

Water UK response to call for evidence for the independent review of affordability support for financially vulnerable water customers in England and Wales

Summary

Water UK is the representative body and policy organisation for water and wastewater service providers across the UK. Given the geographical focus of the affordability review, this response is on behalf of companies in England and Wales; individual companies may have different perspectives.

We welcome the opportunity to contribute to this important review, as water companies are acutely conscious of the responsibilities inherent in providing an essential public service to everyone in the communities they serve. While no customer need fear not receiving water and sewerage services due to an inability to pay¹, water companies believe as a point of principle that water and wastewater services should be affordable to all customers, regardless of their circumstances or where they live.

While significant progress has been made by the water sector towards this objective in recent years, with now over 1 million households receiving reduced water bills and many more receiving other forms of affordability support, there is more that needs to be done.

Although there is currently not an agreed basis for measuring water poverty across the sector – a gap which we have recently commissioned work in collaboration with stakeholders to address – it is clear that despite recent increases in affordability support, there remains a very material gap between the demand for, and supply of, support.

It was for this reason that last year the water industry set an ambitious goal² to make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty.

Achieving this goal will require all water sector stakeholders to work together, and will also require the current approach to affordability support and its funding to be revisited and reformed.

We encourage the review of affordability support to be bold in recommending to policy makers a framework for the next decade and beyond that will be sustainable and will enable the ambition to end water poverty to be realised. The need to do so is all the more urgent given the significant impacts the COVID pandemic can be expected to have on many household budgets over the coming months and years.

¹ Withdrawal of service for non-payment through disconnection or other means was prohibited in 1999.

² <https://www.water.org.uk/news-item/water-industry-reaffirms-pledge-to-work-in-the-public-interest/>

In the remainder of this submission, we provide responses to the specific questions in the call for evidence; we look forward to continuing to work with CCW and other stakeholders to assist the review and ensure that it makes a real difference to financially vulnerable customers across England and Wales.

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

While for most customers, water bills are relatively affordable (on average little more than £1 per day), water companies have always been conscious that for parts of the communities they serve managing household expenses, including water bills, can be a struggle.

Significant progress has been made over the last decade under the current arrangements for supporting households that struggle to pay their water bills. Three elements in particular are worth highlighting:

- The breadth of support that is provided
- The increased volume of support provided
- The wide range of partnerships water companies have to enhance the support for their customers

These points are expanded upon below; a further aspect that has worked particularly well over 2020 has been the agility and effectiveness with which the whole water industry, working closely with stakeholders, has responded to the challenges of COVID-19. This is covered in our response to Question 4.

Breadth of support

Each water company provides a broad package of support measures, reflecting the range of circumstances which can make customers financially vulnerable and that there is no 'one size fits all' solution to affordability challenges.

For example, for situations where a customer has experienced a 'life shock' that has a temporary impact on a household's finances, appropriate support may be flexible payment options or a payment holiday to give a 'breathing space', or debt restart schemes to help customers who have got into debt recover – and many companies also have charitable trusts or in-house schemes to help customers in immediate 'crisis' need.

For other customers, income maximisation schemes can identify benefits or grants which a customer is eligible for but not claiming, which can provide a significant boost to household incomes. Switching to a meter can ease affordability concerns for some customers, as can water efficiency advice or audits for customers already on a meter. For customers facing ongoing affordability challenges, all companies provide both the national WaterSure scheme and social tariffs, providing reduced bills (see below).

This breadth of support is a strength of the current arrangements that should be retained; while much focus inevitably falls on social tariffs, they are not the only tool for addressing affordability challenges and in many circumstances may not be the right tool to use.

Increased volume of support

Water companies welcomed the measures in the Flood and Water Management Act 2010 which enabled greater support to be provided to customers struggling to pay. The social tariffs introduced over the last decade under these provisions have resulted in a very significant increase in the affordability support provided by the water sector.

By April 2020, almost three quarters of a million customers in England and Wales were receiving help through water company social tariffs schemes, and over 150,000 supported through the national WaterSure tariff. At this time, in total, these schemes provided over £150m of support, in all regions of England and Wales³.

Since then, uptake has continued to rise as companies have extensively promoted their support schemes in response to impacts COVID-19 has had on many customers; there are now over 1 million customers receiving reduced water bills across England and Wales.

Wide partnerships to enhance support

There is much that water companies can, and do, do to provide support through their own efforts. To complement this, water companies also work closely with a wide range of partner organisations, including national organisations such as CCW, Citizens Advice, Money Advice Trust and StepChange and also with many regional and local organisations based in the communities they operate.

These partnerships increase the reach and effectiveness of the support companies provide, provide links to services provided by others – and in some cases support is delivered directly through partnerships, for example through partnering with debt advice agencies to provide holistic advice (including on income maximisation) and identifying a payment level, and support scheme, that matches the customer's circumstances and ability to pay.

Working with partners can have many benefits, including helping to co-create solutions, informing support scheme and tariff design, and acting as trusted intermediaries. This role of being trusted intermediaries is particularly important, as companies recognise that some financially vulnerable consumers may prefer to reach out to third sector organisations rather than their water company or other creditors. In addition, challenges faced by financially vulnerable consumers are often wider than water and more holistic assistance is therefore needed – which partner organisations can be better placed to provide. Water companies hugely value these partnerships and are continually looking for ways to strengthen existing partnerships and establish new ones.

³ <https://www.ccwater.org.uk/wp-content/uploads/2020/11/Water-for-All-Water-Affordability-and-Vulnerability-Report-2019-20.pdf>

2. In what ways could the approach to supporting financially vulnerable households 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 addressed?

As these two questions are linked to each other, we are combining our response. As noted above, the current approach to supporting financially vulnerable households in the water sector has resulted in a significant, and positive, increase in the number of households supported and the amount of support provided, and a broad range of affordability support reflecting the range of circumstances faced by financially vulnerable households.

However, a key element of each company's package of affordability support is social tariffs, which are affected by three fundamental (and linked) limitations to the current arrangements:

1. The amount of support that can be provided is constrained by the requirement (in the statutory guidance from the UK⁴ and Welsh⁵ Governments that companies are obliged to have regard to) that social tariffs must be 'broadly acceptable' to the customer base
2. This is compounded by the funding mechanism for social tariffs being regionally based, with no equivalent of the inter-regional transfers which are typically used to fund affordability or welfare measures in other private or public sectors
3. In addition, the statutory guidance obliges each individual company to base social tariffs on the needs and views of their own customers, taking the view that '*national consistency is neither feasible nor necessarily desirable*'⁶

These three factors have the result that:

- The overall level of support provided in each area of the country is driven by customers' willingness to pay, rather than an objective assessment of what support is required
- The level of support that can be provided is often lower in areas where greater support is needed
- Both the level of support and the eligibility criteria for support vary significantly across England and Wales, resulting in a 'postcode lottery' in which where a financially vulnerable customer lives determines whether, and to what extent, they are eligible for support

An alternative, and better, approach would be to start with assessing the need for affordability support for an essential public service, and then determine the appropriate policy framework in order to meet that need in a consistent and sustainable manner across England and Wales.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69564/pb137_87-social-tariffs-guidance.pdf

⁵ https://gov.wales/sites/default/files/publications/2019-06/social-tariff-guidance-for-water-companies_0.pdf

⁶ Paragraph 2.13 of

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69564/pb137_87-social-tariffs-guidance.pdf

It is widely recognised that the current support available is not sufficient to fully address the water affordability problem which already exists or to eradicate water poverty in the future⁷; however, at present, there is no standard basis in the water sector for assessing the scale of water poverty.

It is for this reason that Water UK, working with companies and stakeholders, has commissioned CEPA to consider how best to measure water poverty, building on previous approaches taken in the sector⁸. The initial phase of this work, published earlier this year⁹, confirmed that a ‘bills to income’ measure for water poverty would be appropriate and practical, and identified the methodological issues that would need to be resolved to have a standard basis for measuring water poverty.

A second phase of this work is currently underway, again working with companies and stakeholders. This will confirm a standard methodology for assessing water poverty, and establish a baseline position of water poverty across England and Wales in the financial year 2019-20¹⁰.

This baseline position will be established for the two threshold levels for water poverty commonly used in the water sector – customers with bills more than 5% of disposable income, and customers with bills more than 3% of disposable income.

These thresholds can be thought of as measures of severe water poverty (the 5% threshold) and of general water poverty (the 3% threshold); there is a clear logic to focussing initially on those most in need, which is why the water industry’s water poverty goals¹¹ initially focus on making bills affordable for customers at the 5% threshold by 2030.

The current phase of the project on water poverty measurement will be completed in the first quarter of 2021, timed to inform the affordability review. In advance of this, an indication of the scale of the challenge can be seen from the initial ‘proof of concept’ results from the first phase.

Depending on detailed methodological choices, 5-10% of households could be in water poverty at the 5% threshold, and over 20% of households in water poverty at the 3% threshold.

In contrast, in 2019-20, about 3% of households received support through either a social tariff or WaterSure¹² – demonstrating that a very significant proportion of households likely to be in water poverty are not receiving support, particularly at the lower 3% threshold.

To address a gap of this scale, the arrangements for affordability support will need to be substantially revisited and reformed; this is considered further below in our response to questions 4 and 5.

⁷ For example, see <https://www.ccwater.org.uk/wp-content/uploads/2020/11/Water-for-All-Water-Affordability-and-Vulnerability-Report-2019-20.pdf>

⁸ See for example [https://ukwir.org/view/\\$9TBTS3m!](https://ukwir.org/view/$9TBTS3m!) and https://www.ofwat.gov.uk/wp-content/uploads/2015/12/prs_web20151201affordability.pdf

⁹ <https://www.water.org.uk/publication/measuring-water-poverty-using-a-bills-to-income-metric/>

¹⁰ This 2019-20 baseline position will be largely before the COVID-19 pandemic affected the UK, its households and economy. The significant impact that COVID-19 is likely to have on affordability is considered in response to Q4.

¹¹ <https://www.water.org.uk/news-item/water-industry-reaffirms-pledge-to-work-in-the-public-interest/>

¹² <https://www.ccwater.org.uk/wp-content/uploads/2020/11/Water-for-All-Water-Affordability-and-Vulnerability-Report-2019-20.pdf>

Another way in which the approach to supporting financially vulnerable households could be improved is through greater use of data sharing and passporting of support. This is considered in our response to question 6.

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?

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

As these two questions are linked to each other, we are combining our response. As noted above, current arrangements for water affordability support do not meet *current* needs of financially vulnerable households; it is inevitable that the consequences of the COVID-19 pandemic will make this worse.

Impacts of COVID-19

The COVID-19 pandemic has impacted almost every aspect of the UK's society and economy. As well as the direct health impacts and the tragic loss of life, daily life for many has been greatly disrupted, with children being sent home from school, and thousands of workers furloughed and unable to go to work, to name just two examples. Even with high levels of government intervention, whole industries, notably tourism and hospitality, have struggled to cope, resulting in many people either losing their jobs or at risk of this happening.

Throughout the COVID-19 pandemic, the water industry has had three over-riding priorities:

- Ensuring that customers can continue to rely on their water and sewerage services
- Ensuring the safety of customers and all involved in providing water and sewerage services
- Providing support to customers adversely affected by COVID

In March, companies quickly agreed an industry-wide package of immediate support measures¹³ for customers financially affected by COVID-19. This included companies promoting their full range of support measures and actively offering payment breaks or payment holidays for anyone in financial difficulties as a result of COVID-19; by December 2020 over 80,000 payment holidays have been given to customers in need of a breathing space.

Water UK and companies have also worked closely with Defra, the Welsh Government, CCW and Ofwat to identify what further support could be provided within the constraints of the current arrangements. Companies have welcomed the sense of pragmatism and shared purpose which has enabled planned increases in support to be accelerated and additional support provided.

Thus far, these measures, combined with the extensive support provided by government (through in particular the Coronavirus Job Retention Scheme, CJRS), have succeeded in mitigating impacts on water customers, with limited impacts seen to date on payment trends and levels of non-payment.

This should not however be seen as a sign that water customers have weathered the impacts of COVID. Up to this point, unemployment has been relatively stable, but the central forecast from the Office for

¹³ <https://www.water.org.uk/news-item/water-companies-step-up-action-to-help-customers-in-need/>

Budget Responsibility¹⁴ is that unemployment will rise from about 4% to 7.5% in 2021 as CJRS is closed (and in a downside scenario could rise to 11%).

It is inevitable that a rise of unemployment of this magnitude would put strain on the budgets of many households and reduce their ability to manage household expenses – including water bills. As a result, many more households are likely to need support over the next few years. This ‘pressure test’ of the current arrangements has reinforced concerns that these arrangements are not fit for purpose and are not able to meet either current or future needs of financially vulnerable consumers.

Future arrangements for, and funding of, affordability support

Looking forward, it is essential that arrangements for affordability support, and specifically its funding, are sustainable and reliable. This is particularly important as while some customers’ need of support will be temporary, other customers are likely to rely on support being available on an ongoing basis – and so need to be confident that the arrangements will stand the test of time.

This will require, as now, a formal basis for affordability support, rather than a reliance on voluntary approaches. Our presumption is that taxpayer funding for water sector affordability support is unlikely, and so increased affordability support will need to be funded by customers.

We have not at this stage proposed a detailed mechanism for the future funding of affordability support; our view is that before doing so, it is important for there to be clarity on the strategic parameters within which a detailed mechanism should be developed.

We suggest that the starting point should be the principle that water and wastewater services should be affordable to all customers, regardless of their circumstances or where they live.

To meet this ambition, we suggest that an objective assessment is needed of:

1. The overall need for affordability support and the ‘water poverty gap’ between that need and the current level of support
2. The geographical distribution of the water poverty gap and whether transfers of funding between regions are required to close the gap in all areas
3. The realistic timescale over which both overall and regional water poverty gaps could be addressed in a sustainable manner

We are confident that the work we have commissioned from CEPA will help inform the first two of these points.

In considering the third, while we encourage boldness in establishing a policy framework for the next decade and beyond that will be sustainable and will enable the ambition to end water poverty to be realised, we recognise that this is fundamentally a question of social policy for which democratic legitimacy is required.

Ultimately, decisions on the degree to which over time it will be possible to close the water poverty gap, and the timescale for this, will therefore be for governments. A clear steer from the respective

¹⁴ http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf

governments that the desired outcome over time is affordable bills for all would provide clarity for all water sector stakeholders.

With this clear public policy steer providing the required legitimacy, it should then be possible for the current constraint of requiring broad customer support for social tariffs to be relaxed (for example customer support only being required for cross-subsidies above a defined threshold) or preferably removed entirely, enabling more support to be provided.

Greater support overall would in turn enable greater standardisation of social tariffs, through the 'levelling up' of eligibility criteria. We note, however, that in the absence of greater support overall, greater standardisation would be much more difficult to achieve, given that it would imply some customers having their current support withdrawn as they did not qualify under standardised criteria; although transitional arrangements may assist, managing incident impacts and explaining them to affected customers would still be challenging unless this was in the overall context of 'levelling up'.

The details of any greater standardisation would however need careful consideration to reflect local circumstances where appropriate in order to avoid a 'one size fits none' outcome. One option could be a combination of national 'core' criteria and flexibility for individual companies to provide additional support as required; this is explored further in response to question 7, drawing on the Warm Home Scheme model from the energy sector.

Careful consideration will be needed regarding whether the current regional model for funding support is sustainable. An alternative could be some form of the explicit or implicit transfers between regions according to need typical in other public and private sectors – for example via some form of 'national funding pot', which could cover either both England and Wales, or separate pots for the two nations, depending the views of the two governments.

It is an open question whether a regional or national funding model would be more appropriate for the specific circumstances of the water sector, and we anticipate there may be a range of views on this point.

A further point which will need to be borne in mind is that to be sustainable, it is not just the discounts for customers receiving affordability support that will need to be funded, but also the costs of delivering affordability schemes to potentially significantly larger numbers of customers – whether these costs are direct water company costs or costs borne by partner organisations.

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?

Water companies seek to raise awareness of their support schemes through a wide range of approaches, including direct communication with customers via bill messages or inserts, digital promotions, targeted communication to customers showing signs of being in financial difficulty, community outreach activities, and working with a wide range of stakeholders and third sector organisations, including for

example national organisations like Water UK, CCW, Citizens Advice, Money Advice Trust and StepChange and many local community based organisations.

Despite these efforts, companies are conscious that ‘reaching the hard to reach’ remains a challenge – and one that is not unique to the water sector. Although it is unlikely that there will be a single ‘silver bullet’ solution to this challenge, water companies are always open to new ways of raising awareness of the support they provide.

An initiative which shows promise is data matching under the public service delivery provisions of the Digital Economy Act¹⁵. Amongst other things, these provisions enable the sharing or matching of data between water companies and public authorities to help identify customers who are more at risk of water poverty – enabling proactive targeting of support to be carried out effectively and efficiently, as well as the ‘passporting’ of support through a direct link to being in receipt of means tested benefits.

Since these provisions came into effect, Water UK and a group of water companies have been working with the Department of Work and Pensions (DWP) to establish initial ‘proof of concept’ data sharing arrangements that could then potentially be expanded in the future.

While this has taken longer than originally anticipated, not least because of DWP’s need to prioritise energy sector data sharing arrangements for policy reasons, data sharing agreements are now being put in place between DWP and the initial group of water companies. It is anticipated that data matching for the targeting of water poverty support will be operational shortly, focussing initially on customers eligible for WaterSure or in receipt of Pension Credit.

These arrangements have the potential to significantly improve the effectiveness and efficiency of the targeting of affordability support – and to be trailblazers for further expansion, both to more companies and using broader eligibility criteria. In addition, as well as DWP, there are other public sector organisations that hold data that could be relevant to the targeting of water poverty assistance, notably local authorities. Water companies would be keen for the provisions of the Digital Economy Act to be used as widely as possible to help address water poverty, and would welcome support from stakeholders in achieving this aim.

More broadly, it is undoubtedly the case that the differences between individual company affordability schemes make raising awareness of support more difficult than would be the case if there was a standard water sector affordability scheme – and are likely to cause particular challenges for national support providers like national debt advice agencies who have to understand the nuances of many different schemes.

If, as suggested above, there is a move towards greater standardisation of the eligibility for support schemes (enabled by a significant increase in the overall level of support provided), then this may make them easier to promote on a national basis.

An important caveat, however, is that there would be little benefit in promoting awareness of affordability schemes beyond their practical capacity to support customers, and indeed it may be

¹⁵ <https://www.gov.uk/government/publications/digital-economy-act-2017-part-5-codes-of-practice/code-of-practice-for-public-authorities-disclosing-information-under-chapters-1-3-and-4-public-service-delivery-debt-and-fraud-of-part-5-of-the-di>

counter-productive to do so. This again emphasises the importance of establishing a new model for funding affordability support that will enable the need for support to be met on a sustainable basis.

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

Water companies are open to learning from the approaches other sectors have taken to addressing affordability challenges. Naturally care needs to be taken in considering whether an approach taken in one sector could be successfully translated to another, or is specific to the original sector – and the unique circumstances of the water sector, with a statutory obligation to provide services, no ability to withdraw services for non-payment, and no contracts with customers, need to be considered carefully.

That having been said, an overall approach which might merit consideration is that used in Warm Home Discount Scheme¹⁶ in the energy sector. While it may not be appropriate to replicate specific details of this scheme, such as the particular eligibility criteria and the level of support provided, there are features that might be relevant:

- A ‘core group’ of low-income householders who receive automatic support regardless of location, efficiently targeted through a data matching exercise with the Department for Work and Pensions
- A ‘broader group’ of low-income households for whom individual suppliers have flexibility to apply broader, and different, criteria for providing support

In the energy sector scheme, the ‘core group’ is tightly defined, restricted to customers receiving the Guarantee Credit element of Pension Credit, giving energy suppliers extensive opportunities to differentiate their ‘broader group’ support criteria. Given the ‘postcode lottery’ concerns in the water sector, if this overall approach was used, then it may be appropriate to have a more expansively defined ‘core group’, to reduce the degree of variation between individual company schemes.

However, we note that the current level of discount on energy bills provided under the Warm Homes Discount Scheme (£140) is significantly lower both in absolute terms and as a proportion of bills than the discounts provided by many current water company social tariffs, which can be as high as a 90% reduction on bills. With an overall aim of making water bills affordable, it will be important to ensure that support provided is sufficient to make a genuine difference to customers.

In addition, as noted above, any move to towards this model of a ‘core’ standardised support scheme complemented by a locally designed scheme would be more realistic within an overall context of significantly greater support being provided – enabling levelling up rather than taking away much needed support from some financially vulnerable households.

¹⁶ <https://www.gov.uk/the-warm-home-discount-scheme>