

# Money Advice Trust response to Ofwat, Review of retail household markets in the water and wastewater sector: Call for evidence

Response by the Money Advice Trust

Date: February 2016

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# Introduction

## About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely.

The Trust runs National Debtline, offering completely free, independent and confidential advice on personal debt over the phone and online. Last year, National Debtline helped more than 285,000 people to tackle their debts and manage their money well, with 80% of callers saying they felt more in control of the financial situation following our advice.

We also run Business Debtline, the UK's only dedicated debt advice service for the self-employed and small business owners. Last year, Business Debtline helped over 40,000 people, with 93% of our callers saying they felt more knowledgeable about their financial matters overall after our help.

Through these practical self-help advice services and our Wiseradviser training programme, last year we helped more than 1.2 million people.

Beyond our frontline activity, we work closely with government, creditors and partners to improve the UK's money and debt environment.

Find out more at [www.moneyadvicetrust.org](http://www.moneyadvicetrust.org)

## Public disclosure

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

# Introductory comment

We welcome the opportunity to submit evidence to this review. Our evidence is drawn from our experience of working with individuals and small businesses in debt and financial difficulty. We have seen significant increases in water arrears over the last few years, alongside increases in arrears on other utilities and household bills.<sup>1</sup> . Approximately 13 per cent of our National Debtline clients have water arrears as one of their debts. This reflects the considerable difficulties some consumers face in affording essential services.

Our concerns are specifically about the possible impact of competition on consumers in vulnerable circumstances, including but not limited to those on low incomes or in financial difficulty. Existing consumer protections will not readily translate across into a competitive environment and new ones will take time to design and embed. Without knowing what consumer protections are likely to exist in a competitive water market, it is very difficult to assess what the advantages and disadvantages will be. We feel that adequate time and attention needs to be given to this aspect of preparation for competition to avoid the risks of significant consumer detriment.

Our **key points** are as follows:

- The needs of specific customer groups (those in vulnerable circumstances) need specific attention as part of this review
- Existing schemes to provide financial assistance to low-income consumers will be disrupted by a move to competition. Alternative arrangements need to be considered to ensure consumers continue to receive adequate help.
- The review should consider the non-household retail water market as a point of comparison for the household market. Many small business owners are comparable to household customers in terms of their ability to navigate the market and there will be relevant lessons to learn from market opening in April 2017.

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<sup>1</sup> Money Advice Trust, [Changing Household Budgets](#), 2014

# Answers to individual questions

## What are the advantages and disadvantages of extending competition to retail services in the water and sewerage sector to household customers? How could this best be achieved?

Advantages and disadvantages will not be uniformly felt for all consumers. In sectors where competition exists, notably the energy market, levels of market engagement are lower than average among low income groups and other groups in vulnerable circumstances.<sup>2</sup> Much work is carried on to identify and overcome barriers to engagement and encourage consumers to be more engaged.<sup>3</sup> It is likely that similar work will be needed to promote consumer engagement in a competitive water market. This will need to form part of market design and involve stakeholders from the outset.

At present water companies provide a level of financial assistance to customers in low income or in debt, through social tariffs, matched payments, trust fund payments and other methods. Some of these involve a cross-subsidy from higher-income to lower-income customers, for which companies must secure a mandate from customers. This helps to ensure that consumers on low incomes have more affordable access, in contrast to the 'poverty premium' phenomenon often found in other market sectors.

Some aspects of this system, notably the variation in levels of provision between companies, are far from ideal. However, the industry as a whole has greatly increased the help it provides and the best company affordability packages are well-designed and well-targeted. Designing and delivering such schemes has encouraged companies to focus more on low income groups and increase their efforts at consumer engagement, both directly and through partnerships with voluntary organisations and service providers. These schemes have been built up on the basis of the current industry model, with companies operating in defined geographical areas and with a stable customer base. In a competitive environment, different approaches would be needed and the entire industry approach would need to be overhauled. If this is not achieved, the overall level of financial assistance for low income consumers may fall, resulting in worse consumer outcomes.

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<sup>2</sup> Competition and Markets Authority, *Energy Market Investigation, Provisional Findings Report*, July 2015

<sup>3</sup> For example, the Big Energy Saving campaign run jointly by Citizens Advice and Ofgem

## What are the interactions between household water retail and other markets in the water sector and beyond?

The domestic energy market is undoubtedly an important case study for the water industry. Issues of consumer detriment in recent years have included miss-selling, lack of consumer engagement, tariff complexity, poor complaints handling and poor debt management practices, among others. We anticipate that other stakeholders will comment on these issues in greater detail.

We would also argue that more account should be taken of the non-household water retail market, which is being prepared for opening in April 2017. Although the household and non-household markets differ in important respects, at the individual consumer level there is often little practical difference. The majority of small businesses are very small – 76% have no employees and are effectively one or two-person operations. Evidence from the clients we advise at Business Debtline highlights the extremely weak position of many microbusinesses.<sup>4</sup> Many business owners operate at a level which is little different from that of household customers in terms of skills, resources and ability to navigate the market. For the smallest businesses, the fortunes of the business and that of the business owner as an individual are often strongly intertwined and therefore individual vulnerability factors, such as physical and mental health, skills and capabilities, financial difficulty and so on have a direct impact on the business. The opening of the non-household market will offer some lessons for the household market.

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### For more information on our response, please contact:

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<sup>4</sup> Money Advice Trust, *The Cost of Doing Business*, 2015



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