expected to provide support and where the role of water companies ends and that of other parties, such as the state, begins.

This is an area where CCW on behalf of Defra needs to 'walk the talk' on engagement and carefully consider how it can facilitate discussions on this important topic in a constructive and open way, building on the customer research it is undertaking and considering future challenges. As mentioned, we consider that this is an issue that needs to be tackled through engagement at the *national* level in England and Wales, potentially a 'Citizens Jury' type approach that considers the wider support frameworks that exist.

#### Require water companies to develop affordability strategies as part of their wider consumer vulnerability work

We recommend companies develop affordability strategies with customers and key stakeholders working with or on behalf of customers in financial difficulty. This should include systematically mapping affordability in their respective regions, including the prevalence of different drivers and risk factors (both current and future need with smarter use of data including predictive analytics); systematically mapping relevant stakeholders; developing a 'toolkit' of approaches to address identified need in their area; establishing mechanisms to capture value; and outlining how they will monitor and communicate progress in tackling water poverty/delivering affordability. This is required because:

- Water companies are not consistently good at strategically targeting support at customers most in need and not all of them consider the depth of their customers financial difficulty when designing tariffs.
- Company approaches to partnerships can be organic and ad-hoc, rather than strategic. There is little evidence of water companies having adopted best practice in strategically mapping relevant stakeholders in their areas. For example, Western Power Distribution systematically identified activity in its area. It identified 177 existing fuel poverty schemes on its wires and from that 35 strategic partners. In 2016/17 this supported a 46% increase in PSR sign ups; informed 13 strategically targeted fuel poverty schemes targeting the areas of highest deprivation as indicated by their mapping. In 2018 this had supported over 12,000 households to save £2.2m. The project is also the foundation of WPD's Local Action Fund— a £60k investment in four projects found by inviting the 177 organisations identified in the horizon scan to bid for funding. This helps to build on and support existing grass roots activity<sup>13</sup>.

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<sup>13</sup> [Innovation for vulnerability \(sustainabilityfirst.org.uk\)](https://www.sustainabilityfirst.org.uk)

- Despite the sharing of good practice and the availability of public data, vulnerability mapping is not as well developed as it should be. Many companies do not use available data, or triangulate this with other relevant sources of information, to proactively target customers at risk of water poverty to prevent them falling into difficulties.
- Performance commitments and league tables that focus on the number of customers receiving financial support, while welcome, can encourage companies to target low hanging fruit to maximise numbers on support schemes, rather than targeting those households which are in the severest financial deprivation or for whom water poverty would result in the greatest detriment. E.g. it is easier to identify older customers than working poor, it is easier to target social housing tenants rather than those in the private rented sector who can be less well served by support services.
- Not all water companies consistently monitor the impact of support provided to see if it really is making a difference to household affordability. Nor do they report on the benefits to the business nor wider social value from the support provided meaning the value is not always recognised.
- Companies need to better understand the longer-term affordability challenges and how, if they do not get on top of affordability issues, costs can escalate (see also below).

**4) Are the 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 be changed?**

Please see above. In addition, we make the following comments:

- Even in 'normal' pre Covid-19 circumstances there was insufficient financial support to assist all that need it. This is reflected in CCW and company research. The pandemic has exacerbated already existing challenges.
- Given the current economic climate it is not unrealistic to expect that there will be an increase in the number of customers who will struggle to afford their water bill, resulting in a greater gap between help provided and need. This is the finding of Water UK's 'proof of concept' from their water poverty measurement project. However, the severity of that gap will be dependent on wider support provided, support provided in other sectors, and in particular from government. The impact will not be felt equally across England and Wales.
- In response to the pandemic water companies have adapted existing social tariffs to provide more ongoing support –increasing the number of customers they help and changing the eligibility criteria to capture those hit by the crisis. But given the differences in willingness to pay (WTP) in different regions and the varying levels of poverty, we are aware they are in different places on this. Some are much closer to their WTP thresholds (the amounts customers agreed to pay) than others. They are best placed to share their forecasts for the future and if WTP is likely to cover

projected need. CCW should check that forecasts have considered the wider affordability challenges, cross sector considerations and drivers outlined above.

- The notion of bill cross-subsidy is based on an assumption that the majority of customers find their bills affordable and therefore can and are willing to help the minority. But if the number of customers struggling becomes a more sizeable proportion of the overall customer base, the approach becomes less workable.
- We welcome CCW conducting its own customer research linked to funding. It is important to understand how Covid-19 will influence customer willingness to pay for social schemes and attitudes towards state support. For example, whether customers are becoming more sympathetic to cross-subsidy or if in fact there has been a decline in charitableness as people tighten their own belts. Also, whether regions are willing to cross-subsidise each other. In addition, if consumers expect the state to play a greater role than it historically has given its greater intervention in recent months and the unprecedented pandemic situation.
- There is uncertainty around the enduring impact of the pandemic on affordability. If the economy recovers quickly, government could offer some kind of one-off debt write-off for customers who couldn't afford their bills in the short-term but can afford ongoing payments once we return to a 'new normal' to bridge this difficult period, but that would not address existing problems and the enduring gap in need. If the impact is more enduring, this is less appropriate.
- Looking forward, it is essential that arrangements for affordability support, and specifically its funding, are sustainable, flexible and reliable. Also, that they are acceptable – deemed to be fair by the majority of current and future customers.
- **As noted, in considering the longer-term impacts, it's important CCW considers not just the impact of Covid-19 but the combined distributional bill impacts of the pandemic, plus climate adaptation, smart technologies and the transition to net zero which will not be felt evenly.** See our social and distributional impacts of decarbonisation and climate adaptation in the UK report (2020)<sup>14</sup>.
- New support could take many forms in terms of who pays for support, how it is delivered, and who gets it –in the case of the latter, ranging from a focused minority to in the interests of fairness and simplicity, potentially everyone.
- **We encourage CCW to be bold and consider the fullest range of options** including a minimum water affordability allowance, a minimum basic allowance and innovative tariffs which encourage customers to voluntarily support their neighbours. In addition, consider allowing negotiated settlement of affordability approaches between a water company and its stakeholders in different regions within a framework set by Defra and Ofwat. These options will need to be transparently discussed in open fora to properly understand the advantages and disadvantages. We would welcome working with CCW on exploring this further.
- Mark Carney in the Economist states, "After the covid crisis, it's reasonable to expect people to demand improvements in the quality and coverage of social support...People's economic narratives will change... After decades of risk being downloaded onto individuals, the bill has arrived, and people do not know how to pay it..."<sup>15</sup> This suggests that not only will a new approach be needed but it will be expected by the public. The challenge for all of us is not to be limited by our

<sup>14</sup> [Microsoft Word - Social impacts FINAL REPORT 8.6.20.docx \(sustainabilityfirst.org.uk\)](#)

<sup>15</sup> Mark Carney, The World After Covid-19, Putting values above valuation. 18/04/2020

experience of the water sector to date and to think more creatively. Sustainability First's new Together for a Fair Climate Future Programme that we are running in the build up to COP26 will be exploring some of these issues in an inclusive way.

**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?**

Our Sustainability First Innovate for All<sup>16</sup> report includes two good practice guides on a) Identifying Vulnerability and b) Affordability – support for customers on low incomes and debt. This includes a wide range of case studies of effective company practices and more innovative practices from across the water, energy and telecoms sectors.

In truth, the barriers to accessing support have been well highlighted over the years by regulators, charities and watchdogs including CCW and Citizens Advice, as has good company practice in promoting and delivering support. The real challenge is timely application of good practice by water companies.

Lockdown has exacerbated existing problems which have been flagged by consumer groups for many years: customers have relatively low awareness of the support available to help them with their bills; even when they are aware of support they can sometimes find it hard to access; lack of consistency of financial support available between different companies even in the same sector makes it hard for advisors to communicate what help is available to those that most need it; companies require better training and access to data to effectively identify and support customers in financial difficulty; a range of parties lack access to up to date information about the changing help available and customers don't always look to asking for financial help from their creditors, but this is what they are being asked to do. These are just some examples.

CCW, Ofwat and Defra should consider how they can catalyse faster adoption of good company practice. It appears the issue is less about understanding and more about will and application. We are aware that in practice some companies have been concerned about promoting schemes beyond their willingness or capacity to deliver them.

Experience from the energy sector shows that the most effective and resource efficient approach however would be to prioritise data sharing initiatives that can help industry and third parties proactively identify customers in financial difficulty and automatically deliver support. Data sharing and matching initiatives to date have been slow to progress. Recent research for the UKRN has highlighted that the barriers to data sharing have often been behavioural rather than legal.<sup>17</sup>

There is also opportunity to better utilise existing networks in other sectors. In particular, to piggyback on the Government's Big Energy Saving Network. Energy champions could also be trained as water champions.

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<sup>16</sup> [https://www.sustainabilityfirst.org.uk/images/publications/inspire/Energy%20for%20All-%20Innovate%20for%20All%20\(full\).pdf](https://www.sustainabilityfirst.org.uk/images/publications/inspire/Energy%20for%20All-%20Innovate%20for%20All%20(full).pdf)

<sup>17</sup> <https://www.ukrn.org.uk/publications/how-can-we-help-you-ukrn-and-revealing-reality-publish-vulnerability-research/>

Sustainability First continues to advocate for greater automation of the delivery of support, and a 'Tell me once' type approach. The latter is where customers in vulnerable situations, including those on low incomes, are able to easily register in one place for all the support available to them from all companies that provide essential services. The customer or a third party representing them could complete a single, simple, standardised assessment process, which could be shared with their permission with those offering support. They could also update this as appropriate. This would provide a better customer experience and be more cost effective.

### **7) Are there any particular lessons from other fields or sector, which may be transferable that the water sector should take into account in shaping its future approach?**

- Ofgem produces a Vulnerable Consumers in the Energy Market Report<sup>18</sup>. This includes good practice on identifying vulnerability, ensuring affordability and tackling debt. As part of its monitoring framework Ofgem requires energy companies to submit information on the number of customers in debt/on debt repayment plans including debt repayment rates, size of debt and length of payment plans. This helps to identify if customers are being treated fairly with due consideration of their ability to pay, and if companies are intervening early enough to prevent debt build up. Ofwat or CCW should consider equivalent monitoring for the water sector.
- As noted, our 'Innovate for All' report includes a wide range of good practice from across energy, water, telecoms, financial services and internationally. In particular, we flag the opportunity for greater tariff innovation. Our report flags for example that CLP in Hong Kong has a popular tariff that supports customers on low incomes while simultaneously encouraging high-energy users to be more energy efficient. For every unit of electricity saved by a customer compared to the same period last year, CLP Power will donate one unit of electricity to households in need. This is up to a maximum limit. Water companies values-based segmentation indicates that a number of customers might be interested in signing up to such a tariff. There is also scope for a step change in proactive activity by water companies to support customers before they fall into debt.
- Learning from energy and telecoms suggests there are also significant opportunities for water companies to do more to empower customers to better manage their bills including greater flexibility around payment options and payment reminders and using open banking data. This includes examples such as Tully's behavioural change approach using open data to support customers in better managing their bills and debt; CLP's Autopay Reminder service so the customer receives an email two days before their payment due date. This helps to ensure customers always have sufficient funds in their bank account to cover their next bill so they don't incur charges which can cause debt; Bulb GoCardless which provides more flexible billing to its energy customers. Customers are able to choose when payments are taken and make changes to their plans with three days' notice. Real-me payment alerts help to prevent debt build-up.

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<sup>18</sup> <https://www.ofgem.gov.uk/publications-and-updates/vulnerable-consumers-energy-market-2019>



- As part of our Fair for the Futures project Sustainability First is considering if utilities such as water companies and regulators could cede some control to communities or regions on some aspects of their work to develop their own approaches to issues such as social support. Given the interconnectivity of water poverty with wider affordability a joined-up approach is required. We draw CCW's attention to our Fair for the Future Thriving Communities Partnership case study from Australia along with United Utilities Hardship Hub<sup>19</sup>.

As noted at the beginning of this response, water poverty does not exist in isolation and must be considered in the context of wider poverty, and the particular characteristics of water services. While we appreciate the challenges including organisations' respective vires and the practical issues related to collaboration, there is a clear need for Defra, BEIS, DWP and regulators among others to work together to develop a coordinated approach.

There is potential to develop a simpler, more coordinated, more cost-effective approach to ensure all customers can afford and therefore access essential services. In particular, it will be important to ensure that a focus on ensuring affordability in these difficult financial times doesn't come at the expense of making progress on net zero or environmental improvements. If this happens it may lead to exponential affordability challenges in the future.

To do this well will require bringing together sectors, getting to the heart of welfare policy. It is a debate that should include consumers and citizens, possibly a Citizens Jury, as Involve and Nuffield have recently suggested about the kind of society we want to live in<sup>20</sup>. This is particularly important given the lack of trust in utilities, their essential role in modern life and the importance of transparency and legitimacy. Such a debate will get to the heart of discussions about fairness and the role of the state and companies – who pays, who should receive help, and who should deliver it. It will be complex. It won't be easy. There will be vested interests on all sides. But it will be essential for developing a system that is fit for purpose for a more sustainable, fair and efficient future. We encourage CCW and Defra to use the opportunity of this review and take a leadership role here.

We hope that this submission is helpful and are happy to answer any related questions. We would be very keen to be involved in future work on this topic.

Best wishes

[www.sustainabilityfirst.org.uk](http://www.sustainabilityfirst.org.uk)

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<sup>19</sup>[https://www.sustainabilityfirst.org.uk/images/publications/fair\\_for\\_the\\_future/SF\\_The\\_Thriving\\_Communities\\_Partnership\\_Case\\_Study\\_26.3.19\\_FINAL\\_1.pdf](https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_The_Thriving_Communities_Partnership_Case_Study_26.3.19_FINAL_1.pdf)

<sup>20</sup>[Nuffield Council and Involve call for greater transparency and public involvement in UK response to COVID-19 pandemic | involve.org.uk](https://www.involve.org.uk/press-releases/nuffield-council-and-involve-call-for-greater-transparency-and-public-involvement-in-uk-response-to-covid-19-pandemic)