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**CAP**

***Independent review of affordability support  
for financially vulnerable water customers in  
England and Wales***

***CAP's official response to CCW's call for evidence***

October 2020

**always hope.**

## Summary

1. As it stands, the current social tariff offering from the industry is helping to support many low income families afford their water bills. However, in order to improve the support for financially vulnerable water customers there needs to be a substantial change in how the schemes are administered. This could include creating a central pot, to allow for even distribution of funds to families regardless of where they live or who their supplier is.
2. Future need for discounted water bills risks outgrowing customers' willingness to pay and therefore this review comes at a welcome time. This review will help to ensure that the financial implications of the pandemic are not felt acutely by customers unable to pay their water bills.
3. The current financial support provision across England and Wales is a postcode lottery, with some households able to receive as much as 90% off their water bill and others not eligible for reduced tariffs. CAP would like to see a more collaborative approach adopted across the suppliers, to ensure that financial help is mirrored and equal across the country.
4. Social tariff eligibility should be transparent and simple, allowing customers to see if they would qualify before applying. This would avoid unnecessary time spent on applications and sending in evidence, to then receive a rejection.
5. Customer engagement with suppliers and awareness of schemes are low. More could be done to target financial support schemes to households and areas that would benefit from them.
6. CAP would like to see more collaborative work with debt advice, ensuring that customers working with debt management organisations are rewarded for taking steps to improve their financial situation.
7. Debt teams and vulnerable customer teams should work together, ensuring that vulnerable customers in debt do not experience harsh debt collection activity. Suppliers should do more to ensure that indebted customers are supported, and their bills affordable. Use of High Court Enforcement should be minimal.

## CCW Affordability Review

### Call for evidence

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

The water industry has led the way in its social tariff provision for customers struggling to pay their water and sewerage bills. This support is like no other in the utilities industry and is, on the whole, well-targeted at households who are struggling financially due to low income.

The Government scheme, WaterSure, works well to support low-income households with high water needs. In particular, the consistency of eligibility across the suppliers for this social tariff is beneficial.

Across England and Wales, different discounts are awarded and whilst the generosity and effectiveness varies, these social tariffs can make a real difference to low income households. Some households receive a large, and impactful, discount on their bills and others in the same circumstance but different region receive no social tariff. Whilst water bills do not amount to a significant percentage of monthly expenditure, for those living on the poverty line, every penny matters. CAP regularly sees client budgets with only a pound per month allocated to clothes, leisure or household maintenance, which is unsustainable in the long term. See Jessica's case study below.

#### **CAP client case study**

Jessica pays over £50 per month towards her water usage, £29 to Wessex Water and £20 to Bournemouth Water for sewerage. She has two children, aged four and three. She fell into debt due to problems budgeting.

Jessica receives Child Benefit, Universal Credit and Universal Credit Housing Element. This comes to £15,828 per annum and she must live on modest essential expenditure. She currently has £1 to spend on clothing, footwear and school uniform per month, £1 on household maintenance per month and £1.78 on leisure per month.

She is due to go through a Debt Relief Order (DRO) with CAP as it would take approximately seven years and five months to repay her £1,716 of non-priority debt and £10,538 of priority debt, £709 of which is water arrears (Wessex Water).

Sadly amidst all the chaos of her life, Jessica attempted to take her own life. As a result, her mother became very involved with helping her and supporting her with her debt situation, as did her Debt Coach.

In particular, social tariffs that cap the annual water bill provide clients with certainty on how much they are expected to pay each month. Certainty helps clients to budget their monthly spending. That being said, the social tariffs that award significant percentage discounts provide clients with more meaningful impact to household budgets.

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

### **Removing the postcode lottery**

There is a spectrum of effectiveness and generosity in the social tariffs, as well as differing bars for eligibility, across the suppliers. As regional monopolies, customers are not able to shop around for better offerings and therefore this perpetuates inequality across England and Wales. This impacts the advice that national organisations can give to customers, as the varying tariff names and eligibility criteria is difficult to recall quickly. The regional inequality is compounded by the fact that finance for social tariffs is determined by customers in that same region, and therefore wealthier areas of the country provide suppliers with an increased willingness to pay. To improve this, CAP would like to see more consistency in the offerings across England and Wales.

### **Collaboration between internal teams**

In recent years Ofwat has given more autonomy to the water sector in how they manage customer debts. The rationale being that balancing the debt books is up to each supplier. However, CAP has seen a growing rise in the number of water companies using High Court Enforcement as a regular method of debt collection. This is a heavy-handed form of debt collection and can cause much distress to individuals. Moreover, in CAP's experience there is very little collaboration between Vulnerability and Affordability teams and Debt Management teams with suppliers. This can see low income households receiving County Court Judgments (CCJs) or experiencing High Court Enforcement, when due to level of household income, this is not an appropriate way of engaging with the customer and enforcement fees exacerbate the debt situation.

Suppliers should display more joined-up working to better serve their customers in arrears. Vulnerability and Affordability teams should have awareness, oversight and be able to speak into debt management policies and processes. Support should be better designed to identify and target help at customers who are facing financial difficulty.

What is more, many customers with water arrears are not avoiding payment purposefully. Recent research has shown that many households in financial difficulty would not want to default on their water bill. In a recent report from Ofgem, *Consumers' experiences with energy during the COVID-19 pandemic*, it was found that 40% of people would not defer their payment for water, 38% would try to reduce their spending/use, 12% said they would defer their payment and 12% said they did not know. Interestingly, water ranked higher than any other utilities for people not wanting to defer a payment. Surprisingly, energy was the lowest such utility, with 26% saying they would not defer their payment; 36% said they would not defer payment for their internet and 29% said the same about their mobile phone.

### **Increasing awareness**

Increased visibility is also an important aim. As an essential utility, all people will use water and need to pay for it, but customer/supplier visibility is low. Suppliers do not have much information about their customers, and often customers will not interact much with their water supplier. This means that many people in financial hardship are not aware of the support on offer, including awareness of the Priority Services Register (PSR), help with bills or debt schemes. What is

more, each tariff has a different name, low income households may not understand the idea of a 'social tariff' and therefore, it is a challenge to conduct a broad brush awareness campaign.

In an interview, CAP client Steph explained to CAP how she struggled to manage her water payments, and how she had not initially known that water was something she needed to pay for.

#### **CAP client case study**

Steph had been in debt since she was made homeless at 15 and began living independently. She did not know how to manage money and found dealing with bills and debts overwhelming. As she moved into her first property by herself, she recalls not realising that water was something you had to pay for. As a result, she had fallen behind with her water payments. Following a car accident, which left her with PTSD, anxiety and obsessive thoughts, she stopped leaving the house. Her debts and bills built up, but she did not know how to start resolving the situation.

### **3. Are there gaps or limitations in the current arrangements, if so what? Which households in need of support are currently missing out on it. What evidence can you provide in relation to this? How could it be addressed?**

It is difficult to answer this question fully for those suppliers with unpublished eligibility criteria. Whilst it is good to look at cases individually, many low income households will self-select themselves out of applying, for fear of putting time and effort into the application to be rejected. Therefore, CAP would like to see more transparency around eligibility criteria.

Families with numerous children fall through the gaps in provision across the majority of suppliers. This is because these families receive additional benefits to help with the cost of children; this pushes them over the income threshold, but this additional income does not translate into more disposable income. Many families, especially single parent households, struggle to keep up with the increased costs children bring, for example more spent on children's footwear and clothing, food and electricity. CAP would like to see social tariff eligibility equalised for households based on number of children.

As previously mentioned, households are faced with a postcode lottery when it comes to support. This is unfair to customers, but also makes it more challenging for national organisations to signpost clients to this extra support, as advisors need to know about all 23 suppliers' schemes.

Households that experience inconsistent incomes may also struggle to know if they are eligible for this scheme. Zero hour contracts, self-employment or regular overtime all play a part in giving people irregular wages, which can make it harder to budget or determine annual income. It is important, particularly in the current climate, that inconsistent income is not causing households to miss out on much needed financial help with water bills.

**4. Are current arrangements sustainable and capable of meeting likely future needs in terms of supporting financially vulnerable households? If not, how should this be addressed?**

The water and energy industry both have a comprehensive package of support for families struggling on low incomes. However, CAP would like to see the two sectors combine their efforts to support low income households. This has already happened in their work to align the Priority Services Register (PSR) for both energy and water customers. Combining affordability support would ensure that low income households are truly able to afford these essential services, making a significant impact on their monthly utility bills. Moreover, combining the schemes would see the administration costs of running the individual schemes streamlined and economies of scale realised.

Future needs are anticipated to grow and therefore suppliers should be looking at how they can extend their offer of support to more households, as well as promoting the help available. Water suppliers should also be looking to form partnerships with organisations that are supporting hard-to-reach households, to encourage joint working. Help should be meaningful and targeted at those in most financial hardship, rather than light touch and widely available.

More collaboration with the debt advice sector would also be welcome. With more customers expected to fall behind with their bills, suppliers need to ensure they are working well with debt advice organisations and are readily applying flexibility and forbearance to customers, as well as looking to help with customers' bills if they are working with debt advice.

Applications to receive discounts should be available via multiple channels and be straightforward to complete. Eligible customers should be targeted and it should be easy to find out whether someone is eligible.

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

COVID-19 has presented many economic challenges; as unemployment rates continue to soar and a swift economic bounceback appears unlikely, more people will start to experience financial difficulty and fewer people will be able to pay more for their water. With a reduced cross-subsidy, suppliers will have less money to help those on low incomes and therefore a new approach will be needed.

The Warm Home Discount (WHD) initiative in the energy industry provides a good example; money from across suppliers is centralised and allocated based on market share. £140 is allocated to any eligible household to go towards their fuel costs in winter. The core group is consistent across the market and the broader group differs slightly between suppliers.

In a similar way, CAP would like to see water suppliers working more collaboratively to distribute the social tariff funding more evenly across England and Wales. Suppliers should pay a proportional amount into a communal pot, which is distributed across suppliers based on need and size of customer base. Ofwat or CCW would both be suitable organisations to administer

this pot. This should not be a costly process, in energy Ofgem administers the Warm Home Discount Initiative and the cost of doing so is only 0.1% of the total pot.

Suppliers should expect to fund a social tariff offering through profits. CAP would like to see research undertaken to understand the cost benefit of supporting customers with their water bills; this could include the cost avoided in trying to recoup bad debt.

What is more, the Department for Business, Energy and Industrial Strategy (BEIS) has been exploring data matching with the Department for Work and Pensions (DWP), as well as with data about the level of fuel poverty and quality of housing stock a household is living in. It would be interesting to see if further collaboration including water would be a possibility. The future of data sharing has many possibilities, and water companies should be encouraged to set up processes to learn more about their customer base and provide help where it is most needed. CAP would like to see Ofwat take the lead in ensuring that this work continues to be scoped out and implemented.

**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?**

There are still low levels of awareness about the financial support schemes on offer, particularly for those households who are most vulnerable and would most benefit from them. Therefore, referral partners are important in helping to bridge this gap, as well as collaboration across sectors.

Suppliers could do more to build awareness around their schemes, for example publicising extra support on bills, sending targeted information to households in debt or to areas with a high deprivation index. It is also encouraged that suppliers are more transparent about their eligibility criteria, to help customers know if they would be eligible for the scheme.

The process of applying for financial support could be improved by reducing the amount of evidence required. In CAP's experience, those in financial hardship or with multi-complex needs struggle to engage with suppliers. Often there are many barriers to engagement, for example mental health conditions, digital exclusion or fear. CAP would like to see more suppliers trusting third party referrals, particularly within debt advice where evidence is collected in order to create full income and expenditures. One-click renewals for customers already on the scheme would be welcome for a three-year time period.

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

The TV Licensing Simple Payment Plan is a scheme based partly on referral from Debt Advice organisations, as people receiving debt advice are deemed to be in financial difficulty and therefore in need of this additional support.

The Warm Home Discount Initiative works well to ensure that households receive financial support, so long as their supplier is part of the scheme. 97% of eligible households are customers of suppliers operating the scheme.



## About CAP

CAP is a nationally recognised charity that works across the UK in partnership with 580 local churches to restore hope for people in desperate need. Through a network of almost 300 CAP Debt Centres, CAP offers a free face-to-face debt counselling service, with advice and ongoing support provided from head office. CAP also runs the CAP Money Course, Job Clubs, Fresh Start and Life Skills groups to help people overcome unemployment, habitual dependencies and provide financial education, all with community and holistic support at their core. CAP's services are completely free and available to all regardless of age, gender, faith or background.

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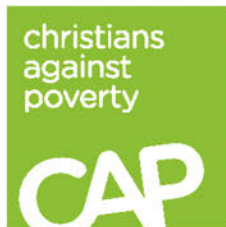
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[capuk.org](http://capuk.org)



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