National Energy Action (NEA) response to CCW's Water Affordability Review Call for Evidence

About National Energy Action (NEA) and our work on water poverty

NEA[1] works across England, Wales, and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA is also working with Northumbrian Water Group (NWG) and other water companies to eradicate water poverty by 2030. The programme aims to establish an industry acknowledged definition of water poverty and a more consistent and joined up strategy to deliver positive outcomes for customers struggling with their water bills.

NEA seeks to work in partnership with a range of utilities; GDNs, DNOs, energy suppliers and the water industry. This helps NEA improve support for vulnerable households by joining up services from different partners. There are compelling arguments for the alignment of action to tackle energy and water efficiency at the same time:

- NEA estimate that over 70% of total domestic energy consumption involves heating water for space heating, washing, cooking[3];
- There is a strong correlation between households in fuel debt and those in water debt; and
- Both energy and water sectors have focused, but different, schemes for consumer engagement, special assistance or Priority Services Registers, debt and welfare advice, financial assistance, special tariffs and efficiency campaigns or measures that deliver support to households as energy and water consumers.

Since March 2019, NEA has been working to raise awareness of water poverty in the UK, seeking to align the policy and practical action required to support water poor households, with the goal of eradication by 2030. Our work programme is built on four key pillars:

1. **Measuring Water Poverty**
   Despite numerous projects across the industry working to 'eradicate' water poverty, the industry is yet to agree on a common measurement of water poverty. Various measurements are used by the 17 regulated water companies in England and Wales, including bill-to-income ratios of 2%, 3% and 5% of household disposable income (after housing costs), and more

subjective measurements such as whether, or not, a household deems their bill to be 'affordable'.

Regardless of measurement, CCW estimate that 12% of households find their combined water and sewerage bill to be 'unaffordable', and so significant action is required to help those low-income households struggling to afford this essential service.

NEA recommends a common measurement be agreed and adopted by all water companies by the start of the next price control period (2025) alongside a measurement of the 'water poverty gap' to understand the depth of the issue. This does not prevent activity to mitigate the impacts of water poverty taking place now as this can still be targeted to the households most in need.

2. Charging and Financial Support

The two most important factors in determining whether a household is in water poverty are the cost of water and sewerage services (i.e., the combined bill) and the household income. If bills reduce, or incomes increase, then households could potentially move out of water poverty. There is limited scope to influence incomes, other than income maximisation advice and benefits entitlement checks, but water companies and regulators have more flexibility when it comes to bills.

There are only two current charging mechanisms: measured, and unmeasured[4]. Household customers therefore are extremely limited in their tariff options, and so innovation in this area should be encouraged. Low-income households do have additional tariff options available to them: WaterSure for metered households in receipt of an income-related benefit and who use additional water for medical needs or have three or more children; and social tariffs which offer discounts/bill-caps based on company-specific eligibility criteria and support levels.

NEA has called for a full review of social tariff guidance, funding, eligibility, and support levels to ensure that, regardless of where they live, all customers have fair access to support as needed.

3. Debt and other consequences

In recent years there has been a substantial shift in trends related to personal debt. Households accessing debt support are now more likely to present with smaller, trickier to manage debts, such as household arrears, whereas a decade ago it was more likely to be credit cards and loans.

Since the Water Industry Act (1999) domestic water supply cannot be disconnected or restricted due to arrears, meaning the consequences of non-payment are deemed to be lower in water when compared to other sectors' practices. Although not always the case, water is therefore often the first bill customers default on, and as a result, reported debt levels in the water industry are more than double those seen in energy (last reported as £2.2bn in 2017)[5].

In our recent discussion paper, 'Surviving the Wilderness: the landscape of personal debt in the UK'[6], we put forward a number of key recommendations to assist households in urgent need of support with their debt and arrears following the Covid-19 crisis, including proposals for increased data sharing, debt support funding from UK Government, and a definition of 'severe indebtedness' to help prioritise those in the worst situations.

4. **Water Efficiency**

Outside of household incomes and bill profiles, water efficiency measures also have the ability to save customers money, albeit at a lower level than the potential savings in energy efficiency. When delivered alongside education on how to better use water in the home, there is evidence of customer benefit and savings, especially when focused on the efficient use of hot water as they also benefit from the associated energy savings.

Customers must have a water meter in order to benefit from the financial savings of water efficiency measures, but unfortunately those on a water meter will have been detrimentally impacted by increased water charges due to spending more time at home during the Covid-19 lockdown. It is therefore extremely important that a balance is found to avoid giving water metering a bad name.

Saving water also has substantial environmental benefits. Sir James Bevan, Chief Executive of the Environment Agency, highlighted that we are heading towards the 'jaws of death' where, in 25 years, we will no longer have the water available to meet our needs. Efficient use of water is therefore extremely important if we are to avoid price increases being used as a tool for sustainable water use.

The work programme is guided by our independently chaired Advisory Panel; a group of expert stakeholders who act as a 'critical friend', providing advice, commentary, and guidance on the direction of the work programme. Membership of this panel includes, CCW, Water UK, Ofwat, Defra, Citizens Advice, Waterwise, StepChange, Energy UK, ENA, Sustainability First, and others.

We believe both our water poverty work programme, and our long history of supporting low-income, fuel poor households in energy, mean we are well placed to comment on the open call for evidence for the CCW Water Affordability Review.

Our response to this call for evidence

To inform our response to this call for evidence, and to ensure we captured all issues currently being experienced by those supporting customers with their water bills, we launched a stakeholder survey asking for views on what works well, what could be improved, who falls through the gaps, and what could be learned from other sectors. The participants' answers have been referenced throughout this response wherever relevant, and we hope this provides some additional insight to inform this review.

Additionally, our response has been written with consideration to the views of other stakeholders engaged via our Advisory Panel, and through conversation at the stakeholder forum sessions organised by CCW as part of this review. It is split into three sections:

1. Background to the response
2. Response to the questions posed in the Call for Evidence
3. Technical and analytical annexes

Background to this response

Water is unquestionably essential to all aspects of life, and so it is vitally important that all households are supported to ensure they have access to safe, clean, and affordable water – something which the United Nations recognise as a human right. Although access issues to safe and clean water are rare in the UK, unfortunately, affordability issues are not, and these issues are likely to be rising.

The events of 2020 could not have been foreseen. The financial impacts of the pandemic and associated lockdowns have been felt very differently depending on personal situations. Many of the people able to work from home have reported improved finances, due to saving money on commuting costs and other day-to-day expenditure, such as eating out or impulsive shopping habits. For this group, many have been able to save more, clear debts they held before the pandemic, and live more comfortably. Even some who were placed on furlough were able to report improved financial situations, particularly those who were paid at 100% of their usual salary, rather than the guaranteed 80%.

But there is always an opposite end of the spectrum.

The families who have started to struggle with the increased household costs from being at home more. Those who have lost income due to childcare commitments when the schools were closed, or shielding, and could not work from home. Those who were furloughed on 80% of their usual salary, capped at £2,500 a month, which, for some higher earners might have placed them into negative budgets for the first time in their lives. McKinsey & Co[7] reported that "the weighted average median pay in the five hardest-hit sectors is around £10.60 per hour; for the five least affected sectors, it is around £14.60 – or nearly 40 percent higher", and research undertaken by Cardiff University[8] showed that "the highest-earning decile of workers were 3.3 times as likely to work from home than the lowest earners" suggesting lower earners will have been less able to manage to work during an imposed lockdown.

As is often the case, low-income households have been most disproportionately affected by the financial impacts of the pandemic, and these households were also the least likely to be able to manage with income fluctuations, often with very limited, if any, savings behind them. And with no savings, the only options available to them are either to go without, or to get into debt. Meaning Covid-19 has not only been a health crisis, but it has also been an economic crisis, a jobs crisis, and now it is resulting in a personal debt crisis.

The longer-term financial impacts of the Covid-19 crisis are only just starting to be realised. In a relatively short space of time, households previously managing their finances now find themselves in a wilderness of debt, struggling and spiralling deeper and deeper into difficulty. Finances have been hit hard and hit quickly, and no-one knows when their situation might improve.

One of the most utilised forms of support to help customers struggling with the impact of the Covid-19 crisis has been payment holidays, with over 3.5 million requests for mortgages, credit cards and loans, and thousands for household utility bills (an estimated 80,000 across water companies in England and Wales). While these breaks offer a short-term reprieve from the financial commitment, the debt is still owed and interest can still accrue, therefore they are not a sustainable option in the long-term. This accumulated debt will be placing even more pressure on the households who have accessed payment breaks from numerous providers, and support to help them clear this debt will be required.

In the very early days of the crisis, the water industry announced a consistent set of measures to support customers experiencing financial difficulty due to Covid-19. One such measure was the extension of support offered under existing financial schemes and support tariffs[9]. Our June 2020 short paper, 'Social Tariffs in Water: The Impact of Covid-19'[10] accompanied the longer social tariff discussion paper and expanded on the issues outlined in the context of the Covid-19 crisis. This included highlighting the postcode lottery created by the differences in eligibility criteria and support levels of social tariffs, and the limited amount of scope in the funding agreed under customer cross-subsidies to fund additional support.

While this affordability review is an excellent step forward, to ensure that the measures and recommendations are acted upon, NEA recommend UK Government should set out a water poverty strategy and a statutory target to eliminate water poverty by 2030. This should be complemented by a Vulnerability strategy and accompanying Vulnerability Principle Licence Condition[11], set out by Ofwat, to ensure all company values are aligned.

NEA will continue to support the water industry to develop further understanding of the issues faced by households struggling with the affordability of water, to contribute to the water affordability review and to implement key findings through the development of accompanying strategies and initiatives.

<u>Response to the call for evidence by question</u>

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

It is apparent from our work with the water industry that there is a good understanding of the issues customers in vulnerable circumstances face, and a clear willingness to help those with water affordability issues. Across the seventeen regulated companies in England and Wales, there are many examples of support services which could be highlighted as best practice; initiatives designed to address the needs of the communities the individual companies serve, which, as a result, are only available to customers in specific geographies. While we understand the benefits of company flexibility to respond to local and regional needs, we also believe there are disadvantages to these approaches, which we discuss in our response to question two.

A primary example of best practice, not just within the water sector, but cross-sectoral, is debt matching. Payment Matching schemes, offered by more than half of the 17 regulated water companies in England and Wales, are an excellent example of support for customers in challenging financial situations, and NEA has recommended these schemes be replicated across energy and other household bills[6] to accelerate the clearance of debt in response to Covid-19. While each scheme has been designed by the individual company offering it, one which stands out as best practice is the 'Payment Matching Plus Scheme' offered by United Utilities[12], which encourages healthy payment relationships by matching payments £1 for £1 in the first six months, increasing to £2 for every £1 after this, with the promise to clear any remaining debt after two years of meeting the payment agreement.

Additionally, company-specific crisis and trust funds offer a vital lifeline to customers in debt who are struggling to find support. The application of these funds offers companies an excellent mechanism to address the local and regional needs of the communities they serve. Where companies separate these schemes from other debt support should be considered best practice as it offers an additional support service to address needs not met by other services offered, though companies should be encouraged to offer this support at the earliest opportunities, not waiting until a customer owes a higher level of arrears before assisting.

It is our understanding that all water companies in England and Wales recognise their limitations in how far their support can improve a customer's overall financial situation, and all respond to this by making onward referrals to debt charities and other support agencies as appropriate. Expanding referral networks to meet multiple needs is important in delivering holistic outcomes for customers, and companies should be encouraged to do so.

Company social tariffs have been designed in accordance with customer engagement through willingness-to-pay research and companies must engage with CCW to ensure their proposals align with customers' views of what is acceptable. This has resulted in both the eligibility criteria and support levels differing for each water company's social tariffs. Some of the schemes currently being offered are extremely generous (and recognised as such in our stakeholder survey), offering up to a 90% discount on the combined water bill which could vastly improve a customer's situation, though (as mentioned in our response to Question Two) not all customers will necessarily require this level of support.

In some instances, companies apply a level of discount on a sliding scale, appropriate to the customers' individual financial situation following an income assessment. This should be recognised as best practice for two reasons:

1. The sliding scale approach allows for funding to be fully maximised and for support to be provided at a level appropriate to the customer's needs. (For example, a 90% discount on a £400 bill would cost £360. For the same cost, three households could be supported with a £120, or 30%, discount which would adequately meet their needs).

2. Additionally, when bill reductions are made (in line with agreed bill profiles in the price control final determinations) customers receiving a social tariff discount on a sliding scale will still benefit from a reduction. Those in receipt of a bill-cap, or blanket discount, may not benefit from the reduction, particularly if eligibility is determined using a bill-to-income ratio in the financial assessment as they may no longer be entitled to the discount.

Some companies have developed eligibility criteria which can be recognised as industry best practice. Two specific examples include, negative budgets and income allowances based on family circumstances:

- **Negative Budgets**
  Although it requires a full income assessment prior to approval, allowing customers to apply for support if their "income is not enough to cover essential bills" is meeting the needs of a growing population of households in 'negative budgets'. This approach allows for flexibility in meeting the needs of households whose financial circumstances may be impacted due to unexpected circumstances (such as the impacts of Covid-19).

- **Income Assessment Based on Family Circumstances**
  To best target support to low-income households, most, if not all, companies assess household income, either by specifying an income threshold or by undertaking individual financial assessments (or both). Where an income

threshold is specified, some companies have chosen to apply a simple method of equivalisation, increasing the threshold in relation to the number of people living in the household. The simplest, and possibly strongest, example of this is the additional allowance of £1,500 per dependent child.

Our stakeholder survey highlighted that respondents find applying for affordability support schemes "relatively easy" and quick to approve. It is important that any future iterations of social tariffs and other support schemes retain an easy and quick application process to avoid disincentivising customers from applying.

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

Expanding on our recommendation to conduct a full review of social tariff guidance, funding, eligibility and support levels, our June 2020 discussion paper 'Water Poverty: The Consistency of Social Tariffs'[13] outlined a number of key issues with the current approach to social tariffs across the industry, which were understood through engagement with water companies, CCGs, customers and consumer bodies. This included:

- The impact housing costs has on assessing household income
- Customer understanding of income
- The risk of missing those customers who are 'just about managing'
- Customer concerns about budgeting when considering moving to a meter
- Social tariff eligibility being either too broad or too narrow depending on the company
- The regional disparities in agreed levels of customer cross-subsidies
- The eligibility criteria for WaterSure being "too prescriptive".

We made it clear that this list is by no means exhaustive, and there are many issues with the current affordability support options which are likely unknown by the industry. In preparing our response for this call for evidence, we asked respondents to our stakeholder survey to rate how problematic they have found these issues in relation to the current affordability support options in water. Their responses are shown in Figure One.

As can be seen from this chart, the most pressing issue is the risk of missing customers who are 'just about managing' with 100% of respondents feeling this is either extremely, or fairly, problematic. Customer understanding of income, and the impact of housing costs have shown problematic for 80% of respondents. While the other issues listed may not score as highly for being problematic, there are still instances where that has been the case for our respondents and their clients, and so it is important all these issues are considered in designing, or making changes to current, support schemes. We have explored these issues further in our response to Question Three.

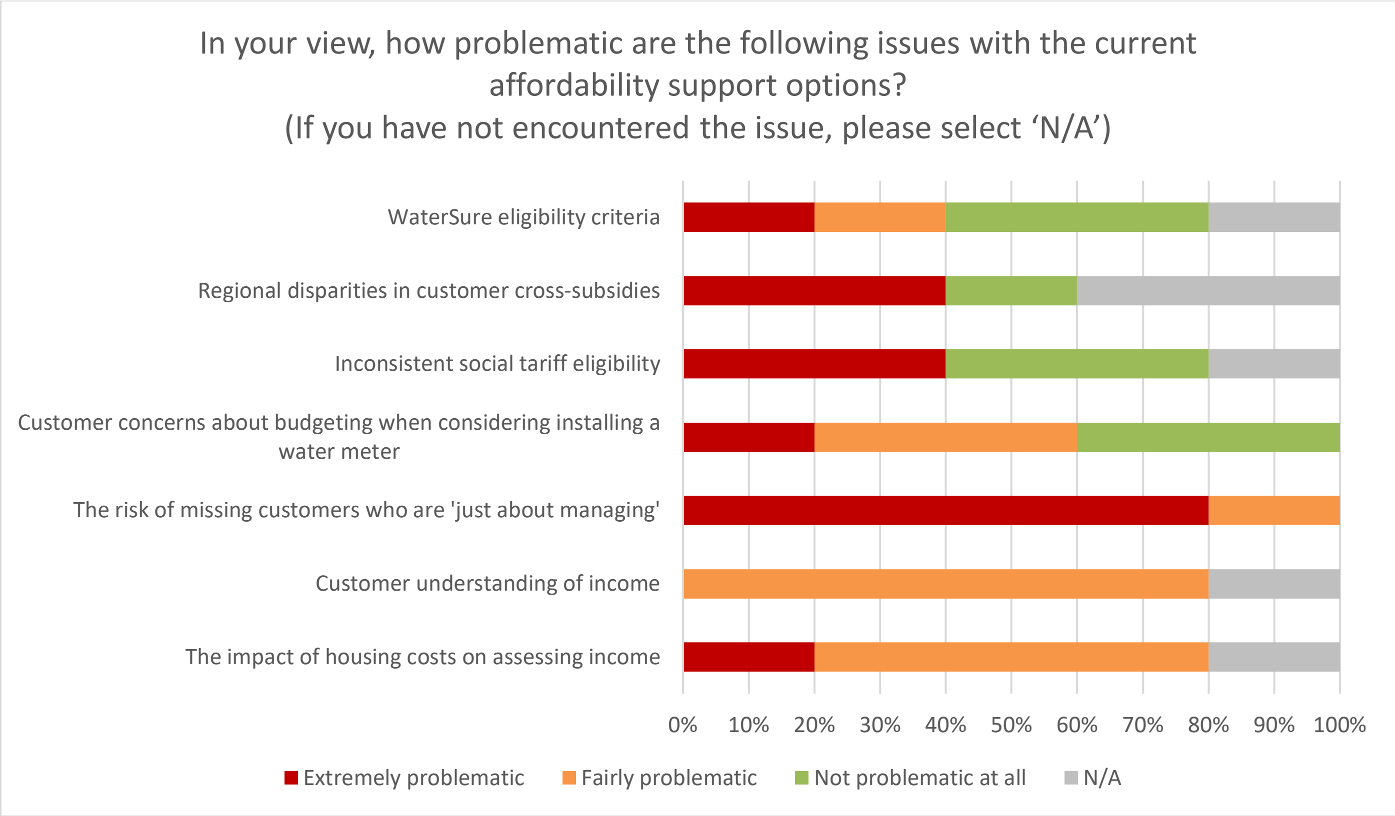

Figure 1 - Stakeholder Survey Responses to "In your view, how problematic are the following issues with the current affordability support options?"

In considering the possible changes which could be made to the current suite of affordability support across water, NEA believe the following principles should be considered to ensure the services available are 'fair' for all. Regardless of the water company a household is served by the services available should:

- **Be accessible to all**
  Barriers to entry should be removed, ensuring customers are not detrimentally impacted due to their preferred method of contact, or understanding of the application process, and allowing third-party organisations to complete the application process on a customers' behalf.

- **Be consistent in both levels of support and eligibility**
  Households do not have the ability to choose their water provider, therefore they should not be penalised when trying to access support for affordability issues. Two households in similar financial situations should both be entitled to access support from their respective companies, and the support received should be consistent.
- **Help those most in need, starting with 'the worst first'**
  Wherever possible, those classed as being in 'severe water poverty' should receive priority help, tailored to their needs. Others who are supported should not receive a greater level of support than is required by their individual situation, to ensure the value from available funding can be fully maximised.

- **Be funded in a manner which does not disproportionately affect low-income households**
  Customers who would benefit greatly from support should not be paying for others to receive that support due to lack of awareness. Any funding mechanism must ensure appropriate safeguards are in place.

- **Maximise data sharing opportunities and the powers of the Digital Economy Act**
  Utilising existing data sharing mechanisms, and identifying innovation in this area, on a cross-sectoral basis, will ensure the identification of those in need is as efficient as possible, and reduce the risk of households 'falling through the gap'.

- **Be sustainable, and able to adapt to changing needs**
  Recognising reviews of this nature do not occur regularly, agreed support schemes must be able to adapt to changing situations (as the Covid-19 pandemic has demonstrated) and must be sustainable with rising levels of affordability and debt issues.

Any recommendations made within the context of this review should be tested with customers. This is to ensure that changes are made 'with' householders, and not 'for' householders; whilst stakeholders are often well placed to comment and advise on changes on behalf of customers, they cannot be truly representative of all customers. Therefore, appropriate testing with customers will provide additional confirmation that the recommendations for future affordability support schemes are suited to meeting customer needs.

We believe there are three key areas to be reviewed, all of which lack consistency in the current approach to affordability support:

- **Funding**
  Several of the highlighted issues stem back to the variances across the willingness-to-pay research, in how it is conducted and how the resultant cross-subsidy levels are determined and applied to company schemes. This has been commented on by CCGs[14] and other stakeholders, and most recently, the regional disparities have been referenced in the CMA Provisional Findings[15] for the PR19 Water Redeterminations, stating "In our review of customer evidence provided by the Disputing Companies, we have seen examples of PCs or ODIs being proposed that imply differences between customer groups of an order of magnitude that is hard to accept as an accurate reflection of the variation in customer preferences across different regions. This has underlined for us the importance of reviewing company specific customer research alongside other evidence".

  NEA has recommended assessing the impact of the current overreliance on willingness-to-pay being used as the determinant for customer cross-subsidy and the resulting impact this has on company support levels and eligibility criteria. There are several alternative approaches that could be taken to fund social tariffs. The table in Appendix One outlines some which NEA has considered alongside their strengths and weaknesses, but it should be noted that this is not an exhaustive list and all options would require a full impact assessment.

The amount of cross-subsidy agreed during the willingness-to-pay research determines the basis for both the level of support offered and who is deemed eligible for that support by a water company's social tariff – though the PR19 price review process saw some companies commit to shareholder funding to 'top-up the pot' for additional support.

When looking at cross-subsidy levels by region (both as an average across all companies working in that region, and as a weighted average of the proportion of that region each company covers) we can see no definitive correlation with the 2020/21 cross-subsidy levels and regional average incomes, as seen in Figure Two.

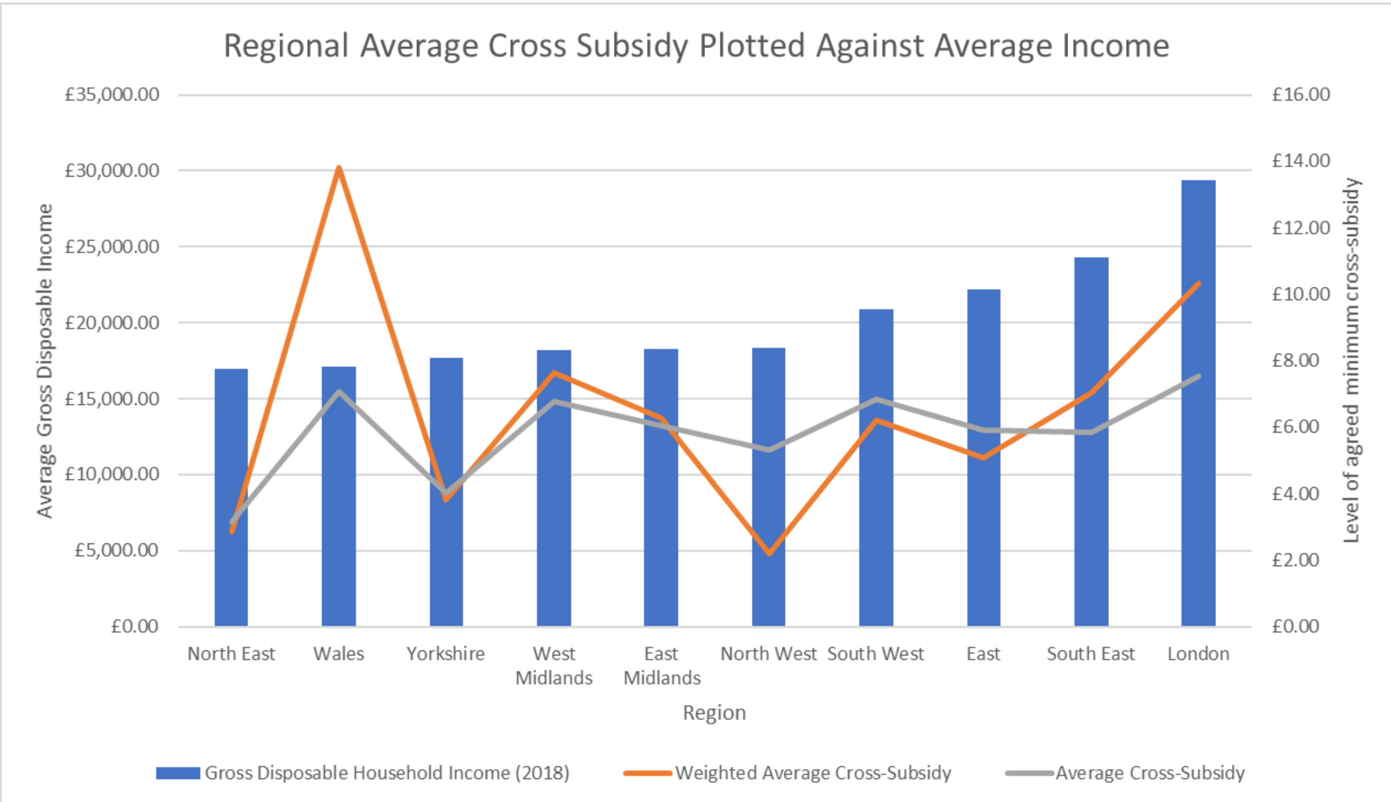

Figure 2 - Cross-subsidies by region mapped to average incomes (2020/21 bill levels)

One additional approach which could be considered to top-up the funding for social tariffs and other affordability support, is 'rounding-up'. This takes inspiration from 'save the change' schemes in financial services and would allow customers to opt-in to rounding-up their bill payments to directly support households struggling to pay their bills. Bills could be rounded-up to the nearest £1, £5, or £10 as per the customer's preference. This process would likely be best managed via a digital platform, perhaps only offered to those who manage their water account online or via an app. It must *not* be offered to anyone in arrears, or in receipt of affordability support.

To illustrate the potential of this scheme, the table in Appendix Two shows an illustration based on rounding the average bill in each region to the nearest £5 (also shown by equal distribution – a top-up of £2.50 on each bill).

While it would be unlikely for this scheme to fully fund affordability support, this could offer a significant pot of additional funding to support a levelling up of support but would need to be managed to avoid a repeat of the postcode lottery from forming.

- **Eligibility**

  There is no current minimum standard with social tariffs, this is only prescribed within the guidance for WaterSure. By setting minimum eligibility criteria, companies would 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.

  NEA would recommend minimum criteria is developed, allowing companies to add additional criteria to meet their regional differences if they feel this is required. This could be designed in a similar way to the current structure of Warm Home Discount, whereby there is a core group who receive the discount automatically, and a broader group who need to apply. The Warm Home Discount uses pension credit as their 'passport' for data matching, though as previously addressed, the take-up of pension credit is low. Another option could be exploring the use of Universal Credit as a passport – if only claiming the basic allowance then incomes would always be below any income thresholds currently used by water companies. This could be used alongside Pension Credit to ensure customers of both working age and retirement age are able to access support.

  Aligning eligibility criteria in this manner could further improve awareness levels of affordability support, making it easier for customers, charities, and consumer bodies to access support, and allowing for simpler, national messaging and campaigns. It would be a step towards ensuring customers are treated fairly and are not detrimentally impacted due to where they live.

- **Support Levels**

  The final aspect of affordability support which lacks consistency is in the *level* of support provided. The discounts offered through affordability support options are dependent on the amount of agreed cross-subsidy and any top-up from shareholders' funds (i.e., the available funding) and the number of customers who are potentially eligible for support.

In areas with low levels of cross-subsidy and large numbers of potentially eligible customers, this may result in lower levels of support, where comparatively another company with more available funding and lower numbers of eligible customers could offer their customers much higher discounts on their bills.

Companies' schemes either limit the bill to a set amount or offer a proportional discount. Some of the percentage discounts are offered on a sliding scale dependent on the level of the customers' financial deprivation, with some companies ensuring the discount offers takes the customers' bills below the 3% water poverty threshold.

To illustrate the range of discounts offered, the maximum percentage discounts have been shown in Figure Three. Where companies offer a limited bill with their social tariff, this has been calculated as a percentage of the average 2020/21 bill for that company.

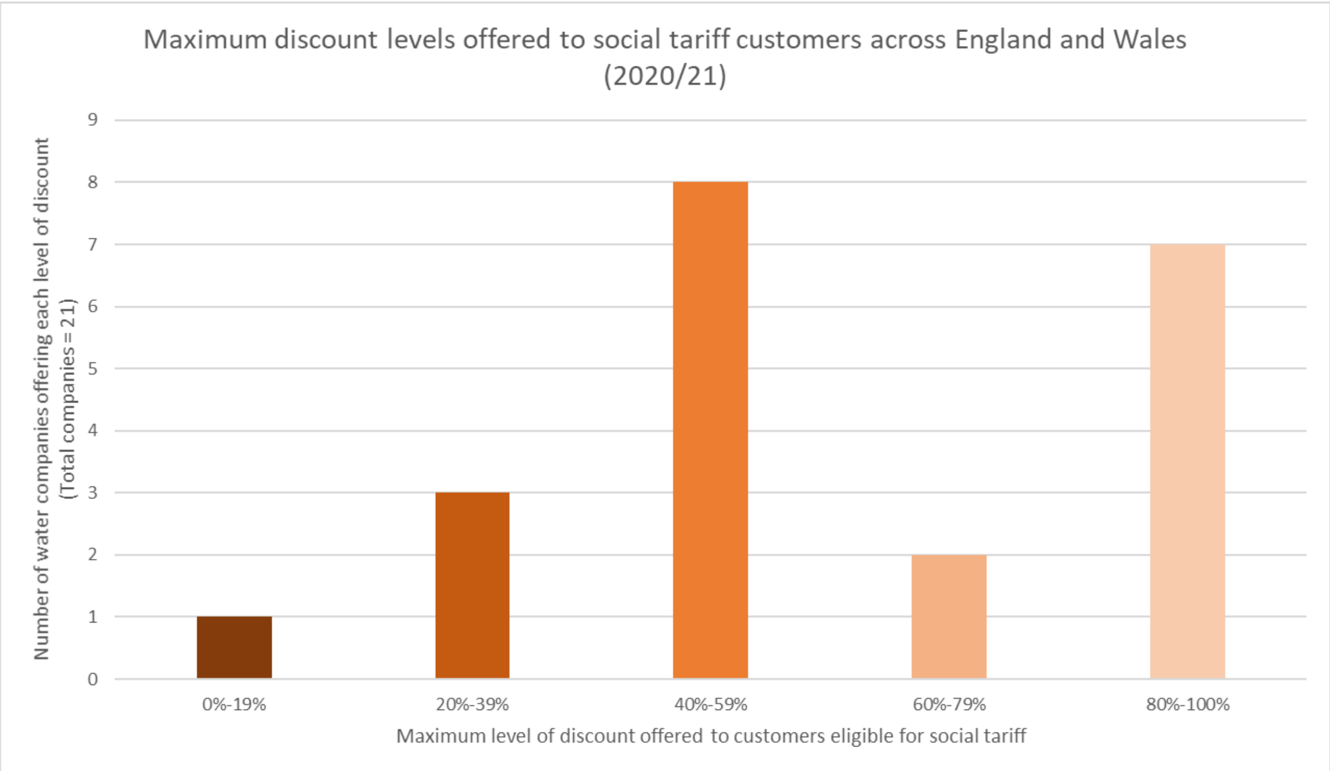

Figure 3 - Maximum discount levels offered to social tariff customers across England and Wales (2020/21 bill levels)

It is also worth noting that some companies apply the same discount, or bill limit, to all eligible social tariff customers, regardless of the depth of their financial difficulty, whereas others provide support on a tiered basis, or a sliding scale. The latter allows the company more flexibility, ensuring support levels are tailored to the customers' needs, and potentially allowing them to support a larger number of households. This approach also accounts for company-wide bill reductions as part of the price review process; ensuring that customers are not left worse-off by overall bill reductions compared to the price they were paying under the social tariff scheme if they no longer qualify under a bill-to-income ratio assessment.

Focusing specifically on social tariffs, we propose the following outline for a new scheme, which makes use of existing best practice and which, we believe, addresses the challenge of consistency for both eligibility and support levels whilst still addressing some of the regional differences faced in different water company operating areas:

- **Eligibility**
  A customer will be eligible for support via a social tariff, regardless of where they live and the company they are served by, if they meet one, or more, of three core groups:
  1. Household is below a specified income threshold (we suggest this is linked to the poverty line – i.e., 60% of the median income – and that it should make allowances for larger families through simple equivalisation, or by allowing an additional allowance of £1,500 for each dependent child); and/or
  2. The household is in receipt of a means-tested benefit; and/or
  3. The household has a budget deficit (or negative budget) which can be determined by an income and expenditure review, or Standard Financial Statement.

  In addition to these 'core' groups for eligibility, we propose allowing companies the ability to 'flex' the eligibility criteria if they feel this is required to meet the local and regional needs of the customers they serve.

- **Support Level**
  The level of discount applied will be directly related to the industry agreed measure of water poverty, in essence covering the 'water poverty gap'. We propose this should be 3% of disposable income after housing costs, meaning the discount provided would ensure the combined water bill would be no greater than 2.9% of the customer's disposable income after housing costs.

  Applying a discount in this way would ensure that customers are receiving a consistent level of support, albeit the actual amount of discount in monetary value would vary, whilst allowing for the regional differences in bill profiles and housing costs. It would work in the same way as a sliding scale, tailored to the customers' individual circumstances, and could 'lift' a household out of water poverty.

  The below example has been written to illustrate this further, showing two customers, who both have an income of £16,000 per year (£1,333 per month) but they live in different areas of the country. The model is based on reducing bills to 2.9% (i.e., below the measure of water poverty):

	Customer A	**Customer B**
Combined Bill	£412 (£34.33/month)	£358 (£29.83/month)
Housing Costs	£500	£400
Monthly Income (AHC)	£833	£933
Bill-to-income ratio	4.12%	3.19%
Discount (to reach 2.9%)	£10.17/month (29.6%)	£2.77/month (9.3%)
New bill level	£289.92 (£24.16/ month)	£324.72 (£27.06/month)

In this illustration, had a default discount level been applied (using the current most common discount of 50%) the cost of discount for Customer A would be 69% higher (a total discount of £17.17/month) and for Customer B would be 438% higher (a total discount of £14.92/month). It is therefore clear to see that providing a discount in this manner would be more cost efficient than a default discount level or bill cap.

Outside of direct affordability support services, we believe there is an opportunity to look at water charges to offer more choice and to consider innovative methods of charging, both to support customers with their bills and to also encourage lower water consumption. One option could be to incentivise households to reduce their water use once on a water meter whilst providing them security of budget. We are aware of some companies who have introduced 'bill guarantees' whereby the customer's bill will be calculated as both measured and unmeasured and they will pay the cheaper of the two – this offers comfort to households who manage a tight budget as it removes the bill volatility they can experience on a metered bill.

We propose to take this idea one step further and offer customers a water meter with a guarantee that their bill will not be any higher than a pre-agreed limit (we suggest this is £x per household member, but it could be made simpler by limiting it to the unmeasured bill). The household would then be encouraged to reduce their per capita consumption (PCC) and would receive a reward for doing so (either a rebate on their bill, or vouchers etc.). This gives customers bill security, but encourages sustainable water use at the same time, with a financial incentive for those with affordability issues.

Given the Covid-19 crisis and increased home water use due to lockdown will have *only* impacted metered bills, we feel it is important that charging is considered in the context of affordability, to ensure that metering is not given a bad name, and customers are adequately safeguarded against bill increases through no fault of their own – particularly given a number of customers have chosen to be on a meter to try and save money.

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?

Primarily, the largest gap in the current affordability support arrangements is the number of customers who are not in receipt of support. As indicated in the call for evidence, over 900,000 households are now receiving support via WaterSure and company-specific social tariffs, but an estimated 12% of households find their bills unaffordable, leaving a potential 2 million households unsupported. The impacts of Covid-19 will likely mean this number has increased significantly; the Chancellor of the Exchequer predicts the number of unemployed will rise by 1 million people, to a peak of 2.6 million individuals in the second quarter of 2021 - a unemployment rate of 7.5%.

In an ideal world, awareness of affordability support would be such that anyone experiencing affordability issues would know where and how to access support, and 100% of eligible applicants would be able to receive it. This could only be achievable if there was a substantial increase in available funding.

Our August 2019 discussion paper, 'Water Poverty: A Common Measurement'[16], applied Professor Jonathan Bradshaw's methodology for calculating the 'water poverty gap' – the amount that bills need to decrease by, or incomes need to increase by, in order to lift households out of water poverty. While this amount will differ by individual household circumstances, the methodology allows for an estimate of the average and aggregate water poverty gap, calculated on a weekly basis. The updated data showed a shift from the original 2013 calculation – at a 3% bill-to-income ratio, the number of households in water poverty reduced from 23.6% (2009/10 data) to 21.9% (2017/18 data), but the mean water poverty gap increased from £3.46 per week to £4.75. Whilst the reducing number of households affected by water poverty was positive to see, it is concerning that those who still have affordability issues would require significantly more support to *not* be water poor, and the scale of the issue demonstrated by the aggregate water poverty gap (over £1.25bn per annum) shows there is significant work to be done.

Following this, we outlined a number of customer groups who were potentially falling through the gaps in our June 2020 discussion paper 'Water Poverty: The Consistency of Social Tariffs'[13]. These have been provided with further detail below, with additional customer groups as identified by the respondents to our stakeholder survey:

- **Negative Budgets**
  This group of customers may have a household income above the specified income threshold to be eligible for support, however their income is not sufficient to meet the cost of their essential bills.

  The Office of National Statistics[17] found that, in the financial year ending

2017, the lowest earning decile had expenditure higher than their disposable income; "households in the bottom income decile spent, on average around £12,800… while their average income, as measured with Living Costs and Food Survey data, was only about £5,000. This is consistent with the findings from other studies, showing relatively high levels of expenditure at the bottom of the income distribution".

Citizens Advice reported the number of people they help with debt who have negative budgets growing from 32% in 2016/17, to 38% in 2018/19, with the depth of the income deficit increasing from £167 to £203 in the same period and found that 4 in 5 of the people they help are close to falling into a negative budget, meaning they have less than £100 a month left after living costs[18].

- **WaterSure**

  The eligibility criteria for WaterSure is prescribed within The Water Industry (Charges) (Vulnerable Groups) Regulations (Defra, 2015), and so does not differ by water company. Customers must be metered, in receipt of a means tested benefit and have high water usage due to either having a large family or a medical condition requiring additional water use.

  In our engagement, water companies have commented on how restrictive they feel the eligibility criteria for WaterSure is, highlighting examples of being unable to support customers with large families or medical needs and higher-than-average water usage because they are not on means tested benefits and their income is higher than the eligible threshold for social tariff support. For some of these customers, their outgoings may place them in a negative budget.

  Additionally, we have heard directly from households with large families who may have concerns of budgeting and bill volatility once their children reach an age where they no longer qualify for support (but still live at home). In this situation, their water use is still high and the security of the WaterSure tariff will no longer apply to their metered bill, meaning they could experience significant bill increases, and often decide not to apply.

  There is also a group of customers who cannot be metered, through no fault of their own. These households may earn more than the income thresholds for social tariff support but would usually qualify for support under WaterSure as they are in receipt of a means tested benefit, such as child tax credits. If they cannot be metered (due to the type of building they live in for instance) then they will not be entitled to receive any support from their water company.

- **‘Just About Managing’ (JAMs)**
  The respondents to our stakeholder survey highlighted this customer group as one which regularly falls through the gaps. Some households may have fluctuating levels of income, due to zero hours contracts or volatile incomes. Additionally, there are customers whose household income may fall just above the eligibility threshold for support and therefore are not entitled to assistance, those with large families whose income must stretch further and may struggle to make their payments each month yet sometimes choose to go without other things to ensure their bills are paid, and those who are currently not in receipt of benefits they are entitled to, which could be due to awareness levels or the individual’s ability to access the market

  ‘Just about managing’ families have typically lower than average incomes but are not the in the lowest income deciles. They are most at risk of detriment due to short-term financial changes, quickly moving into the ‘struggling’ segment if an unexpected bill arises or their incomes are reduced (as has been seen with the Covid-19 crisis). They are a customer group on the cusp of poverty, but with no offer of support from anywhere until that imaginary line is crossed.

- **Customers of Pensionable Age**
  Customers in receipt of pension credit are deemed eligible for support under some company social tariff schemes. Other companies have drafted data sharing agreements for DWP under the powers of the Digital Economy Act (2017) to undertake data matching, using pension credit as a proxy for social tariff eligibility under the assumption that their incomes are low enough to qualify against the prescribed income thresholds. But take up of pension credit remains low; Money Saving Expert[19] recently estimated that around “1.5 million eligible households don’t claim the top-up, often because they don’t know they can” (Money Saving Expert, 2020).

  Respondents to our stakeholder survey raised concerns around access to online resources, trust, and pride. In their experience, elderly customers are more likely to trust large organisations, such as water companies, and so may be less likely to question their bill. They are also more likely to go without elsewhere to make payments by their due dates as a matter of pride and principle. Additionally, respondents highlighted the limitations this customer group may face when trying to access online resources due to their digital skills, as 76% of those aged over 65 years have zero basic digital skills[20].

- **Digitally Excluded**
  People aged 65 and over are not the only customer group to have limited

digital skills and/or access; in 2018 there were 5.3 million adults in the UK who had either never used the internet before or had not used it in the last three months – 10% of the adult population[20]. Respondents to our stakeholder survey commented on how many water companies seem to push people towards online applications for affordability support, and how, unless you know where else to find it, awareness of affordability support will therefore be lower among the digitally excluded.

- **Customers on Zero Hours Contracts, or Insecure Incomes**
  Many of the current affordability support options use an income threshold in their eligibility criteria. Many households struggle to understand what qualifies as income, and do not realise that some benefits, such as housing benefit, may take them over the income threshold.

  Many households on low incomes rely on zero hours contracts, or other forms of insecure incomes (such as agency contracts, temporary positions, and the 'gig economy'). Many of these households experience significant income volatility, often on a seasonal basis, and so find it difficult to determine their income on an annual basis. For some, there may be a substantial increase in income at certain times of the year (around the Christmas period for retail workers for example), but this is matched with much lower, to zero, income at quieter times when there are less hours available. This becomes a significant challenge for households to manage, with many resorting to borrowing to get by when their income falls.

  Responding to this volatility in income is difficult for water companies, as proof of income may be difficult to provide, and months of higher-than-average income may take a household over the annual income threshold.

- **Benefit Sanctions**
  A benefit sanction is a reduction in, or stopping of, a claimant's benefit payments (for either Universal Credit, Employment and Support Allowance (ESA), Jobseekers' Allowance (JSA) or Income Support) due to failure to adhere to one or more of the claimants' commitments, or due to missing appointments or meetings. A single individual's sanctions should not exceed their standard allowance for Universal Credit, and if they are in a couple, it should not exceed half of their standard allowance.

  If a customer is in a payment arrangement with their water company (whereby the company agree to clear off any remaining debt after an agreed period, providing all payments are made) and fall subject to benefit sanctions, they will be experiencing a substantial reduction in their income and may be unable to make the payments to their water company as they will need to re-prioritise what they can pay and to who. This means they will no longer be eligible for their remaining debt to be cleared, something which would be a significant lifeline for customers in difficult financial circumstances. Wherever possible, companies should try to support customers in this situation, perhaps by extending the terms agreement by the length of the sanction (clearing the remaining debt after two and half years instead of two for instance) and accepting a reduced payment during the sanctioned period.

One final area which could be considered as a 'gap' is the take-up of Water Direct. This scheme allows companies to arrange to take payments direct from a customer's benefits before they are paid and is usually only offered if a customer is already in arrears. The numbers of customers using this service is reducing year-on-year (at the end of 2018/19, 185,491 customers were paying charges via Water Direct, down 7% on the previous year) which is likely reflective of the increase in the range of services being offered to customers in recent years. But this scheme should not only be considered as a guaranteed payment for the water company, but also a budgeting aid for customers who may struggle to manage their finances. Raising awareness of this scheme and encouraging new applications would help ease the range of pressures that indebted customers on benefits face which can prompt serious implications on mental and physical health.

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?

As has been seen during the recent Covid-19 crisis, an unexpected event or situation can require companies to react very quickly. The industry was quick to respond to the potential implications on water affordability, by introducing a suite of support services and decisions to stop debt management processes, consistent across all water companies in England and Wales. Commitments to introduce payment holidays, more flexible payment arrangements, and extensions of current social tariff schemes were extremely welcome and set a precedent for other industries to follow. We believe this corroborates our calls for consistency with affordability support - customers benefit from consistent messaging and simplicity when in difficulty and at a higher risk of vulnerability, whether that be on a national or an individual basis.

However, the funding mechanisms for affordability support raised concerns, which have been realised by some companies. At the time when the need for affordability support was, and still is, likely to increase, some companies were already providing support at the maximum level of their agreed cross-subsidy, which for some was already quite low. This meant that some companies had scope to access additional cross-subsidy funding as approved by broad acceptability in their willingness-to-pay research, and so could increase the number of potential customers who could be supported, perhaps adjusting eligibility criteria or support levels to account for the unprecedented changes in circumstances. These companies were able to access the funding currently forecasted for the end of the current price control (2024-25) should they need to, though for any companies that have done so, this may cause them future issues if they do not re-engage with their customers to agree a higher cross-subsidy level.

For the companies unable to access additional funding, some interim measures have been needed. United Utilities is one such company, who has agreed a two-year social tariff with CCW, to cover the predicted period of uncertainty by extending their social tariff to more customers, rather than just customers in receipt of pension credit. Other companies have been required to adjust the support levels offered from their social tariffs to maximise the number of customers they can support. One such company is Dŵr Cymru who has the highest cross-subsidy of all seventeen companies in England and Wales. This may have caused issues for companies who serve areas harder hit due to the reliance on certain industries (such as travel and tourism, or aviation) as they may have larger number of customers presenting for help with limited means to provide it. Water companies may choose to contribute additional shareholder funding to the social tariff pot to increase this support, but with income reduced from non-household customers, and additional costs incurred due to contingency working arrangements, this may be limited and could risk their financial resilience. Although we are not aware of any companies who have turned requests for support away, the growing pressures on the economy may result in difficult decisions in the future.

The crisis will have inevitably resulted in an increased number of households with significantly reduced income, who suddenly do not have the money required to meet their living costs. This may be short-term for some, and long-term for others. Although some companies offer support specifically for negative budgets, as referenced in our response to Questions Two and Three, this is a customer group that often falls through the gaps, and many of the current affordability arrangements are not able to support them. The transience of the financial struggle is also an area which may require further consideration to ensure households do not access support for longer than necessary, and to ensure that households do not fall into further detriment due to short-term solutions (such as payment holidays) increasing their levels of debt.

Finally, we need to consider the maintenance of affordability support schemes, particularly if companies are expected to support customers on transient basis. We have heard anecdotally from our stakeholders and water company contacts that customers rarely "come off" social tariffs; it is more likely that they will continue to be supported in the long-term. This may happen for two reasons; one, customers circumstances do not significantly change and so they will continue to be eligible for support in the long-term; or, two, the process for renewal and reconfirmation of income is time and resource intensive as well as costly, and so companies are unable to do this on a regular basis. Data sharing, utilising the powers of the Digital Economy Act, and working with Credit Reference Agencies may allow some level of automation for the renewal process, but without this, the process becomes difficult to manage, and so some customers may receive support for longer than is necessary, using valuable funding that could be utilised elsewhere.

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

The differences in regional support levels have also been caused by the need to have broad customer acceptability, determined through willingness-to-pay research. This research is "an input to companies' business planning processes… alongside customer priorities and demand, companies also take into account legal and regulatory obligations, and the costs of investments, along with customer affordability and company financing constraints… Water companies use customer valuations to understand the benefits of investments that improve or maintain service levels"[21]. During the PR19 business planning stages, one customer panel stated in their report:

"We have little confidence in Willingness to Pay as a dependable way of quantifying customer support for a service proposition, and we question the reliance which Ofwat requires companies to place on it in their Business Plans.

"If it is persisted with after PR19, we feel that customers should be saved the cost of funding multiple [Willingness to Pay] projects in every water company. Instead, resources should be combined to do a large survey, with extensive sensitivity testing, preferably within a national framework, allowing results to be pooled and compared regionally and nationally" [14].

The CCW research on the customer acceptability of the PR19 draft determinations, identified the following trends:

- "Uninformed and informed acceptability, and acceptability of ODIs [Outcome Delivery Incentives] increases in-line with household income;

- "Similarly, when looking at Socio Economic Classification (SEC), customers in higher SEC bands are significantly more likely to consider the proposed acceptable than those in the lower SEC bands;

- "Additionally, those who report having difficulty paying their water bills on time are significantly less likely to find the proposed bills acceptable at any level, including the potential of ODIs; and

- "Customers who are on their company's Priority Service Register (PSR) are less likely to find the proposals acceptable at the uninformed and informed levels than those who are not on PSR."

This raises a few concerns when considering the current approach to willingness-to-pay:

- Firstly, it appears to differ significantly across companies and regions, possibly due to the methods used, the questions asked, and the customers engaged.

- Secondly, the cost of willingness-to-pay research is extensive and is not solely incurred during the business planning process as companies are required to go back out to customers to continuously understand their levels of acceptability.

- Thirdly, there are substantial differences in acceptability across customer groups, dependent on income and socio-economic classification. If 20% of customers engaged are within low-income households and don't find the plans acceptable, they could potentially still be approved under the definition of 'broad acceptability' if the remaining 80% of engaged customers agree with the plans. This means the opinions of the customers most at risk of detriment are potentially ignored.

In our response to Question Two, we have outlined our concerns with the current funding mechanisms and the alternative options we have considered (see the table in Appendix One). These options would require full impact assessments prior to implementation, but we believe the final option – "There should be a national minimum standard for cross-subsidy, which can be 'topped up' by companies" – addresses the majority of the concerns and original guidance around social tariffs. This option would allow regional differences to be addressed, whilst still closing the gap which causes the current postcode lottery. To reduce the variation due to regional bills, this could be defined as a percentage of the average household combined bill in England and Wales – £397 in 2020/21 bill prices.

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 stakeholders have told us that they do not feel affordability support is well advertised, or promoted, across the water industry. They believe this is possibly due to the range of eligibility criteria and support levels, which not only makes it much harder to deliver consistent messaging, but makes it more challenging for partner organisations and charities to know what the customer is entitled to. We have outlined some suggestions to improve awareness and take-up of support below:

- **Partnership Working**
  Often, households considered 'hard to reach' by large organisations access specific services through their network of 'trusted partners'. These are organisations which the customers feel have their best interests at heart, and who offer services which are accessible to all, and in which they can partake without any judgement. Identifying 'trusted partners' is vital to reach customers who either choose, or are unable, to access services via more common methods. These may be larger charitable organisations, such as local Citizens Advice offices, but could also be much smaller, more locally based, community groups, such as Children's Centres, youth centres, churches, and food banks. These smaller local groups often know their communities and the people who live in them very well and may be able to identify those in need of support. Engaging these groups, perhaps through drop-in sessions, or even offering training to their members, will build on the trust and offer more opportunities to engage on other matters in the future.

  For the groups who have the resources to do so, offering partners training to allow them to assess applications for water affordability support on behalf of the water company would be an excellent way to identify more 'hard to reach' families and could reduce administration costs (it is our understanding that some water companies already offer this option to their partners). It would mean partner organisations would be able to guarantee support to the family they were working with, and could help them through the application process, verifying any evidence they needed to provide. Building a network of local organisations with the ability to do this would strengthen affordability support – it could be targeted to the community support most likely to be engaging with eligible customers, such as food banks.

- **Digital Economy Act**
  The powers granted in the Digital Economy Act offer a substantial opportunity to digitalise and streamline the identification and provision of support to some low-income households. We are aware the first data sharing agreement has been approved by DWP for a small consortium of water companies – this needs to be implemented by all companies, and further agreements need to be drawn up to maximise the opportunities available.

  Once in place, these data sharing agreements would allow 'passporting' of specific means-tested benefits onto social tariffs and/or other affordability support. The Warm Home Discount in energy uses pension credit as their 'passport' for data matching, though as previously addressed, the take-up of pension credit is low. Another option could be exploring the use of Universal

Credit as a passport – if only claiming the basic allowance then incomes would always be below any income thresholds currently used by water companies. This could be used alongside Pension Credit to ensure customers of both working age and retirement age are able to access support.

Additionally, DWP maintain the Households Below Average Income (HBAI) data, which is recorded at three levels; individual level, family (benefit unit) level, and household level. Water companies should engage with DWP to see if they can access this dataset at the household level, perhaps performing the data matching against an agreed income threshold for eligibility for support.

- **Other Data Sharing Mechanisms**
  Water bills are not the only bill customers in financial difficulty find a challenge. Recognising that there are other organisations and sectors offering similar support schemes is important, as there may be opportunities for data sharing to offer holistic support, particularly if eligibility criteria was aligned.

  As a first step, we believe the water and energy industry should start sharing data on a more regular basis. The Priority Services Register may offer the most appropriate mechanism to do. Where a customer is eligible for support in water, this should be shared as a financial vulnerability flag to the relevant energy supplier, and vice versa. This will allow the other supplier to offer support at the earliest opportunity, minimising the risk of arrears increasing, and provides a new mechanism to identify customers most in need whilst reducing the number of individual contact-points a customer needs to make. We recommend that the water sector take the first steps to implement the recording of financial vulnerability flags with an aim to commence data sharing with energy suppliers at the earliest opportunity – we feel the sector is in a unique position to lead this initiative with the benefits being realised from both an affordability and an operational perspective.

- **Severe Indebtedness**
  An 'over-indebted' individual is defined as someone who finds keeping up with bills and credit commitments a heavy burden, or who has fallen behind or missed payments in any three or more months in a six-month period. Utility companies are not well placed to see the overall picture of a household's financial situation; they may see a missed payment on a bill one month, but the next month is paid on time. Over time, the missed payments start to accrue, leading to debts that become unmanageable for the household when added to debts held elsewhere. While a pattern may emerge, or payments come to an abrupt stop, the account held with the utility is only one bill of many for the household, all of which have become a struggle due to their change in circumstances.

While utilities should always be encouraged to use all available data to understand a customer's situation, which may include Credit Reference Agency data, one possible solution to this issue is not to consider if a customer is 'over-indebted' but to consider if they are in 'severe indebtedness' with that provider. While there is no formal definition of severe indebtedness, it could be defined as the point where the debt owed to a single provider exceeds the annual cost of the service provided. As an example, for the water industry, if based on the average 2020/21 combined water bill in England and Wales, a customer would be in severe indebtedness if their debt exceeded £397. Companies could measure the debt accrued against the customer's annual cost to monitor the severity of their financial situation, introducing interventions at specific intervals to proactively offer support.

Further investigation could be made by the companies using current or future data of their customers' means to indicate whether they are "can't pay" or "won't pay". Further customer segmentation would allow companies to use this information to better target support, and this could also offer the 'financial vulnerability flag' needed for data sharing with other sectors/organisations.

- **Consistent Messaging**

  In the 2019 CCW publication 'Water for All', it states "we wish to see greater focus on informing customers. The industry should be working to deliver consistent messages, telling customers what they need to know at a time when they need to know, and the message should be delivered via communication methods that customers use". While this comment was made under the heading of 'incident management', it is relevant for affordability support too.

  We would recommend an industry-wide campaign for affordability support, which aims to raise awareness of options and encourage those struggling to come forward for support. This would be easier to achieve if eligibility criteria were consistent across the industry but could still be done to raise awareness of the support currently available with some more high-level messaging. This should also not be delivered as a one-off campaign, as the marketing 'rule of seven' suggests consumers need to hear the same message seven times before they will consider acting on it. This is also important in recognising that circumstances change, and a household may not need support now, but could do in the future.

- **Branding**

  It would support a consistent messaging campaign if affordability support services were offered under a single brand. The brand WaterSure is used by all companies with consistent eligibility criteria, which makes it more recognisable for customers and more straightforward for supporting organisations to recommend it to customers in need.

It would likely be necessary to retain the WaterSure brand, and introduce another brand-name for social tariffs, but this would still be far easier to navigate and promote than seventeen schemes with different names.

- **Utilising Existing Mechanisms for Identification**
  In the energy sector (and possibly others), there are schemes in existence which seek to support low-income (and fuel poor) households with reducing their household bills through energy efficiency measures. Schemes, such as ECO and in some instances the Green Homes Grant, are targeted at 'core group' Warm Home Discount customers (from scheme year nine onwards), households in receipt of a specified list of benefits or live within social housing which is EPC Band E or below.

  Energy suppliers and installers of energy efficiency measures are therefore working to identify eligible customers on a daily basis, having conversations regularly with customers who would likely be eligible for financial support measures from other sectors. These organisations could work directly with other sectors to share data and help identify those who could benefit most from support.

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?***

Below we outline four areas which warrant further consideration from other sectors:

- **Warm Home Discount (Energy)**
  In 2010, the Government looked to solidify support for low-income energy customers in law. The main drivers for this were noted in the consultation document where it stated: "many suppliers also offer discounted tariffs [in addition to social tariffs] to vulnerable groups… which are cheaper than their standard tariffs. However, this form of unit price discount does not meet our principles. It does not provide a clear or targeted benefit, as different suppliers may offer different benefits to different groups of customers". The Consultation on the Warm Home Discount therefore proposed a scheme which encompassed "the best elements" of the voluntary agreement (introduced by Ofgem in 2008) while also looking to address the concerns that stakeholders raised, delivered under five principles[22]:

    1. Delivers a clear benefit for consumers;
    2. Better focuses support on vulnerable households;

3. Delivers value for money;
4. Consistent with competitive energy markets; and
5. Ensures a smooth transition from the current arrangements.

The proposal was for a fixed rebate, the level of which would be set by Government to "ensure that all consumers receive the same benefit" as these fit most closely with the guiding principles, providing "certainty for the consumer on the absolute level of support that they will receive", enabling Government to design a scheme "within a given spending envelope which includes a carefully targeted Core Group" and enabling each supplier "to predict their spending requirements… so that no one supplier is required to fund a disproportionate number of benefits". The level of rebate is currently set at £140 per year, and currently is funded by levy, which costs an estimated £12.86 on a dual fuel bill.

The funding mechanism for Warm Home Discount (funded by obligated suppliers from customer bills, currently £12.86 on a dual fuel bill) has been designed to ensure that "no one supplier is required to fund a disproportionate number of benefits". Obligated suppliers are assigned a 'compulsory spending' obligation (as determined by the Secretary of State based on the annual supplier notification of connected customers) and 'non-core spending' obligation (determined by the percentage of the supplier's total domestic customers over the total number of domestic customers of all compulsory scheme suppliers) – the latter obligation determines the funding available for both the 'broader' group and industry initiatives. This mechanism means that 'core group' customers are guaranteed to receive the annual rebate (processed automatically based on DWP data for pension credit recipients), but that 'broader group' customers must apply and awarded the rebate on a first-come, first-served basis, until the rebate funding under the non-core spending obligation has been spent.

While we recognise there are issues, particularly relating to the number of customers who can be supported by individual supplier's WHD schemes under the 'broader group', we believe there are benefits from applying a similar approach to 'core group' eligibility and passporting to water affordability schemes. It is worth noting that recent announcements in the Energy White Paper[23] will likely change the ways suppliers are obligated. Government are considering reducing the obligation threshold (currently at least 250,000 connected domestic customers and potentially reducing to 150,000) and increasing the spending envelope by £125m per annum to support an additional 750,000 customers with a higher rebate of £150 per year.

In addition to energy bill rebates, the Warm Home Discount scheme also allows meeting the obligation through the funding of programmes to help fuel poor and vulnerable customers. These programmes are referred to as 'Industry Initiatives', and can include activities such as debt write-off, benefit entitlement checks, measures, energy advice, energy advice training and financial assistance. We believe the industry initiatives provide vital support to those most-in-need and should be replicated by other sectors. This could allow water companies to partner with consumer bodies, charities, and community groups to deliver targeted advice and support to customers, water efficiency messaging and measures, and manage applications to crisis funds and income maximisation.

Additionally, it is worth noting that the single brand makes promotion of the scheme far easier and more recognisable for customers in need of support, and we would recommend a similar approach be taken with the water affordability support branding.

- **Fuel Poverty Strategy (Energy)**

  In 2000, the Warm Homes and Energy Conservation Act (WHECA) was passed by Parliament, where the meaning of fuel poverty was described as "… a person is to be regarded as living "in fuel poverty" if he is a member of a household living on a lower income in a home which cannot be kept warm at a reasonable cost"[24], language that was then subsequently broadly adopted in the Digital Economy Act (2017) to define water poverty.

  WHECA also placed duties on the Secretary of State (in England) and the National Assembly (in Wales) to define the subjective terms 'lower income' and 'reasonable cost' outlined in the first provision of the Act. This resulted in both England and Wales adopting broadly similar fuel poverty indicators. Importantly, the Act also required the UK government to produce a strategy which set out plans for eradicating fuel poverty within 15 years and resulted in the formation of the independent Fuel Poverty Advisory Group. The first UK Fuel Poverty Strategy was published in 2001 by the UK government, aiming "to eradicate fuel poverty across England, as far as reasonably practicable, in vulnerable households by 2010 and in all households by 2016". Similar aims were set out in The Housing Act for Scotland in 2001, and 'A Fuel Poverty Commitment for Wales' in 2003. In 2015, the Fuel Poverty strategy was updated, and a new legal fuel poverty target was introduced, "to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency rating of [EPC] Band C, by 2030"[25].

  While there are still households living in fuel poverty, significant strides have been made since the introduction of the Fuel Poverty Strategy and statutory targets. We believe Government should learn from this and introduce a similar Water Poverty Strategy and a statutory target to ensure that as many water poor homes as is reasonably practicable pay no more than 3% of their disposable household income on their combined water and sewerage bill(s) by 2030. Whilst this may not be in scope for this review, we feel it is important to stress the importance of a strategy like this at every opportunity, and it would be something which could really make a significant difference to the future of affordability in water.

- **Financial Conduct Authority, Debt Guidance**
  The Financial Conduct Authority (FCA) has recently updated its guidance to firms, setting out the enhanced support that should be available to consumer credit customers experiencing payment difficulties because of Covid-19[26]. This guidance is mainly focused on payment deferrals (payment holidays) and we recommend one specific point is replicated across any industries offering the same support to customers:

  "A firm may assess that a payment deferral is obviously not in a customer's interest. In such cases, the firm should instead provide tailored support appropriate to the customer's circumstances."

  This simple statement places a requirement on companies to undertake an assessment of an individual's needs before agreeing to further payment deferrals, and to offer alternative tailored support if that is more appropriate to their needs. Regardless of if their financial difficulty has been caused by Covid-19 or not, we feel that this must feature in the guidance for all companies and sectors offering payment holidays to customers to ensure that it is the service most suited to the customers' needs. Payment holidays should only ever be offered in the short-term, perhaps to bridge the gap between leaving one job and starting another. Both debt and interest still accrue, and so it can leave the customer in a worse financial position if not suitably assessed.

- **Incentivising Support Through Innovation**
  In 2018, CLP Power Hong Kong launched a new programme 'Power your love' under the theme of "save energy, save on bills, and light up lives"[27] (which has since been re-branded 'Power Connect'). This innovative scheme incentivises energy customers to save energy by providing them with 'Eco Points' which can be redeemed against various rewards, including smart gadgets and tickets for events/attractions.

  However, it is the resulting benefits for 'underprivileged' groups which makes this scheme so innovative. Eco Points earned are donated to subsidise the electricity bills of low-income beneficiaries falling into the following customer groups:
    - Aged 65 or above
    - Low-income earners

- Disabled
- Living in subdivided unit households

To date, the scheme has provided a subsidy of between HK$500 – HK$600 to 40,000 eligible households, and CLP has allocated HK$21million to the scheme.

Similar examples can be seen in the telecoms industry. The Australian mobile network 'Optus' launched a campaign in late 2019 which encourages customers to donate their mobile data to young people unable to afford it[28]. Working with charity partners, this scheme provides free sim cards to disadvantaged and digitally excluded young people to help them become connected and access additional opportunities. In the UK, the mobile network Vodafone has launched 'The Great British Tech Appeal' which encourages customers to donate old devices to the network to be given to digitally excluded young people with a free unlimited data sim card[29].

Finally, when considering peer-to-peer trading in energy (which allows producers and consumers to trade electricity directly rather than with the grid), the notion of donating excess power generated from solar panels (for example) to worthy causes (such as households in fuel poverty) has been widely discussed[30]. This draws upon the concept of social good and the willingness of people to support 'worthy causes', and was referenced in this recent academic paper 'Peer-to-peer energy markets: Understanding the values of collective and community trading': *"For instance, if a group is formed with a goal to alleviate fuel poverty in the Easton community of Bristol city, it could have a policy that each member will donate 5% of their excess generation to the Easton's fuel poverty fund, which will then be distributed to those in Easton who are identified as fuel poor (e.g., through city council's register) free of charge. This implies that anyone joining the given group volunteers the specified portion of their generation for the specified cause"*[31].

While these examples are specific to the sectors applying them, innovation such as this could be considered in the context of this review, looking at new ways of encouraging customers to support those less fortunate than themselves. This type of model could potentially support water efficiency projects as well as our suggesting of a 'rounding-up' approach (as discussed in our response to Question Two) and may also support ideas such as a minimum water allowance.

If there are any topics or ideas covered in this response to the call for evidence which CCW would like to discuss in further detail, we would be happy to do so. Please contact jess.cook@nea.org.uk

1 For more information visit: www.nea.org.uk
2 NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.
3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/604317/Domestic_energy_bills_in_2016_-_the_impact_of_variable_consumption.pdf
4 In 2009, the Independent Review of Charging for Household Water and Sewerage Services concluded that "the charging system needs to incentivise the efficient use of water so as to ensure we have sustainable supplies for the future. Water also needs to be affordable for all, particularly those on low income" and that "charging by volume of water used (which involves metering) is the most effective way of incentivising the efficient use of water". Available here: https://www.gov.uk/government/publications/the-independent-review-of-charging-for-household-water-and-sewerage-services-walker-review
5 PWC, 2017. Retail Services Efficiency Benchmarking: Report for Ofwat. Available at: https://www.ofwat.gov.uk/wp-content/uploads/2017/10/250717-Of-wat-Retail-Services-Efficiency-12.pdf
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10 This short paper accompanied the longer social tariff discussion paper, outlining the impact of Covid-19 on the issues already raised. Available at: https://www.nea.org.uk/wp-content/uploads/2020/10/Social-Tariffs-in-Water-The-Impact-of-Covid-19-2-page-FINAL.pdf
11 We called for both a vulnerability principle licence condition and a vulnerability strategy in our February 2020 response to Ofwat's forward work plan. Available here: https://www.nea.org.uk/wp-content/uploads/2020/10/NEA-Consultation-Response-Ofwat-Forward-Work-Programme-2020-21-FINAL.pdf
12 https://www.unitedutilities.com/corporate/responsibility/customers/value-for-money/
13 Our June 2020 discussion paper 'Water Poverty: The Consistency of Social Tariffs' expanded on our recommendation to undertake a full review of social tariff guidance, funding, eligibility and support levels. Available here: https://www.nea.org.uk/wp-content/uploads/2020/10/Water-Poverty-The-Consistency-of-Social-Tariffs.pdf
14 South Staffordshire and Cambridge Water Customer Panel, 2018. Independent report to Ofwat. Available at: https://www.customer-panel.co.uk/media/1047/panel-report-final.pdf
15 Provisional findings published in CMA review of water price controls (September 2020) Available here: https://www.gov.uk/government/news/provisional-findings-published-in-cma-review-of-water-price-controls
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28 https://www.thedrum.com/news/2019/12/02/optus-allows-people-donate-data-the-less-fortunate-bridge-the-digital-divide
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Appendix One

Table outlining potential options for funding social tariffs

Option	Explanation	Strengths	Weaknesses
Willingness-to-pay research should no longer be used to determine cross-subsidy levels, and instead social tariffs should be centrally funded.	As a number of the issues with social tariffs stem back to the cross-subsidy levels agreed through willingness-to-pay research, it could be argued that this process is not fit-for-purpose. Instead, willingness-to-pay could be abandoned, and social tariffs could be funded centrally through Treasury.	Many argue that social policy is for Government to decide and not for companies, and so this could address this point. Customers would not be expected to pay to support low-income households through their water bills. The funding would be prescribed, and therefore would be steadier than willingness-to-pay which can change year-by-year.	This does not account for regional differences across water company licence areas. This does not have the broad acceptability of customers in each water area.
Willingness-to-pay research should be conducted on a national basis (two sub-options).	Willingness-to-pay research is conducted centrally as a financial exercise, talking to different customer groups across England and Wales.	This removes the lack of consistency as all companies will be allocated the same amount of funding per customer bill for their social tariff schemes. This reduces the costs associated with conducting the willingness-to-pay research for cross-subsidy, as all companies would contribute a smaller amount to conducting one piece of research each year. This has broad acceptability of all engaged customers across various licence areas.	This does not account for regional differences across water company licence areas.
	The level of cross-subsidy is 'deemed' by Defra in a similar way to the Warm Home Discount (currently an estimated £12.86 on a dual fuel bill).	This removes the lack of consistency as all companies will be allocated the same amount of funding per customer bill for their social tariff schemes. This removes all costs associated with conducting the willingness-to-pay research for cross-subsidy.	This does not account for regional differences across water company licence areas. This does not have the broad acceptability of customers in each water area. This would be subject to Treasury 'tax and spend' rules.
There should be a national minimum standard for cross-subsidy, which can be 'topped up' by companies.	A minimum level of cross-subsidy is deemed by Defra, but companies are able to conduct additional research with their customer base to 'top-up' their cross-subsidy with broad acceptability.	This ensures a minimum level of funding for each water company. This allows companies to address the regional differences in each of their operating areas, with broad acceptability of engaged customers. This closes the gap between the highest and lowest cross-subsidy levels that currently exist. This brings social tariffs more in line with the current guidance – which states "the Government view that a charge of up 1.5% of the average annual household bill would be a reasonable amount of cross-subsidy".	This *could* see cross-subsidy levels for some companies reducing if they cannot secure the top-up funding through their own engagement. This could see some customers paying more than they currently pay for cross-subsidy, resulting in (small) bill increases. This would be subject to Treasury 'tax and spend' rules.

Appendix Two

Illustrative example of 'rounding-up' model, using regional average bills. Data shown indicates potential funding from 20%, 10% or 5% of the population choosing to participate in the scheme by rounding to the nearest £5. It also illustrates the potential funding assuming an equal distribution (therefore equivalent to a £2.50 round-up).

Region	Household population (2011 ONS)	20/21 Avg. Bill	Rounding up Avg. bill to nearest £5			Assuming Equal Distribution (£2.50 round up)		
			20% of pop.	***10% of pop.***	***5% of pop.***	***20% of pop.***	***10% of pop.***	***5% of pop.***
East	2,573,600	£397.29	£1,394,891.20	£697,445.60	£348,722.80	£1,286,800.00	£643,400.00	£321,700.00
East Midlands	1,995,400	£378.93	£427,015.60	£213,507.80	£106,753.90	£997,700.00	£498,850.00	£249,425.00
London	3,285,400	£389.51	£321,969.20	£160,984.60	£80,492.30	£1,642,700.00	£821,350.00	£410,675.00
North East	1,141,400	£328.12	£429,166.40	£214,583.20	£107,291.60	£570,700.00	£285,350.00	£142,675.00
North West	3,076,400	£420.59	£2,713,384.80	£1,356,692.40	£678,346.20	£1,538,200.00	£769,100.00	£384,550.00
South East	3,630,100	£398.08	£1,393,958.40	£696,979.20	£348,489.60	£1,815,050.00	£907,525.00	£453,762.50
South West	2,362,900	£444.35	£307,177.00	£153,588.50	£76,794.25	£1,181,450.00	£590,725.00	£295,362.50
Wales	1,327,100	£447.34	£706,017.20	£353,008.60	£176,504.30	£663,550.00	£331,775.00	£165,887.50
West Midlands	2,317,800	£353.56	£667,526.40	£333,763.20	£166,881.60	£1,158,900.00	£579,450.00	£289,725.00
Yorkshire and Humber	2,311,600	£402.77	£1,030,973.60	£515,486.80	£257,743.40	£1,155,800.00	£577,900.00	£288,950.00
		Totals	**£9,392,079.80**	**£4,696,039.90**	**£2,348,019.95**	**£12,010,850.00**	**£6,005,425.00**	**£3,002,712.50**