

Consultation Response



Delivering Water 2020: Consulting on our methodology for the 2019 price review

StepChange Debt Charity consultation response to Ofwat

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions services are effective, tailored and importantly, free. Foundation for Credit Counselling Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland. A registered charity no.1016630 and SC046263. It is a limited company registered in England and Wales (company no.2757055).

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Introduction

StepChange Debt Charity is the largest specialist debt advice charity helping people across the UK. In 2016 we were contacted by almost 600,000 people seeking debt advice. A quarter of the clients we advise are in arrears to their water supplier. On average these clients owe £722 in arrears.

In our response to this consultation we argue:

- Ofwat must ensure its five principles of customer engagement allow it to assess affordability approaches to customers struggling most
- The regulator to require firms to set out a strategy in their business plans to reach the most vulnerable groups
- Ofwat could include more detail on monitoring and reporting when publishing its final methodology
- Ofwat should do more to look into problems with Water Direct as part of PR19, potentially encouraging suppliers to do more to assess their use of deductions within a more holistic framework
- Using ‘number of customers engaged with on affordability’ as a measure could be problematic as it may lead to companies prioritising sheer numbers over reaching those most in need

Q1. Do you agree with our proposal to use the five principles of customer engagement; customer support; effectiveness; efficiency and accessibility to assess how a company is addressing affordability in their business plan?

It is crucial water suppliers address affordability, both by keeping bills low and, crucially, by ensuring those in financial difficulty struggling with bills are identified and helped. Paying for water is proving increasingly problematic for our clients. Between 2012 and 2016 the proportion of clients with water arrears rose from 15.8% to 24.2% and since 2013 the average water arrears debt has risen to £722.

Analysis of our clients with water arrears shows:

- Almost a third (31.9%) are single parents
- Two in five (39%) are unemployed
- 14% are defined as vulnerable

Case study

One of our clients was taken to court for lack of payment by her water supplier after not being billed for 18 months. Although the supplier subsequently accepted liability for the failure to bill it still requested that the client pay court fees.

Currently water suppliers are not responding to problems as well as they might, with Ofwat finding that water companies still getting a high level of complaints¹. Ten companies reported an increase in complaints between 2011 and 2016, and some of these increases were very substantial².

The five principles proposed may be a sensible way in which Ofwat can assess water suppliers in this area.

It will need to ensure its principles allow it to assess affordability approaches to customers struggling most. Research indicates these are most likely to be people with a low income, who are single or retired. For water, the typical expenditure in England and Wales is 1.6% of income. This rises to 3.7% of income among the poorest third households³. We would urge Ofwat to require firms to set out a strategy in their business plans to reach these groups. In this respect we support the need to develop clear good practice outcomes on affordability and vulnerability.

There are concerns that savings offered under current affordability approaches are often small and do little to resolve the problem. The targeted numbers element of affordability (to which we return below) can also mean that affordability can be a direct conflict with access to advice / solutions. A small reduction is offered instead of a referral to holistic debt advice, which could be more useful in the longer term.

Adequate monitoring and reporting systems will be crucial for firms to meet Ofwat's affordability challenge. Ofwat could therefore include more detail on this area when publishing its final methodology. It is important firms are aware of the multiple pressures on households. For example, StepChange clients with debts to water firms are likely to have at least 6 additional debts to consumer credit providers⁴. Half (50.5%) owe an average £3,843 on credit cards.

We would like more on the use of regulatory incentives to promote affordability. It has been pointed out the UK approach to price regulation is to incentivise outperformance against a theoretical standard performance⁵. Firms are rewarded for performing well and penalised for performing badly. There should be a balance between the two.

However at the moment most companies outperform the targeted return in water. This indicates the balance of incentives and penalties is skewed so the regulator is far more likely to reward good behaviour than punish bad behaviour. Therefore, there are questions on whether incentives should relate more closely to outcome than output than at present.

¹ Consumer Council for Water (2016), Delving into Water 2016: Performance of the water companies in England and Wales 2011-12 to 2015-16

² Ibid

³ Ofwat (2011), Affordable for all

⁴ StepChange (2017), Statistical Yearbook

⁵ Citizens Advice (2015), Many Happy Returns?

Direct deduction from benefits / Water Direct

Regarding affordability one of our current concerns is the use of direct deductions from benefits. Over the past five years, there has been a steady rise in the number of customers who are paying bills through Water Direct⁶. However, our research indicates that there may be problems with the use of Water Direct, which Sheffield Hallam University has described as having 'limited applicability as an affordability tool'⁷.

Over one in eight (15.4%) of our clients are repaying water arrears through a deduction. Overall, of those who have had money deducted directly from benefits, 71% say that it has caused them and their family hardship.

A quarter (25.7%) has cut back on food spending as a result of a deduction and a further 24.6% have found it difficult to pay for heating as a result of direct deductions.

Where people have avoided cutting back, often they have only done so by turning to borrowing. One in five clients surveyed (19.4%), who had had money deducted from their benefits, had turned to credit pay essential household bills (rent, mortgage, energy bills, and council tax) due to deductions.

We believe Ofwat should do more to look into these problems as part of PR19, potentially encouraging suppliers to do more to assess their use of deductions within a more holistic framework. Previous academic research has recommended integrating water affordability into more holistic debt advice approaches⁸. Certainly Ofwat needs to consider how it measures the use of Water Direct as an affordability tool. There should not be an automatic assumption that firms using Water Direct will necessarily be acting in the best interest of consumers. Firms should be required to demonstrate the outcomes of action they take, rather than being assessed on the number of actions alone.

Q2. Do you agree with our proposal to use information and measures, including possible common measures, to assess how a company performs against the five principles in addressing affordability in their business plan?

We agree that it is important to use information and measures to assess how a company performs.

Case study

Our client received multiple bills for different periods of time ranging from one day to 18 months. Each time she queried the bill and was told it was an error and she should ignore it. However, the bills are still being sent with incorrect dates and amounts on them and the client is increasingly frustrated as she does not know what debt is owed.

⁶ Consumer Council for Water (2016), *Delving into Water 2016: Performance of the water companies in England and Wales 2011-12 to 2015-16*

⁷ Sheffield Hallam University (2016), *Delivering Affordability Assistance to water customers: cross sector lessons*

⁸ Ibid

However, we have some concerns on this section of the review.

Firstly, we wonder whether using ‘number of customers engaged with on affordability’ as a measure could be problematic as it may lead to companies prioritising sheer numbers over reaching those most in need, bearing in mind those most difficult to reach are often most in danger. A similar concern arises from the proposed measure on ‘number of customers receiving financial assistance’. Benchmarks need to relate more closely to outcomes, rather than outputs. So we would urge Ofwat to consider additional measures that relate to how an individual’s overall financial position has stabilised following intervention or a reduction in the *difficulty* of meeting water payments.

Secondly, a target measure of ‘average (mean) bill reduction from financial assistance’ may also have unintended consequences. There is a danger it could lead suppliers to concentrate only on bill reduction (although this is important) and fail to put in place appropriate policies on repayment rates, communications and signposting. Beyond this, a general focus on overall bill reduction could ignore the relationship between bill size and individual need. Some families may need a lower reduction, others a greater reduction – averaging reduction between them means that one is more damaged, despite the company meeting its target.

Third, we would highlight that measures requiring firms to ‘reduce bad debt’ and ‘reduce debt management costs as a per cent of the average bill’ could be potentially contradictory to affordability and vulnerability measures. Is there a danger firms may equate these measures with allocating less resource to helping people in financial difficulty or pursuing more aggressive debt enforcement?

Fourth, there is little indication in the document the extent to which Ofwat thinks firms should concentrate on monitoring the impact of affordability initiatives. Sheffield Hallam research has argued suppliers should ‘evaluate water affordability initiatives more often and develop an evidence base on what works in relation to affordability support that is shared across the sector.’ Furthermore it has recommended suppliers ring fence at least 10% of the budget for affordability initiatives to independent evaluation⁹. We do not know whether this is the correct amount, but Ofwat might like to rule whether this or some other target is worthwhile.

Q3. Do you agree with our proposed option for requiring companies to propose bespoke performance commitments for addressing vulnerability in their business plan?

We strongly support Option 1, which would require companies to propose bespoke performance commitments in their business plans for addressing vulnerability, after engaging with customers and taking on board challenges from their CCGs. As the

⁹ Ibid

University of Leicester has pointed out, currently licences contain relatively little in the way of detailed obligations¹⁰.

Case study

A client reported to us that she got into arrears because a water meter was fitted against her wishes. The client advised this should not have happened because her son is disabled and her water usage is higher due to his needs.

We are keen to see what bespoke performance commitments are. We would also suggest the following as possible suitable common measures:

- The percentage of customers a supplier identifies as vulnerable against expectations from benchmarks like national data sets / other sectors
- The percentage of vulnerable customers experiencing payment difficulties
- The percentage of people experiencing payment difficulties who are vulnerable

We have two additional comments:

1. It is unclear from the document whether Ofwat will require suppliers to report publically on these 'bespoke' commitments. We believe it is important that they do so.
2. At the moment it appears that Ofwat may be placing a very high burden on CCGs to ensure firms are well informed, and these groups as yet have unproven effectiveness.

Q4. Do you agree with our proposed option for using measures in our assessment of companies' approaches to addressing vulnerability in their business plan?

Again, we agree it is important to use measures to assess companies' approaches to addressing vulnerability. However, we have some questions on the Ofwat proposals in this area.

- Ofwat recommends the use of 'good-quality available data' to understand customers. There is little beyond this on how firms should assess the quality of data, whether there is opportunity to gather new data, and whether data will be independently verified and published. Is Ofwat intending to provide more detail in these areas?
- Although Ofwat discusses data protection, there is little on how firms should make customers confident in their ability to protect sensitive data. This is particularly important when it comes to vulnerability. There is also little on how firms should

¹⁰ University of Leicester (2013), Tackling consumer vulnerability: regulators' powers, actions and strategies

respond to the GDPR. Does Ofwat intend a separate stream of work or publications on this matter?

- While we support the Ofwat definition of vulnerability, we wonder if more needs to be said on how the regulator intends to persuade firms to adopt and use this definition.