

## **Time to raise the bar on affordability and vulnerability**

### **A good beginning, not an end**

The water sector is on a journey in terms of raising its game on affordability and vulnerable customer care:

- Water companies already provide a diverse range of services to those who need extra help of one sort or another. Following work with the Consumer Council for Water (CCWater), this now includes reaching over a quarter of a million low-income households through social tariffs.
- Ofwat has placed a focus on affordability and vulnerability for the 2019 Price Review. Affordability is one of the four themes of its methodology and since that was published in draft in July, the regulator has been aggressively talking up the low price outlook. In September it prodded companies to better manage bad debt and more recently still it announced first time reporting on companies' provision for customers in vulnerable circumstances.
- At government level, the policy context is supportive too. Protecting customers – particularly those in vulnerable circumstances – is one of two priorities Defra set for Ofwat in its recent Strategic Policy Statement. Meanwhile water minister Thérèse Coffey personally oversaw the inclusion of data sharing provisions in the Digital Economy Act to make it easier for water companies to identify customers who may need help.

### **Greater ambition**

CCWater has long pressed the affordability agenda and is pleased to see the sector has stepped up. But far from being 'pat on the back' time, ambitions should be raised even further to deliver more for those who are struggling.

Why? Quite simply because more help is needed. Customer funded social tariff schemes have the potential to help around 410,000 customers and yet 3 million households tell us bills are not affordable. Even if you add in those on the WaterSure tariff, that means 80% of the problem remains unsolved.

Upping the pressure to keep bills down for all will help, but will not fundamentally alter the situation for those most in need of assistance. On top of that, the wider context including the possible impact of higher inflation and changes to the welfare system are putting extra pressure on household purses. And if companies make good use of the new Digital Economy Act data sharing provisions as the minister intended, demand for assistance could really accelerate.

CCWater believes it is urgent the sector now moves affordability and vulnerability support to the next level, and we have two key suggestions which we put forward to progress the discussion.

### **Social tariff contributions**

The first is reasonably simple and is in water companies' gift immediately. We want companies to contribute more to the funding of social tariffs. The funding available for many of these schemes has been exhausted and desperately needs a boost. Some companies have already done a lot here but our message is that everyone needs to do more. Our research also shows that customers are willing to chip in to the cross subsidy more if their company pays too, so voluntary corporate contributions could ultimately deliver more than their face value.

To encourage companies on this journey, we propose reporting on the social tariff funding contributions from companies as well as from customers – potentially through reporting the ratio of assistance provided to the costs passed on to customers. This would help reveal how the cost burden is shared.

Companies should note that in light of the recent political and media criticism of the industry, the move would have an additional benefit for firms in showing them to be good corporate citizens who voluntarily help those who are most in need.

## **Common Performance Commitments**

Our second proposal is that Ofwat includes in its final price review methodology in December two additional common Performance Commitments: one for affordability and one for vulnerability. Companies pay particularly close attention to measures on which they are directly compared with their peers, and common PCs in these critical areas would ensure affordability and vulnerability are Premier League issues. These common PCs could complement the bespoke PCs Ofwat proposed in its July draft methodology, enabling companies to take both high level and grass roots approaches to helping customers who need extra support.

We do not propose that financial incentives are attached to these new common PCs. Not only does it seem inappropriate to reward companies for helping needy customers, but we believe the reputational incentive of outperformance on these issues - at a time when legitimacy is in the spotlight - has become a powerful enough driver in itself.

To offer a practical steer, we propose the customer affordability common PC could be based on a measure of how customers view the affordability of their bills (this is already tracked by CCWater). The common PC for vulnerability could be based on a measure of customer awareness of the vulnerability assistance that is available; and/or customer satisfaction with the quality of the assistance they receive – essentially, does it meet their needs? We are considering tracking this in our annual Water Matters survey of views of domestic water customers.

## **Broad definition**

These are just suggestions and CCWater would welcome dialogue with stakeholders about which common PC measures would be most appropriate. However, we do stress that in all these discussions around affordability, the definition employed must be broad. Supporting customers who need a hand is not just about debt alleviation through trust fund payments or write off schemes – though of course these are important and their impact can be precisely measured through study of revenue outstanding. It is as much about the very large group who suffer in silence, perhaps going without another essential to be able to pay their water bill.

The introduction of social tariffs helpfully broadened the affordability horizon across which companies look. As we work together to design and deliver the next level of help for those who urgently need it, let's embed that ethic so the 'just about managings' are explicitly as much a part of the picture as those who have already fallen into arrears.

Lastly, a final reminder that this is not one-way traffic: there will be reputational benefits for companies that are willing and quick to act – as well as for the customers they exist to serve.