Consultation Response:

Consumer Council for Water Independent review of affordability support for financially vulnerable water customers

Response by the Money Advice Trust

Date: December 2020

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2019, our National Debtline and Business Debtline advisers provided help to more than 199,400 people by phone and webchat, with 1.97 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2019 we delivered this free training to over 981 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to respond to this call for evidence. Difficulty paying for water bills is a widespread problem. One measure of this is the growing proportion of debt advice clients who have water arrears, often alongside other household debts. In 2008, just 4% of National Debtline callers had water arrears. This had risen to 16% by 2018.[1] Last year 17% of National Debtline callers had water arrears, along with 11% of Business Debtline callers.

We welcome the progress the water sector has achieved in recent years, but we are strongly of the view that more support needs to be made available on a more consistent and sustainably funded basis.

In this response we talk about two broad types of support which we think are necessary for water customers: **bill support** to tackle on-going affordability problems and **debt write-off mechanisms** to clear outstanding arrears, re-establish regular payments and give customers a fresh start. Both types of assistance are important and should be designed and provided in such a way that they complement each other. We do not necessarily think they should operate in the same way and have therefore sought to be explicit in this response about whether observations refer to either bill support, debt write-off mechanisms or both. Most people who need help with water bills or water debt will need help to resolve other financial problems. Water companies recognise this, but approaches are ad hoc and inconsistent. Access to **independent debt and consumer advice** should be designed into the sector's solutions.

As debt advisers we want to firmly counter the idea that the ban on disconnection acts as a significant disincentive to pay water bills, and that consumers treat water bills differently as a result of being protected against disconnection. While this may of course be a factor in some individual cases, the pattern we see in the debt advice sector is that clients who fall behind on water bills tend also to fall behind on other household bills, including those which have more extreme consequences, such as council tax and rent. We also note that in the energy sector, where the rules permit installation of prepayment meters, self-disconnection has become a significant problem and a key topic of concern for the regulator.[2]

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[1] Money Advice Trust, A decade in debt, 2018
http://www.moneyadvicetrust.org/researchpolicy/research/Documents/Money%20Advice%20Trust%2c%20A%20decade%20in%20debt%2c%20September%202018.pdf
[2] Ofgem, Self-disconnection and self-rationing: decision, October 2020.
https://www.ofgem.gov.uk/publications-and-updates/self-disconnection-and-self-rationing-decision

Our approach to this response

As a debt advice provider, we collect systematic data on the debt and demographic profile of our clients. We have used some of this data – based on a specific sample collected annually to support our charitable funding model – to present a picture of the characteristics of clients with water arrears. We have also drawn on observations from debt advisers who work directly with clients on our National Debtline service. However, we do not collect systematic data specifically on water affordability and it is neither feasible not desirable to explore water affordability with everyone who contacts our service (given the wide range of problems clients may experience). This sets some limits on what we are able to state with confidence about water affordability outside of the specific context of debt.

Characteristics of households with water debt

Each year, we carry out an exercise to gather comprehensive debt and budget information from a sample of clients across both National Debtline and Business Debtline, in order to support the Trust's funding model and generate additional insights. In this year's National Debtline sample there were 101 clients out of 356 (28%) with water arrears, while in the Business Debtline sample there were 84 clients out of 733 (11%) with residential water arrears (commercial water arrears are recorded separately and have not been included as 'water debt' for the purposes of this analysis).

Although these sub-samples are relatively small, they provide a consistent picture across both services. Based on our analysis, those clients who have a water debt, when compared with those who do not have a water debt:

- ✓ Are more likely to have a deficit budget;
- ✓ Are less likely to put aside an amount for regular savings to build financial resilience;
- ✓ Are more likely to receive income benefits;
- ✓ Have more debts overall; and
- ✓ Owe higher amounts in priority debts.

Figure 1: Comparison of National Debtline callers with and without water debt

	Water debt (101)	**No water debt (255)**
Deficit budget	**44%**	**35%**
Saving a regular amount	**29%**	**44%**
Receiving income benefits	**82%**	**67%**
Number of debts overall	**9**	**6**
Amount owed in priority debt	**£3,580**	**£1,760**
Amount owed overall	**£14,898**	**£14,440**

Figure 2: Comparison of Business Debtline callers with and without water debt

	Water debt (86)	No water debt (649)
Deficit budget	**76%**	**54%**
Saving a regular amount	**15%**	**27%**
Receiving income benefits	**63%**	**54%**
Number of personal debts	**10**	**7**
Number of business debts	**2**	**1**
Amount owed in personal priority debt	**£4,057**	**£1,892**
Amount owed overall	**£19,086**	**£24,485**

Source: Survey of National Debtline and Business Debtline callers conducted March to April 2020

In addition, there is a striking correlation in both samples between water debt and other household debts. Clients with water debt are much more likely than those without to also be in arrears on energy, council tax, rent and telecoms. The correlation between water and energy debt is particularly striking at 80% for Business Debtline callers and 85% for National Debtline callers.

This supports the view that, for this group of consumers, problems paying for water are closely associated with broader affordability and financial difficulty issues. It underlines the need to address water affordability and debt in a holistic context, recognising the strong likelihood that consumers who struggle to pay for water bills will also struggle with other household bills and financial commitments.

Figure 3: Comparison of debt types owed by National Debtline callers with and without water debt

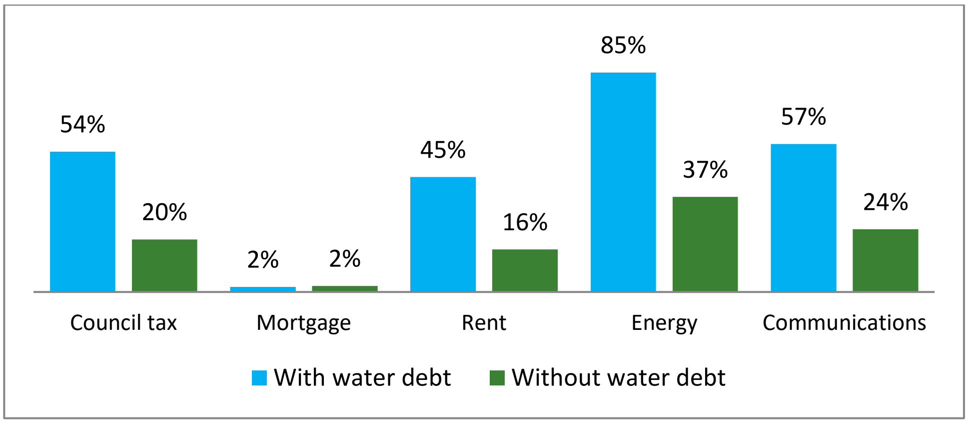
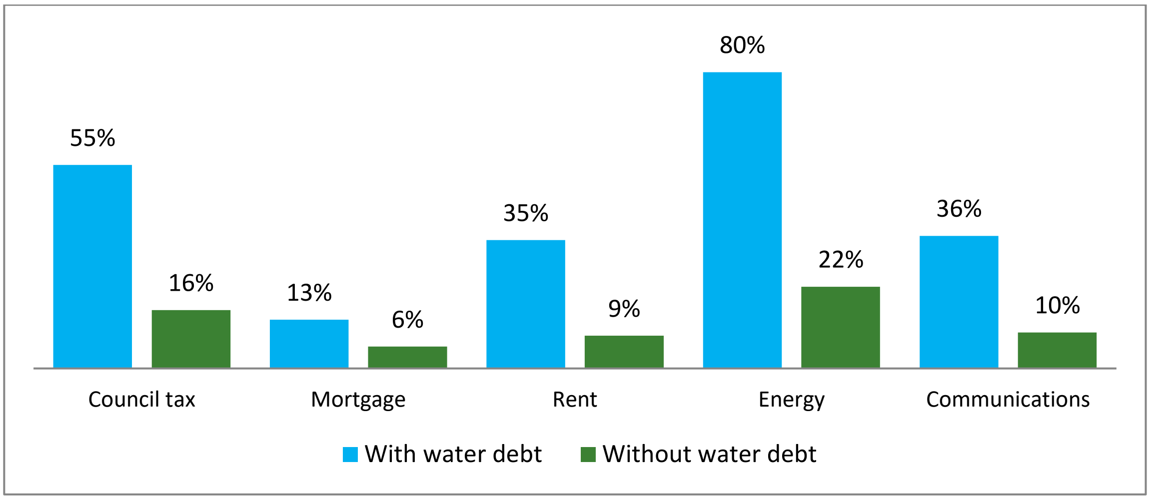


Figure 4: Comparison of debt types owed by Business Debtline callers with and without water debt



Responses to individual questions

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

The general **growth in bill support** has been a positive feature of recent years and has helped to embed water affordability advice within debt advice. Debt advisers recognise that water companies are a potential source of help for clients from low income households, and so have more incentive to explore water affordability during debt advice sessions. Moves by some water companies to **align social tariff criteria** at a regional level have helped simplify the landscape and made it easier to give advice and to signpost clients to sources of help. Despite these moves in the right direction, there is still a great deal of inconsistency in the availability of help, which undermines progress.

We are aware that some companies adopt a **single application** approach so that customers can be assessed for a range of different schemes at once – for example, Watersure, social tariffs, PSR, trust funds or a restart scheme. In shared supply areas, some companies take this a stage further by data-sharing and passporting customers onto schemes operated by the relevant water/wastewater provider. We understand that trust fund administrators such as Auriga Services and Charis Grants take a similar approach, using the information they gather through applications to match applicants with help from a range of schemes. We would broadly welcome any approach such as this which minimises customer effort and 'widens the net' of help potentially available to customers who seek help.

We understand some stakeholders have suggested the creation of a new Priority Services Register 'needs code' to capture financial difficulty and enable data-sharing between water and energy companies. We support the policy intent of making it easier for companies to identify and support customers who are struggling, but we would like to understand the proposed mechanisms and risk mitigation in more detail before lending this proposal our support.

Another positive feature of the current landscape is that companies often have a **range of related schemes** targeting debt and/or affordability, which are tailored to specific circumstances or customer groups. For example, these might include payment breaks for short-term financial difficulty, or social tariffs specifically for older people on Pension Credit or young people leaving care. This helps to make sure that concentrated help is more likely to reach more people within those groups. However, if these groups are too limited in scope, then there is a potential for equally needy groups of customers missing out.

Another broad positive of the water sector in England and Wales is **access to debt write-off** via restart schemes, trust funds or informal write-off by companies. Advisers report that **restart schemes** appear popular with clients. This is because they offer a sense of progress, are simple to understand and provide a clear incentive to engage with companies and make payments. Restart schemes are not appropriate in all cases, however. In some situations, customers may be genuinely unable to make any repayments towards their arrears. Companies also need to take care in cases where customers have multiple debts to repay to ensure that customers have had advice on prioritisation and potential debt options. We would therefore caution against exclusive reliance on a restart approach.

Compared with restart schemes, **trust funds** have more complex criteria and processes. Clients may require significant help to complete an application and will not know the outcome of that decision for some time. Inevitably, given the nature of trust funds, there is an element of value judgement about which customers are most deserving. This, along with uncertainty about outcomes, can be off-putting for potential applicants. On the other hand, trust funds provide independence from the company. They can be used to support customers with particularly complex situations, provide extra financial assistance beyond debt write off and can be a vehicle for funding debt advice.

We would welcome more evidence about the effectiveness of these different approaches to debt write-off, which we hope may emerge from this review.

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

There are a number of broad principles which we would like to see adopted for bill support.

1. **The availability of support should be broadly consistent and should be based on need rather than customer willingness to pay.**

The current position is characterised by inconsistency – a ‘postcode lottery’. This is objectively unfair for those customers who miss out on help. It is also very problematic for advice and support agencies operating at the national level – such as National Debtline, Business Debtline, StepChange Debt Charity and Citizens Advice– limiting the extent to which advisers at such agencies can identify clients who quality for help and advise them on what is available.

We recognise that the current system allows water companies to innovate and develop distinct interventions reflecting local needs. Many have done good work along these lines, making extensive efforts to understand their customers and engaging with relevant stakeholders. Wessex Water is one example of a company that has worked hard to develop and refine its package of support over many years, and others more recently have followed suit.

While we think this sort of work can be very beneficial, our view is that customers should enjoy a consistent baseline level of support regardless of the region they live on or company providing their supply. Innovation and differentiation should take place above such a baseline of guaranteed support, allowing companies to go above and beyond minimum requirements without jeopardising adequate support for all.

2. **Schemes should be clear, simple and accessible, reducing barriers to entry.**

Many customers struggle to engage with water companies and other service providers. This may be due to non-financial vulnerabilities such as mental health problems, mental capacity limitations, disability or poor physical health. Difficulty engaging with companies may also reflect a lack of skills and confidence, time pressures or multiple urgent tasks. Financial difficulty is an emotive topic, so companies and/or scheme providers need to be careful in their messaging. Even where there are no significant barriers, customers may sometimes lack the motivation to apply for help. Behavioural insights and inclusive design principles should be used to inform the criteria and processes for schemes.

Data matching is a potentially attractive solution for bill support schemes since it removes the need for customers to apply for support and potentially allows water companies to draw on data held by the DWP or companies in other sectors. We support this in principle, but we note some reservations about how data matching currently works in similar settings. In energy, data matching is incorporated into the Warm Home Discount, but only for Core Group customers receiving Pension Credit. Data matching is not used to identify and support customers on other qualifying benefits, who therefore have to apply to their electricity supplier. Some of these customers will miss out, as the scheme does not have sufficient funding to help all potentially eligible customers.

Both bill support schemes and debt write-off mechanisms should seek to promote financial sustainability by helping to provide/promote holistic help and advice for those that need it and helping customers manage their money. There are a number of elements to this.

- ✓ Water companies should set out clear policies on how they promote access to advice, how they incorporate independent advice within the customer journey and how they seek feedback and maintain on-going relationships with advice providers.

- ✓ A feedback loop with customers and advice agencies should be designed into scheme processes to help assess their effectiveness and identify improvements.

- ✓ Customers should not be required to seek advice from a specific advice agency chosen by the water company in order to qualify for help. If a customer has already taken advice from an equivalent advice agency, this should be recognised and respected by the water company.
- ✓ The water industry should engage closely with the Money and Pensions Service on its financial strategy for the UK and provision of debt advice in England – as well as with the Welsh Government on provision of debt advice in Wales.

- ✓ Companies should be encouraged to contribute towards the funding of debt advice, income maximisation and other interventions that address water affordability holistically. Many companies already do this to some extent, but greater consistency and transparency is needed. A centrally administered fund, or a centrally coordinated funding contribution, would provide greater stability for advice providers and greater transparency about the industry's contributions, while also giving the water industry a definite stake in the design and delivery of debt advice.

Question 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?

The most obvious gaps and limitations in the current system of bill support relate to inconsistency, the lack of any clear link between provision and need, and low take-up resulting from low consumer awareness.

There are many examples of schemes where eligibility is assessed on benefit income with variable cut off points for household income (e.g. earnings thresholds within universal credit) such as help with help costs, free school meal eligibility and court fee remission schemes.[3]

However, we think it would potentially be a mistake to rely *exclusively* on receipt of means-tested benefits as a proxy for need, as this approach risks cutting off some consumers from potential help. Some people have no recourse to public funds and so are unable to claim benefits notwithstanding low income and potential need. Self-employed people may have low but fluctuating incomes which make it difficult in practice to claim benefits or create a reluctance to claim benefits.

In addition, while we support the general principle of linking financial support to low income, there are situations where people who may not fall into a low income bracket nonetheless have high fixed outgoings – for example due to health costs – which create pressure on their financial position. It is very difficult to design support schemes flexible enough to take account of exceptional situations, but one approach could be to accept referrals from advice and support agencies backed by a Standard Financial Statement (SFS) demonstrating an income deficit as an exceptional route, outside of normal criteria.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880641/ex160a-eng.pdf
https://www.nhs.uk/nhs-services/help-with-health-costs/nhs-low-income-scheme-lis/
https://www.gov.uk/apply-free-school-meals

There is some evidence that the impact of the Covid-19 pandemic has been felt particularly by people in younger age groups. FCA research finds that people aged 25-34 are the most likely age group by far to have experienced a change in employment status.[4] Ofgem research has found that the 16-34 age group is most likely to have experience of problems paying for energy or to be worried about their ability to maintain payments.[5]

Although less problematic than **bill support**, the variation in approaches to **debt write off** can also lead to gaps and inconsistencies. A customer in one supply area may be able, potentially, to write off their debt and obtain a fresh start, while a customer in an equivalent position in another area is unable to do the same.

We would suggest that debt collection methods and the use of **High Court Enforcement Officers** (HCEOs) to enforce judgments for energy and water arrears should be looked at again. We think it is poor practice for energy and water providers to use HCEOs as it adds complexity, unnecessary stress and excessive court costs and collection fees for consumers who are likely to be in particularly vulnerable circumstances.

Question 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?

We do not think the current arrangements are sustainable. Financial difficulty has been a widespread problem for some time and will be greatly exacerbated by the coronavirus pandemic. A survey carried out recently by the FCA found that 12 million people had low financial resilience, causing them to struggle with bills and loan repayments.[6] Of these, two million had moved into low financial resilience since February 2020. Insight from our own services paints a similar picture. In a survey carried out in May 2020, for which we contacted people who had received advice from National Debtline between January 2019 and March 2020, half of respondents reported falling behind on or further behind on household bills as a result of the impact of Covid-19. Of those who were falling behind, 26% reported that they had fallen behind on water arrears.[7]

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[4] https://www.fca.org.uk/news/press-releases/fca-highlights-continued-support-consumers-struggling-payments

[5] https://www.ofgem.gov.uk/system/files/docs/2020/11/consumer_experiences_during_the_covid_19_pandemic_october_update.pdf

[6] https://www.fca.org.uk/news/press-releases/fca-highlights-continued-support-consumers-struggling-payments

[7] http://www.moneyadvicetrust.org/researchpolicy/research/Documents/At%20the%20sharp%20end%20briefing%20on%20the%20impact%20of%20Covid%2019%20on%20National%20Debtline%20clients.pdf

One of the difficulties in approaching this area is that no common yardstick of affordability which can be applied to water bills. It is relatively easy to identify that customers are experiencing problems paying, but less easy to establish how much support is needed to alleviate the financial pressures on customers at an individual or aggregate level. We welcome the work taking place separately to this review to establish a common definition of water poverty.

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

We do not think that the current arrangements for funding social tariffs are fit for purpose. The current system is very problematic because there is no link between the availability of help and the level of need which exists. The regionalised character of social tariffs and cross-subsidy is not ideal since it does not permit even spreading of costs. The system of requiring the customers of a specific firm to mandate the funding of a social tariff via stated willingness to pay makes standardisation hard to achieve. This policy also introduces a range of other influencing factors, such as cultural and political attitudes to debt and poverty, which can set customers against each other and undermine social cohesiveness.

We would advocate an approach based on centralised funding and a single central design for social tariffs. This would permit costs savings, provide a fairer basis for cross-subsidy, and allow for the creation of a single scheme and brand to take proper advantage of promotional opportunities.

Question 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?

We know from our experience of giving advice that consumer awareness of help available from water companies is often limited.

The multiplicity of different schemes and brands is a very significant barrier here, which limits the effectiveness of national organisations like ours to offer support and navigate the different options with clients.

In the energy sector, the rollout of smart meters is backed by a centrally coordinated communications campaign designed to raise customer and stakeholder awareness, directly and through partnerships. Clearly there are differences between this programme and water social tariffs, but some lessons could be taken from the way the smart meter rollout has been approached. In particular, the adoption of a common brand would be a potential major step forward in raising awareness.

Currently, companies often invest lots of time and effort in local partnerships with advice agencies, housing associations, local authorities and so on. There is clearly a lot to be gained from doing this. This partnership programme needs to be supplemented with work at the national level, however. This would help develop consistency and transparency of approach. Better general awareness of the help available with water bills would support local efforts by generating word-of-mouth and name recognition.

Question 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?

Comparable approaches are mostly confined to the energy sector, and to a lesser extent to communications. We would suggest Warm Home Discount as the most obvious equivalent from another sector. The use of data matching to provide automated payments for some eligible customers is an attractive element of Warm Home Discount but overall the scheme is problematic since the level of funding provided leaves a significant gap in the proportion of eligible households that can benefit. For data matching to work effectively, criteria and funding need also to be aligned.

One model where the costs are cross shared across industry would be the BT Basic scheme. One additional example which we would highlight is the power granted to local authorities to remit council tax charges on grounds of severe financial hardship under Section 13A(1)(c) of the Local Government Finance Act 1992.

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