

Affordability and debt 2014-15



About this document

Our vision for the water sector in England and Wales is one where customers and wider society have trust and confidence in vital public water and wastewater services. Customers must feel that their service providers know what matters to them – and they can be confident they are receiving affordable, high-quality and value-for-money services from those providers. So, getting the best deal and service for customers is at the heart of what we do. Most customers cannot shop around and change their service provider, as they can for other utilities. With this in mind, we need to encourage the sector to deliver a reliable service to customers at a price they can afford.

This report sets out important information about vulnerable household customers in England and Wales who are at risk of:

- not being able to afford their water and sewerage bills (that is, they have ‘water affordability’ issues); and
- failing to pay their bill to their water company, or stick to an agreed payment plan, by the date that it is due (that is, they are in ‘water debt’).

The report is intended to help policy and decision-makers from across the sector and in Government, to inform the work they do to address water affordability issues and water debt for household customers in England and Wales. The report also contains recommendations and good practice that intend to address challenges identified by companies. It is important for our vision of trust and confidence that companies understand and own the issues we identify in this report and manage them well.

We recognise that all customers are not the same, and that the things that drive debt can be varied and complex. So, it is for companies to understand the different issues that drive debt in their regions. They are best placed to introduce measures that provide assistance to those who are genuinely struggling to pay their bills, while at the same time pursuing the money owed to them as effectively as possible. This is important from an efficiency perspective, as it helps to keep people paying what they can and not build up debt.

We have emphasised the importance of companies taking responsibility for the issues identified in this report. This is in line with the approach that we took during the 2014 price review (PR14), when we set price limits that encouraged companies to deliver outcomes for customers. While our regulatory framework puts a focus on companies delivering customer priorities, we recognise that we still have an important role in monitoring performance and prompting companies to do more where possible, and not build up debt which would be a cost other customers would have to pick up.

Notes

Where we use 'affordability risk' throughout this report, we are referring to those household customers who may be at risk of not being able to afford their water and sewerage bills.

Where we use 'the Government', this refers to both the UK and Welsh Governments as appropriate, unless otherwise indicated.

Throughout this report, we have used:

- our own data;
- qualitative and quantitative data collected from water companies;
- information and research gathered from other organisations such as the Consumer Council for Water (CCWater), UK Water Industry Research (UKWIR), Citizens Advice and StepChange.

The good practice cases that we identify in this report are based on the information we received from companies earlier this year. The examples provided are intended to illustrate some of the ways that companies overcome the key challenges they face when trying to reduce their outstanding debt and increase awareness of their affordability schemes.

We recognise that the examples identified are not exhaustive or definitive and many companies will have good practice in place that we have not included in this report. But we consider that there is scope for companies to adopt some of the ways of working that we have identified.

In terms of the methodology behind this research, we have used the same process as we did for our previous report in 2011. Please see '[Affordability and debt 2014-15 – supporting information](#)' for more information.

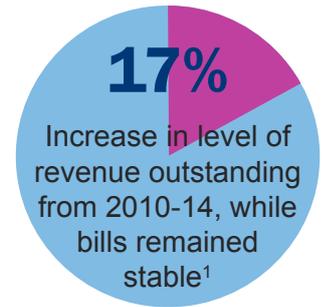
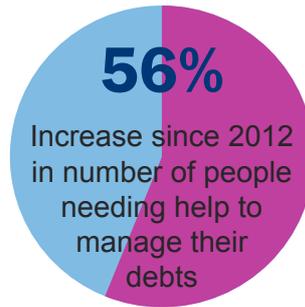
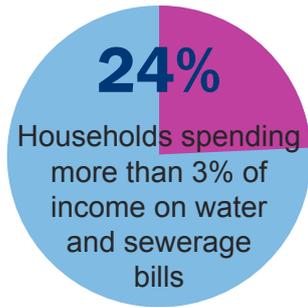
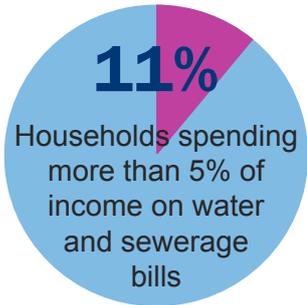
In '[Monitoring and Assuring Delivery](#)', we said that we would use targeted reports to look at specific sector-wide topics to highlight good performance, as well as areas that need work.

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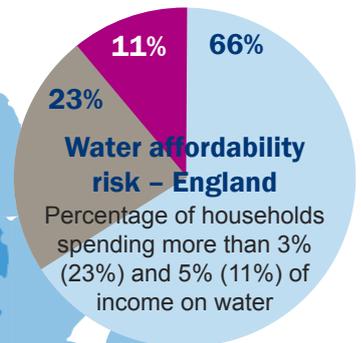
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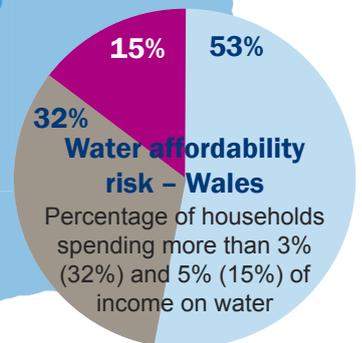
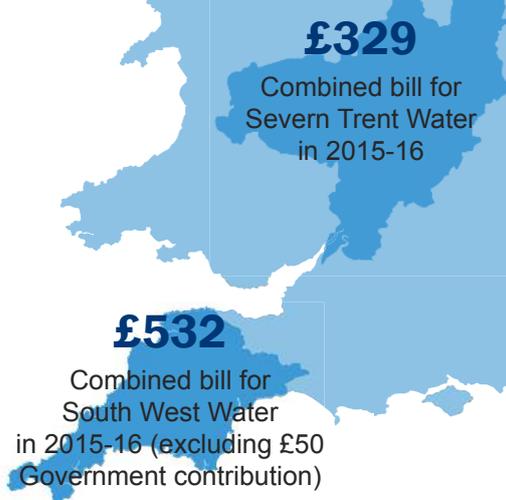
Key findings



Water and sewerage bills vary according to company because the cost of providing services is not uniform



Low-income households, working-age adults living alone, lone parents and single pensioners are more likely to have problems paying their bills, and are more likely to be in debt



1. Revenue outstanding compiled from company data submissions and is the amount of revenue relating to water and/or sewerage charges (metered or unmetered) at end of report year that has been billed to households, but not been collected.

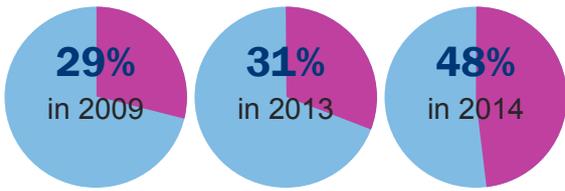
2. StepChange, 'Personal Debt 2014: Statistics Yearbook' findings.

<http://www.stepchange.org/Mediacentre/Researchandreports/PersonalDebtStatisticsYearbook2014.aspx>, accessed on 15 October 2015.

3. Calculated by adding amount of revenue written off, debt operating expenditure, and assumed 5% cost of capital, and dividing by number of households billed. This cost is hypothetical, since we determine actual cost through the price review process.

4. Money Advice Trust, 'Changing household budgets – supporting the UK's economic recovery', June 2014, page 4.

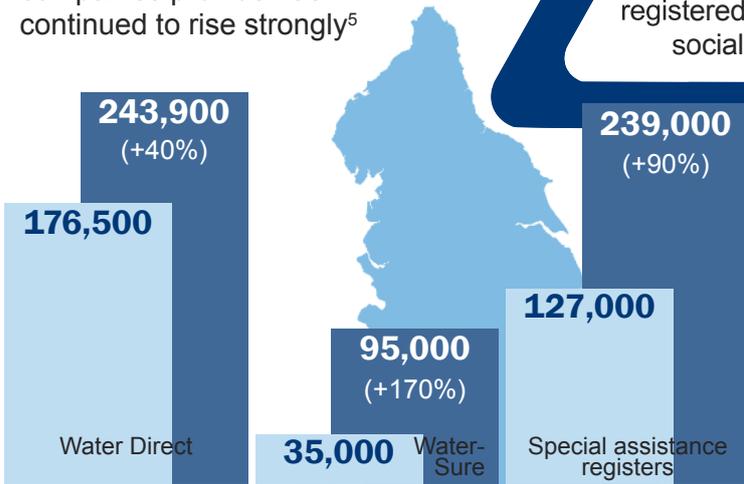
Current evidence



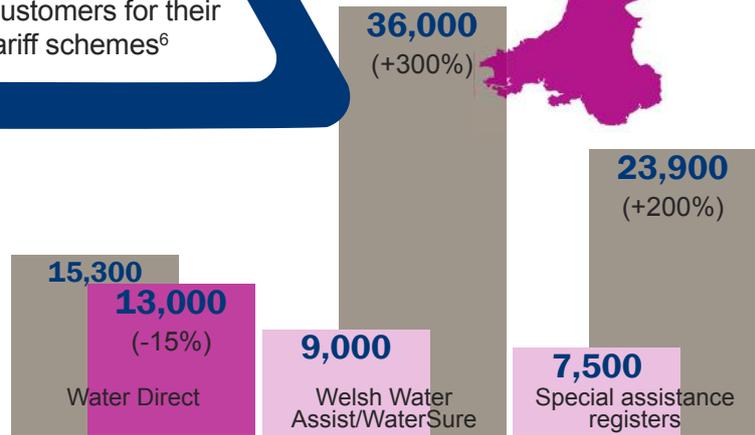
National awareness of special non-financial assistance that companies provide has continued to rise strongly⁵

14 of the 18 largest water companies have introduced social tariffs. Most companies have not achieved the initial target they set for registered customers for their social tariff schemes⁶

9% Awareness of WaterSure and Welsh Water Assist across England and Wales remains low



Increase in number of customers in England receiving help from 2009-10 to 2014-15⁷



Increase/decrease in number of customers in Wales receiving help from 2009-10 to 2014-15⁸

Future challenges

<p>Low awareness of eligibility criteria for affordability assistance schemes</p>	<p>Decrease in capacity of face-to-face debt advice</p>	<p>Welfare reform and changes to benefits system</p>
<p>Difficulty of engaging with customers in vulnerable circumstances</p>	<p>Need for further training for frontline staff and cultural change</p>	<p>Cost and difficulty of recovering debt</p>
<p>Difficulty of gathering and exchanging data to identify customer affordability issues</p>	<p>Inconsistency between company social tariff schemes</p>	

5. CCWater, 'Water Matters', 2014.

6. Northumbrian Water has concluded there is currently insufficient customer support for a cross-subsidised social tariff. But the company is proposing a 'cost neutral' social tariff funded from debt cost savings. Sutton and East Surrey Water's scheme is fully funded by the company in 2014-15.

7. For more information about our definition of financial detriment and non-financial detriment related assistance, please see chapter 2 of the supporting information document.

8. Even though Dŵr Cymru is changing its schemes structure and phasing out Welsh Water Assist, for the purposes of this report we followed up on trends related to this particular scheme.

Overview

1. Measuring affordability

There is currently no official definition of 'water affordability'. The UK and Welsh Governments previously measured water affordability using the proportion of households spending more than 3% of their income on their water and sewerage bills.

The updated affordability risk indicators in this report have been calculated based on the established methodology first used in our 'Affordability and debt 2009-10' report. We developed this approach with support from an independent advisory group⁹. We considered a basket of indicators and took account of the advisory group's detailed advice on the development of an income-based indicator of affordability risk.

According to our indicators, affordability risks emerge when a household spends more than 3%, or more than 5%, of their disposable income on water and sewerage bills. The data we used to determine this was the Department for Work and Pension's (DWP) annual Family Resources Survey.

We selected the thresholds of 3% and 5% because they provide a useful means of describing patterns observed in the data. It does not imply a threshold for which assistance should be provided¹⁰. We describe our approach to developing this indicator in more detail in the supporting information to this report.

We have also considered measures of self-reported affordability – particularly the work that CCWater has carried out. This type of indicator asks customers whether their bills are affordable or not. Existing research uses a number of questioning approaches, including:

- satisfaction with value for money;
- perceived bill fairness; and
- ability to pay.

We used available data and research on self-reported affordability to test the findings from our income-based measure.



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9. The Understanding Water Affordability Advisory Group comprised social research experts and representatives from stakeholder organisations. The group was formed in July 2010 and worked with us on the development of the affordability risk indicator until 2011.

10. Our affordability indicator is derived from water and sewerage bills divided by unequivalised after-housing-costs income.

2. Affordability

According to our income-based indicators of affordability risk:

- 24% of households in England and Wales spend more than 3% of their income on water; and
- 11% of households spend more than 5% of their income on water.

These figures remain similar to the figures for 2008-09 presented in our 'Affordability and debt 2009-10' report.

In England only, 23% of households spend more than 3%, while 11% of households spend more than 5% of their income on water.

For customers of companies operating wholly or mainly in Wales, 32% of households spend more than 3% of their income on water, while 15% spend in excess of 5%.

Analysis of these indicators in terms of income shows that lower-income households are much more likely to be spending in excess of 3% or 5% of their income on their water and sewerage bills.

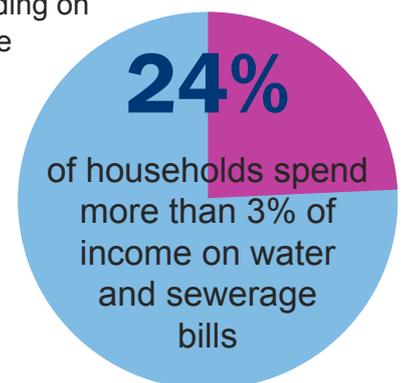
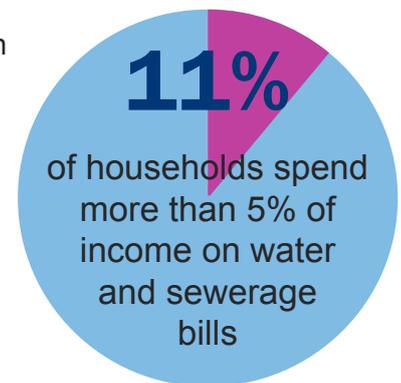
During the past four years, average water and sewerage bills in England and Wales have remained largely stable, and as a result of the 2014 price review (PR14) average bills are expected to fall by 5% in real terms by 2020.

The size of a customer's water and sewerage bill can vary significantly depending on where they live and which company serves them. For example, in 2015-16, the average combined bills for water companies ranged from £329 (Severn Trent Water) to £532 (South West Water).

This difference is because the cost of providing water and wastewater services is not uniform across England and Wales. The main reasons for this include the:

- ease with which water can be taken from the environment;
- degree of pumping and treatment required;
- geographical makeup of a company's operating area;
- number of customers in a company's area; and
- existence of any pre-privatisation investment issues impacting upon the age and condition of company infrastructure.

Regardless of the abovementioned factors having an impact on the size of company bills, we consider that companies should have a keen understanding of the drivers of affordability for their specific area and take steps to assist those customers who are experiencing difficulty paying their water and sewerage bills.



3. Debt

The data reveals that the total level of revenue outstanding¹¹ from customers' unpaid bills has increased from £1.9 billion to £2.2 billion in the four years between 2010-11 and 2014-15 (2014-15 prices)¹². This is an increase of about 17% over four years. As stated above, during this period average water and sewerage bills in England and Wales have remained largely stable.

The costs associated with recovering and writing off water debts¹³ are the equivalent of adding about £21 a year to the bill of every household customer in England and Wales – up from £15 in 2009-10. This is up from £15 in 2009-10 (£17 in 2014-15 prices).

Overall, bad debt could potentially mean less cash for companies and fewer outcomes for water consumers. We have not identified any legislative or regulatory barriers that would prevent companies from treating bad debt as a high priority. So it is imperative for all companies to own and address these key concerns and put affordability related issues at the top of their agendas.



Bad debt could mean less cash for companies and fewer outcomes for water consumers

Water affordability risks by household type	Spending more than 3% of income	Spending more than 5% of income	Total number of households (millions)
Lone parents	40%	17%	1.3
Working-age adults living alone	45%	30%	3.4
Single pensioners	38%	16%	3.4
Pensioner couples	14%	4%	2.9
Couples with children	15%	6%	4.5
Couples without children	13%	6%	4.0
Multi-unit and other (such as two working-age adults sharing a property)	14%	6%	4.3
Total	24%	11%	23.9

Source: Ofwat's analysis of Family Resource Survey 2013-14

11. Revenue outstanding was compiled from company data submissions and is the amount of revenue relating to water and/or sewerage charges (whether metered or unmetered) at the end of the report year that has been billed to households, but which has not been collected.

12. The number of households billed in England and Wales has increased by approximately 2% over the same period.

13. Cost associated with unpaid bills is calculated by adding the amount of revenue written off, debt operating expenditure, and an assumed 5% cost of capital, and dividing by the number of households billed. This cost is hypothetical, since we determine the actual cost through the price review process.

4. Debt recovery practice

We recognise that companies, quite rightly, want to consider the most effective means to recover debt. But at the same time, it is vitally important that the water sector maintains the trust and confidence of its customers by recovering unpaid debts efficiently and fairly. Companies should also treat customers appropriately.

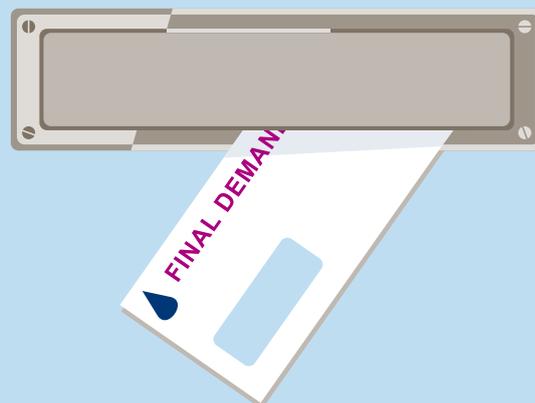
If they are to achieve this, they must not only act within the law, but also meet or exceed the standards expected of them by their own customers and the public more generally. As such, we have previously set out our expectations to companies that they should have appropriate procedures in place to ensure that they do not send misleading communications or make misleading statements, which may induce a debtor to make contact on the basis of a false premise.

The total number of debt enforcement claims across all companies decreased over the past five years. Some companies have said that this is because of the time and resources the debt enforcement process takes – and the costs associated with this. Others have said it reflects the increased workload that they are facing because of the rise in household debt, or that they are taking a strategic approach to debt recovery and not using formal enforcement methods to recover costs from customers in vulnerable circumstances.

Companies are also trying to become more proactive in attempting to contact customers who fall into debt as early as possible, and at all stages of the debt management process.

In our [debt guidelines](#), we ask companies to find a balance between recovering debt, in the interest of all customers, and dealing sensitively with those customers who genuinely find themselves in financial difficulty.

While our guidelines do not provide advice on effective debt recovery, many of our recommendations highlight ways of dealing effectively with customers in financial difficulty, which could help with overall revenue collection. So we encourage companies to follow the five key principles as defined by our debt guidelines.



The total number of debt enforcement claims across all companies decreased over the past five years

5. Solutions that water companies offer

Companies currently offer a number of solutions to help customers who are struggling to afford their water and sewerage bills. For example, fourteen out of the eighteen largest monopoly water companies in England and Wales currently offer a social tariff to their customers¹⁴. The remaining four companies are at various stages of developing their own social tariffs. For more information, please see our 'Affordability and debt 2014-15 – supporting information' document.

Since 2013, South West Water's household customers have received a UK Government contribution, which reduces their yearly water and sewerage bill by £50¹⁵.

All companies offer a range of payment options, and affordability assistance. Many have made significant progress on:

- promoting assistance schemes;
- establishing social tariffs;
- engaging with local communities and debt advice charities;
- reviewing their communications methods;
- managing debt; and
- training their staff.

But our evidence suggests that the availability and quality of help for customers varies significantly across England and Wales.

In 2012, the UK Government published guidance on social tariffs¹⁶, which allowed water companies to offer tariffs that other customers subsidise. The Welsh Government published its guidance in 2013¹⁷. As part of the PR14 process, we expected each company to listen to its customers and design social tariffs in a way that fits with its priorities. Most companies have not achieved the initial target they set for registered customers for their social tariffs schemes. They have highlighted a number of challenges around this, including:

- the availability of cross-subsidy;
- lack of awareness and engagement around the schemes;
- initially set criteria for a customer to join schemes; and
- lack of uniformity of schemes.

14. After engaging with its customers, Northumbrian Water concluded that there is currently insufficient customer support for a cross-subsidised social tariff. But the company is proposing a 'cost neutral' social tariff funded from debt cost savings. Sutton and East Surrey Water's scheme is fully funded by the company in 2014-15.

15. Source: <https://www.gov.uk/government/news/south-west-water-customers-to-receive-50-off-their-water-bills>, accessed 3 November 2015.

16. Defra, 'Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010', June 2012.

17. Welsh Government, Water Branch, 'Guidance to water and sewerage companies and the Water Services Regulation Authority (Ofwat), in relation to social tariffs under section 44 of the Flood and Water Management Act 2010', 2013.

Our evidence suggests that the availability and quality of help for customers varies significantly across England and Wales

Water company	Customers on a social tariff (2014-15)*
Anglian Water	Tariff introduced 1 April 2015
Northumbrian Water**	Tariff introduced 1 April 2015
Southern Water	Tariff introduced 1 April 2015
Severn Trent Water	Tariff introduced 1 April 2015
South West Water	2,677
Thames Water	2,682
United Utilities	Tariff introduced 1 April 2015
Dŵr Cymru	44,728
Wessex Water	14,015
Yorkshire Water	Tariff introduced 1 April 2015
Affinity Water	20,873
Bristol Water	6,200
Dee Valley Water	Will implement a social tariff from 1 April 2016
Portsmouth Water	In development
Sembcorp Bournemouth	In development
Sutton & East Surrey Water***	2,800
South East Water	Tariff introduced 1 April 2015
South Staffs Cambridge Water	In development
All companies	14 schemes introduced, four in development

* As of the end of the 2014-15 financial year.

** After engaging with its customers, Northumbrian Water concluded that there is currently insufficient customer support for a cross-subsidised social tariff. They are, however, proposing a 'cost neutral' social tariff funded from debt cost savings.

*** Fully funded by company in 2014/15.

That said, they have recognised these initial challenges and are developing new strategies to promote their schemes, and to remove the barriers to access. In our view, these challenges are surmountable and companies must work hard to manage them. In our recommendations, we have provided a set of expectations around these schemes.

Awareness of WaterSure/Welsh Water Assist remains at a low level, with only 10% of customers knowing about it¹⁸. But take up of this tariff in England and Wales has increased significantly from about 44,000 customers in 2009-10 to approximately 130,500 customers in 2014-15, which is a 200% increase in five years¹⁹.

Companies operating in England have reported an increase in WaterSure take up from 35,300 to 94,400 over the same period (an increase of 170%). The take up of WaterSure/Welsh Water Assist, for companies operating wholly or mainly in Wales increased from about 9,000 to 36,000 (an increase of 300%).

18. CCWater, 'Water Matters', 2014.

19. Even though Dŵr Cymru is changing its schemes structure and phasing out Welsh Water Assist, for the purposes of this report we followed up on trends related to this particular scheme.

Awareness of special assistance services has continued to rise strongly (29% in 2009; 31% in 2013; 48% in 2014)²⁰. But the take up of this scheme showed a slower increase than WaterSure: in 2009-10, there were nearly 135,000 customers registered with the companies in England and Wales for special assistance.

In 2014-15, approximately 263,000 households were registered, which is a 95% increase in five years. Companies operating wholly or mainly in Wales experienced an increase from 7,500 to 24,000 over this period (a rise of over 200%), whereas the take up for English companies rose by almost 90% from 127,000 to 239,000.

Water Direct²¹ showed the lowest increase in customer take up during the past five years, growing from nearly 192,000 household customers in June 2010, to approximately 260,000 households (a 34% increase). That said, in terms of numbers of customers registered, it remains the largest financial assistance scheme across England and Wales.

English companies experienced an increase from 176,500 to 243,900 over this period (a rise of nearly 40%), whereas the take up for companies operating wholly or mainly in Wales actually fell by about 15% from 15,300 to 13,000 between 2009-10 and 2014-15.

In terms water efficiency, many companies have continued to show great initiatives and support to their customers. Our research has shown that companies that carry out meter installations alongside water efficiency assessments play a key role in helping customers to reduce usage, and save money on their water, sewerage and heating bills. (For further information on water efficiency initiatives, please see our supporting information document and our good practice information on pages 20 to 28 of this report.)

Also, levels of metering increased between 2010 and 2014, from 42% to about 50% in England and Wales. But this still means that more than half of all household customers in England and Wales do not have a water meter and, as such, they do not pay according to how much water they use. Similarly, awareness of the free meter scheme among unmetered customers has also fallen back sharply (62% in 2013 to 54% in 2014)²² after previously increasing year on year.



More than half of all household customers in England and Wales do not have a water meter

20. CCWater, 'Water Matters', 2014.

21. Although we appreciate that Water Direct is a third party deduction scheme and a company collection tool, for the purposes of this report we have referred to it as an assistance scheme. For more information about our definition of financial detriment and non-financial detriment related assistance, please see chapter 2 of our supporting information document. 22. CCWater, 'Water Matters', 2014.

6. Key issues that water companies identified

Our evidence and qualitative and quantitative data we have received, show that water companies are facing eight key challenges when trying to reduce their outstanding debt and raise awareness around different affordability schemes.

1. Despite the welcome upward trend in the take up of affordability assistance, awareness of these schemes remains low. Companies stated that there is a general lack of awareness among customers around the eligibility criteria for schemes.
2. Companies also highlighted the difficulty they have engaging with those customers who are eligible for various schemes. This is because customers in vulnerable circumstances are more reluctant to ask for help.
3. Maintaining up-to-date knowledge in the advice sector and ensuring the quality of referrals to company schemes has become increasingly difficult. This is because of a general decrease of capacity in the debt advice sector.
4. Even though many companies have invested in staff training, some recognise that frontline staff could benefit from more training to help them identify and empathise with customers who are struggling to pay their bills.
5. Many companies have highlighted the difficulties they have encountered in gathering, maintaining and exchanging data to identify customer affordability issues. They also recognise that they could do more with the data collected through their own billing systems to flag up early recognition of debt issues.
6. Companies also recognised the challenges posed by the wider welfare reforms. Although Universal Credit is yet to fully roll out, companies need to consider how it will impact on their customer base. They will need to identify customers who might be adversely impacted by these changes and provide practical assistance where necessary. This is because for most claimants, Universal Credit will be paid monthly rather than weekly, and some customers may need to adopt different ways of managing their money. Moreover, DWP will only deduct benefits while the customer is in arrears. Once these have been cleared, the responsibility for paying the bill reverts back to the customer.
7. While some companies found innovative and new ways to tackle difficulties around recovering debt, most highlighted that recovering debt has become increasingly costly and difficult. For more information about debt recovery, please see our supporting information document.
8. Many companies highlighted issues with the low uptake, lack of uniformity and lack of awareness of their social tariff schemes, which has led to inconsistent approaches across the sector. In some cases, customers in vulnerable circumstances who receive their water and wastewater services from different ('overlap') companies are not offered consistent social tariffs for each company. This is because each company offers different tariffs with different terms²³.

23. For example, Affinity Water customers receive their water services from Affinity, but their wastewater services from Thames Water. This means that Affinity Water and Thames Water are 'overlap' companies for these customers.

7. Recommendations and good practice

Following our review of the water sector's approach to affordability, we have noted a number of areas where we think improvements can be made, or where there are opportunities for companies to build on the good work that others have already done.

In putting forward these recommendations, we have chosen not to take a prescriptive approach; we understand that customers' – and society's – concerns and expectations are dynamic and change over time. More and more, companies need to be able to respond quickly to their customers' needs. Ultimately, it is companies – not the regulator – that are best placed to identify where improvements can be made and tailor their approach accordingly. As such, we are expecting companies to take ownership and be accountable for making sure that customers in vulnerable circumstances are given the support and assistance they need.

We have ensured that our recommendations are partly based on and in line with those published in CCWater's 'Living with water poverty' report, which was published in 2014. We appreciate that companies are already implementing changes related to some of the highlighted areas and we encourage them to continue working closely with CCWater to achieve great outcomes for customers.



Customers' – and society's – concerns and expectations are dynamic and change over time

7.1 Awareness, eligibility and engagement

There is scope for companies to work smarter with trusted organisations. We consider that companies could improve how they promote practical assistance and schemes available to their customers by building on their existing working relationships with a range of trusted third parties (for example, advice agencies, local authorities, housing associations, landlords, GPs, pharmacies, community groups and food banks).



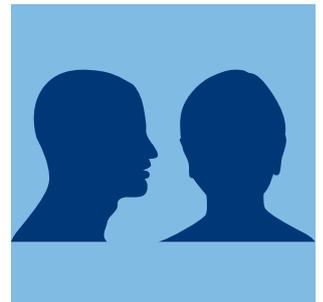
In terms of their communications, companies could consider simplifying and clarifying information for customers and consumer organisations, as well as debt advice agencies and other third party organisations. All outgoing communications should be written clearly, be engaging and consider the language needs of the intended customer group. They should also be developed with the perspective of the customers and organisations who may wish to use them in mind.

All companies use a variety of communication channels, including online (for example website, social media, web-chat), offline (letters, bills, events, SMS) and face-to-face meetings (such as home visits). Identifying the best method of communication for each customer helps companies to better understand their customers' needs and enables them to cater their services accordingly. We have noted from our research that publishing articles in local newspapers, using partner organisations' websites or events to promote schemes has proven successful in some instances. Community events have also been shown to be a great platform for companies to meet and engage with customers in vulnerable circumstances. Companies could also consult with behavioural specialists to ensure that their customer communications are received in the best possible way and with maximum effect.

Companies could check and review their websites regularly to ensure that tailored information on existing assistance and schemes is available, but also to ensure that customers can easily find the information they need. Ongoing testing could also be put in place to check the accessibility of company websites, flyers, information packs and bills for different types of customer in different circumstances.

7.2 Providing debt advice

Companies should engage proactively with the debt advice sector. They could also offer training for their employees – making sure that they understand debt collection and affordability issues in the sector, as well as all the schemes available to help customers.



Recent research on the impact of independent debt advice on the UK Credit Industry²⁴ has shown that freely available data is insufficient to provide a definitive measurement of debt advice impact on creditor outcomes. But, when measured against even the most costly form of advice (face-to-face), there is a strong correlation between the degree of available debt advice and improved recovery rates for creditors. If we apply these findings to the water sector, this implies that there is a business case for company funding of debt advice.

24. 'The Impact of Independent Debt Advice Services on the UK Credit Industry' by Jackie Wells, John Leston and Mary Gostelow (2010) is available in print and as a pdf from Friends Provident Foundation.

7.3 Difficulties in gathering, maintaining and exchanging data in-house and with other organisations, and debt recovery

Billing systems are extremely useful sources of information in terms of customer data. For example, they help companies in identify customer payment patterns and provide early warning signs that customers are experiencing financial difficulties. Companies should make sure that they make full use of this.

All companies should continue to secure opportunities to access data from DWP, local authorities, housing associations and landlords where this would be in customers' interests. We recognise that a stronger and more proactive collaboration between trade bodies, consumer bodies, water companies and DWP is needed to deliver this objective.

Collaborating with credit reference agencies to acquire customer data could also be a good approach.

There is scope for companies to review their internal processes and systems to consider where data could be used better. In a number of cases, data gained through online debt management and customer relationship management systems has greatly helped companies both in terms of early detection of customer debt and in the successful recovery of arrears.



There is scope for companies to review their internal processes and systems to consider where data could be used better

7.4 Staff training, leadership and culture

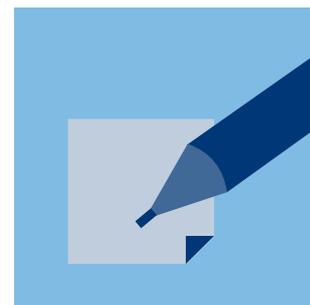
We suggest companies consider the recommendations of the Institute of Customer Service's 'Leading by Example' report. The research, based on the views of 650 employees and line managers, revealed that only about half (51%) think their CEO and Board are interested in customer insight. Also, fewer than 50% considered that senior executives understand customer needs, and only 36% of managers thought their senior executives "actively listen" to customers in an effort to improve service, while fewer than half (44%) of frontline staff thought their ideas are taken on board. Employees also raised concerns that customer needs are not taken seriously enough and only 28% said that, in their organisation, a board member has responsibility for customer service²⁵.

The report suggests that companies across all sectors could create a board room language around customer service to reflect business performance, and risk and reputational issues. Companies also need to develop reporting metrics based on customer service so they can be forward looking rather than simply reporting on financial results. Finally, the report suggests that companies improve their collaborative and listening skills, so the board room is better informed about what customer-facing staff learn and deal with on a daily basis.

Companies could also adopt a business strategy that makes identifying and delivering help and service to customers a clear corporate objective. The strong involvement and engagement of company boards and senior leaders is required to implement this cultural change.

Frontline staff should be at the heart of all customer service strategies, including those directed towards dealing with customer debt. Staff should have training to help them identify and empathise with customers who are struggling to pay their bills or who might be in vulnerable circumstances. Training from, and placements with, advice agencies could also be a useful tool in this regard.

Companies could also consider benchmarking their performance against the BSI Standard 18477 in identifying customer vulnerability.



Frontline staff should be at the heart of all customer service strategies, including those directed towards dealing with customer debt

25. Institute of Customer Service, 'Leading by Example', July 2015.

7.5 Welfare reform

It is vital that companies have a detailed understanding of the various welfare reforms, and how they can have a cumulative impact on certain households.

We expect companies to be proactive in terms of understanding the potential impacts of the welfare reforms on households and to:

- identify households under greatest pressure because of the reforms; and
- improve customer relationships and consider best practice in the collection of charges and debts and arrears.

To minimise any potentially adverse impact of Universal Credit on customers' ability to pay their water and sewerage bills, we recommend that companies:

- make intelligent use of available customer data, reinforce their relationships with credit reference agencies and improve the exchange of helpful information where possible²⁶;
- engage with customers as early as possible where problems arise;
- advertise and promote assistance schemes; and
- make use of trusted intermediaries and advice givers and, where possible, build up new relationships with these organisations.

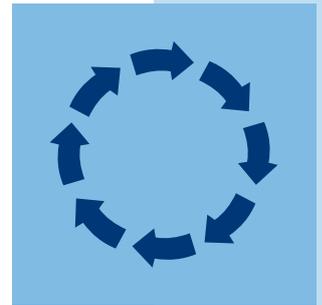
7.6 Debt recovery

It is for companies to decide how revenue can be collected in the most cost-effective and efficient way. All customers must pay for the services received and we support fully the right of companies to collect this revenue. But there is a balance to be struck between recovering debt, in the interest of all customers, and dealing sensitively with those customers who genuinely find themselves in financial difficulty.

Debt prevention and proactivity is key. Companies should make sure they use data from credit reference agencies in an intelligent way. The quality of customer data is also critical to successful debt recovery. This will enable firms to detect debt issues early on.

In terms of effective debt recovery, best practice has shown us that there is a clear benefit in companies engaging with customers in arrears as early as possible. Based on the evidence that companies have submitted, seeking to recover the debt when it is as small as possible increases the prospect of recovery by as much as three times.

Our research has shown us the benefit of companies not taking a generic approach to debt collection and considering each customer's arrears on an individual basis, using good quality information. Considering debt in this way informs companies' debt recovery approaches, including putting bespoke payment plans in place, enforcement action or some other form of dispute resolution.



26. Information Commissioner's Office, <https://ico.org.uk/for-organisations/guide-to-data-protection/data-sharing/>

7.7 Social tariffs

Companies should keep under review how they promote their social tariff schemes and consider whether they have identified the right target groups for these schemes. They should also consider whether their application criteria is inadvertently creating barriers for customers to access the scheme.

Customers should receive a similar level of service and affordability support from overlap companies

‘Overlap’ companies could consider working together to make more unified social tariff schemes available for their customers. Customers should receive a similar level of service and affordability support from overlap companies. We encourage companies to hold meetings and investigate how they can harmonise their schemes (for example establishing one shared point of contact for customer queries, or a single application covering both companies).

For companies setting up their own schemes in the near future there is scope to consider using the existing model of their overlap companies (where possible). If companies do not intend to take this approach, we will still expect them follow the guidance issued by Defra and engage with their customers (and other stakeholders) accordingly ahead of implementing or modifying any scheme.



Company Social Tariffs: Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010

Section 2.7

An undertaker may choose how best to engage with their customers on proposals for a social tariff. Proposals put forward for consultation with customers and consumer stakeholders should be transparent and easy to understand and be written in plain English. A combination of qualitative and quantitative research is likely to provide undertakers with a good basis for decisions on social tariffs. This will enable undertakers to communicate proposals effectively, understand customers’ views and measure the prevalence of those views in the wider population. Customers consulted should include customers who are unlikely to benefit from the social tariff who are likely to be funding it, customers likely to be eligible for the proposed tariff, and customers who may be struggling to afford their charges but who are likely to be ineligible for the social tariff.

Section 2.8

Undertakers must also consult organisations that represent customers on proposals for a company social tariff and have regard to their views. This must include the Consumer Council for Water (CCWater) which represents water and sewerage customers as a whole. Both the approach to consultation and the proposals themselves should be broadly acceptable to organisations representing customers. The Government expects all undertakers that choose to bring forward company social tariffs to work closely with CCWater to ensure that their proposals align with customers’ views of what is acceptable. Undertakers will need to be able to demonstrate that they have had appropriate regard to all of the representations received from customers and organisations representing customers.

7.8 Good practice

The good practice cases identified below are based upon the information companies submitted to us earlier this year. We have focused on examples that we consider to be the most innovative and that other companies could potentially adopt.

We recognise that the examples are not exhaustive or definitive – and that many companies will have good practice in place that we did not include in this report. But we consider there is scope for companies to adopt some of the ways of working we have identified.

Awareness, eligibility and engagement

Wessex Water

Information for customers, organisations and staff is designed to be engaging and accessible in a non-corporate format.

Staff are trained to identify signs of financial difficulty and mental health issues.

Wessex Water formally recognises and supports a number of community-based financial literacy and money management projects through its Money Matters Awards.

The company has set up an Affordability Advisory Group to oversee its work with customers in financial difficulty. The group includes academics, the Money Advice Trust, Citizens Advice, StepChange, Christians against Poverty and CCWater.

It also promotes its assistance schemes using a variety of methods – for example:

- attending community events;
- advertising support in other agency publications
- targeting promotional material to relevant other organisations that come in contact with customers in vulnerable circumstances (such as children’s centres, carers, food banks and credit unions); and
- working with housing associations to create direct mailshots to tenants.

More recently, the company has started working with housing associations, which will then promote its schemes to their tenants, and it is progressing a joint mailing with Wiltshire Council, which will be sent to customers on benefits. This scheme will promote both a new online tool that Wiltshire Council is using and also Wessex’s affordability schemes.



Southern Water

Southern Water has developed a Community Engagement Project initiative to establish and maintain meaningful contact with its non-engaged customers. The company thinks that this initiative will be key to managing its debt position.

Southern's engagement project is based on a close co-operation among key stakeholders such as social housing providers, Citizens Advice and StepChange. It is facilitated by the work of dedicated relationship managers.

The company works with these stakeholders in one selected community for a short period of time in order to promote its Essentials (social) tariff and other financial assistance schemes to customers.

It takes this approach to ensure that it leaves a lasting legacy with the agencies serving selected communities and to ensure that they have the tools, capability, and ongoing support framework to continue promoting the assistance it can provide to its customers.

We understand that target areas are identified and prioritised based on a blend of internal customer payment history data and debt value, combined with externally sourced socioeconomic and default data.

The Community Engagement Project has been piloted in the company's Thanet water supply area in Kent. The Project delivered 12 engagement events in July 2015, where Southern's relationship managers engaged with 450 customers.

As a result, the company has noted that financial assistance schemes in the Thanet area have increased by 46% and the company received 74 Essentials tariff applications from its customers.

Face-to-face debt advice provision

Seven Trent Water

Seven Trent Water has become aware that Citizens Advice in its region could do more to promote its social tariff to eligible customers. Although Citizens Advice is currently administering the company's social tariff scheme, the company has received feedback from advisers that they have found it difficult to engage with potential beneficiaries of the scheme because of already high workloads.

As a result, the company has been working closely with Citizens Advice offices in its region to try to improve the promotion of its social tariff scheme when advisers provide debt advice.



Water efficiency and metering

Northumbrian Water

Northumbrian Water has adopted a new water efficiency strategy called 'Every Drop Counts'. It incorporates a wide range of projects, initiatives, education, engagement and marketing activities to boost customer participation and water saving. This includes retrofitting water-saving products in household properties and the company carrying out 4,800 water audits a year, in which a plumber is provided free of charge

The company has used its Credit Account Information Sharing data to identify an initial target group of 2,800 customers who currently receive services under its unmetered tariff and who could benefit from a move to a metered tariff. These customers are usually elderly single/couple occupiers, living in a large family home.

Northumbrian used a campaign to target these customers – it provided an estimate of the savings they would receive if they were to have a meter installed (with some customers able to save as much as £200-£300 off their yearly bill). The company had a 12% response rate from these letters, with customers wanting to request a meter pack.



Southern Water

Southern Water recently commissioned Green Alliance – a charity and independent think tank focused on the environment – to carry out research and produce a new report on the importance of water efficiency. Green Alliance concluded that water efficiency could save households as much as £78 a year, equivalent to 20% of the current combined water and sewerage bill. The report recommended integrating water efficiency with existing energy efficiency programmes like the Green Deal and ECO, and called for better use of the consumer water label²⁷. It also recommended regulatory changes to ensure that water is priced properly, introducing variable tariffs for householders, along with support for the poorest households.

As well as this, the company implemented a new initiative under its Universal Metering Programme. Under this initiative, customers identified as being financially vulnerable to an increase in charges following a meter installation were given the opportunity to:

- have a home visit to help them reduce the amount of water and energy they use; and
- be assessed for their entitlement to additional benefit and grants, and also for financial support schemes such as WaterSure and the NewStart money-matching scheme.

As a result of this initiative, the company:

- carried out more than 50,000 home visits;
- provided customers with expert water and energy efficiency advice; and
- retro-fitted water-saving devices in customers' homes.

Under the programme, more than 165,000 water-saving devices were installed into some 46,000 properties, and more than 119,000 more water-saving devices were handed out to customers.

Southern's programme has contributed to an overall saving of 16.5% in the volume of water used by its customers through:

- metering;
- water and energy efficiency device installations; and
- changes in water use behaviour.

We understand that some 2,700 financially-vulnerable customers were supported by maximising their income. More than £3 million of additional benefits and grants were secured for these customers to help them reduce their debts, including their water debt. This was delivered through the Green Doctor home visits and its partner IncomeMAX, a UK Community Interest Company working nationally to provide high-quality, independent, personalised advice and support services, delivered by a specialist team that Southern Water set up.

27. The Government's Water White Paper 'Water for Life,' published in late 2011, encouraged voluntary water efficiency labelling to enable customers to choose more efficient products.

Difficulties in gathering, maintaining and exchanging data in-house and with other organisations

United Utilities

United Utilities trains agents to capture information from customers and also uses information from its credit reference agency Equifax, with whom it has implemented a full data sharing solution. But the company recognises that access to even greater levels of information on its customers would help it to target assistance more effectively.

Yorkshire Water

Yorkshire Water captures the income levels based on modelled information held by credit reference agencies. Once identified as financially vulnerable, customers are referred to a specialist team to see if the company can help them with one of its schemes.

Wessex Water

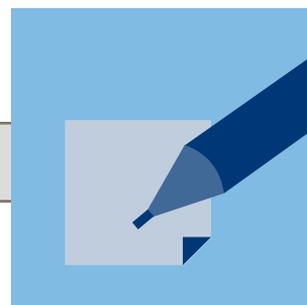
Wessex Water works with DWP, Defra, CCWater and Water UK to send mailshots to customers who are on benefits in the company's region to promote affordability schemes. (Project currently in progress.)



Staff training

Wessex Water

Wessex Water introduced additional staff training on spotting signs of financial difficulty and mental health awareness. It also developed its GEM initiative, which encouraged staff to go the extra mile for customers and achieve the best customer outcome. The company has also achieved the British Standard for inclusive services (BS 18477)²⁸ and the Louder than Words charter mark from Action on Hearing Loss²⁹. And it has maintained high levels of customer satisfaction and retained its Government Customer Service Excellence Award for achieving distinction in its affordability work.



Severn Trent Water

Severn Trent Water's credit management agents all receive training on vulnerability and affordability schemes. A local Citizens Advice adviser also attends these training sessions to provide further background on the financial pressures they may face. We understand that this training helps the company's agents to identify signs of vulnerability and affordability issues, and empathise with struggling customers.

Northumbrian Water

Northumbrian Water has held presentations and awareness days for its customer teams to help them to promote its social tariff. StepChange has also provided the company's staff with coaching sessions on how to engage with customers. Northumbrian has also identified affordability champions within its contact and collections teams. It is also working with Citizens Advice offices and other local support organisations to promote its schemes.

The company holds staff training programmes orientated towards recognising and assessing the needs of its customers. It recognises that those customers who are at risk of vulnerability are frequently characterised by their age, literacy, numeracy and language skills, or who have mental health problems. This year, 20 of its employees spent two days learning skills to recognise deaf and/or blind customers with a view to improving communication. We understand that these employees achieved a nationally recognised qualification.

28. The voluntary standard BS 18477: 2010 inclusive service provision was developed to help organisations better design, market, assist and deliver services to all consumers. The underlying theme of the standard is identifying and responding to consumer vulnerability but the standard also tackles issues such as providing responsible business practices and accessible systems, such as websites and contact centres.

29. Louder than Words™ is a nationally recognised accreditation for organisations striving to offer excellent levels of service and accessibility for customers and employees who are deaf or have a hearing loss. To learn more visit: <http://www.actiononhearingloss.org.uk/louderthanwords.aspx>

Welfare reform

United Utilities

United Utilities is not planning to implement a specific separate scheme to help customers moving onto Universal Credit, but it is amending its existing suite of assistance schemes to better reflect the circumstances of customers on Universal Credit.

The company has identified two main issues with the roll out of Universal Credit.

The first is that it considers that the full impacts of customers moving to Universal Credit will only be felt in the next few years when the transfer to the new system starts. It anticipates that some of its customers could experience new affordability issues because of the different ways in which Universal Credit will operate, particularly with regard to payment frequencies and payment dates of certain customers. United Utilities will offer a plan that would allow them to make minimal payments until their income situation is resolved. For example, this assistance applies to those customers who are struggling to make payments while they wait for their first Universal Credit payment (made in arrears on a calendar month basis) or are subject to a sanction from the DWP.

Linked to this, the second issue concerns the aligning of payment frequency to the timing of Universal Credit payments. United Utilities has recognised that a switch to Universal Credit from an existing legacy benefit will have an impact on affected customers. As such, the company will support customers and re-align payment frequencies for those customers for whom it has established a weekly or fortnightly direct debit (about 60,000 customers).

In addition, following DWP's recently announced rules for deductions under Universal Credit, the company will support those customers who will need to transition away from deductions as it will no longer be able to take payments for current year charges only. United Utilities thinks that understanding when customers are due to migrate from legacy benefits to Universal Credit will be a key issue in ensuring a smooth transition for its customers.

Yorkshire Water

Yorkshire Water will allow extra time for its customers switching to Universal Credit, taking account of the changeover period, while placing a hold on any court actions. It will offer customers budgetary help through its links with other agencies, such as StepChange and Money Matters.

The company will also advise eligible customers that the DWP offers assistance in the form of interim loans to help them through the transition to monthly payments, while also offering customers help through its own schemes.

Yorkshire uses its credit reference data information to review accounts and proactively targets customers who need assistance.

Seven Trent Water

Seven Trent Water has configured all its recovery and billing systems to allow customers who receive Universal Credit to apply for Water Direct and WaterSure. All credit management front line staff have received training and awareness on the changes involved with Universal Credit and will periodically receive refresher training as the roll out continues.

Debt recovery is increasingly difficult

Southern Water

Southern Water has previously encountered challenges arising from customers failing to maintain the agreed payment arrangement for its NewStart money-matching debt write-off scheme. This adds costs to the debt recovery process as the company needs to invest resources in re-engaging with customers who fail to maintain payments.

To address this issue, the company is looking to add a NewStart payment plan reminder to its SMS campaigns to proactively encourage customers to make a due payment.

Affinity Water

Affinity Water has invested in a new debt management system called Tallyman, which allows non-standard plans to be set up and monitored. The system builds a history of customers' payment behaviours, which will allow the company to tailor recovery in the future.

As part of its preparations for the transition to Universal Credit, the company is designing a route within Tallyman for customers in vulnerable circumstances that will trigger a tailored recovery, with the potential of a home visit to discuss payment options. Introducing the debt management system allows for automated recovery, based on the customer payment behaviours rather than using one recovery process for all types of customers.



Social tariffs

Portsmouth Water and Southern Water

Portsmouth Water has stated that it will mirror the social tariff that its overlap company – Southern Water – is introducing to ensure that customers in need receive a consistent level of assistance. The company considers that adopting the same tariff should ensure that customers in its region are treated similarly by the overlap company when applying for help to pay their water and sewerage bills. It also considers that this approach will minimise the cost of administration as the two companies will share applications.



Yorkshire Water

Yorkshire Water is using mailshots, billing literature and its website to promote its schemes. It is also using its Centre and Collections teams. The company is currently promoting its new social tariff on all Pay Point receipts, which we understand reaches more than 100,000 customers a month.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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