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Summary

Water UK is the representative body and policy organisation for water and wastewater service providers across the UK. This response sets out positions that are commonly held across the sector; individual companies may have other perspectives and this submission should be considered complementary to theirs.

We welcome the opportunity to respond to Ofwat's consultation on guidelines for water companies in supporting residential customers pay their bill, access help and repay debts. We agree that it is sensible to periodically review Ofwat's guidelines, and we share the overall aim that water companies are able to recover debt in the interest of all customers, while also dealing sensitively with customers who find themselves struggling to pay their bill.

We also welcome Ofwat's overarching statement that companies may take an alternative approach to the guidelines where they have accurately identified that a customer will not pay rather than cannot pay, or have information on customers' circumstances to show why an alternative approach is more suitable.

This flexibility is important as decisions on whether, for example, it is necessary to take enforcement action to recover debt should be made on customers' individual circumstances. It is in the interests of all customers that those who have the means to pay do so, keeping costs down for everyone, and companies need to be able to efficiently use all available tools to ensure that this is the case.

However, despite the indication of flexibility in the opening section to the guidelines, overall we are concerned that as a whole the guidelines focus more on protecting financially vulnerable consumers, rather than placing equal weight on protecting the interests of all consumers through enabling the efficient and effective recovery of revenue from those consumers who are able to pay but may choose not to. Individual companies will be responding on more specific aspects of the consultation; in the remainder of this response we focus on four points.

Firstly, the overall thrust of regulation in the sector over the last decade or more has been to move from the prescriptive regulation of outputs, or even inputs, to an outcome-based approach where strategic objectives are set, and companies have flexibility in the way these objectives are met – and are held to account for doing so. Outcomes-based or principles-based approaches are widely recognised as being more efficient, giving more scope for innovation, and leading to greater ownership by service providers than detailed prescriptive requirements set by regulators.

In this context, it is positive that Ofwat aspires to move to a principles-based regulation in this area, where companies really own the relationship with customers in debt, focus on the experience they deliver to customers and strive for best practice. Companies share this objective, but question whether the detailed prescriptive approach on minimum standards set out in the consultation is consistent with it, and indeed whether it could run directly counter to it.

Related to this point, it is unclear from the consultation how it is envisaged that companies would be assessed and held to account for compliance against either the principles, or (if they are retained) the detailed prescriptive minimum standards. If the intention is that compliance will be measured and potentially compared and reported on, there will need to be a clear understanding of what good looks like, including for example what evidence might be required to demonstrate that a company has 'considered' a particular aspect of the guidance.

Secondly, care is needed in setting expectations for the respective roles of water companies and of partner organisations. Water companies will always seek to be sympathetic to the circumstances of individual customers, and can play a key role of signposting or referring customers to expert organisations who can provide wider advice and support, such as providing holistic financial and debt advice or supporting customers with mental health problems.

However, it may not be appropriate for water companies to provide these wider services directly. This is both because of the need for water companies to focus on their areas of expertise and recognise where others will be better placed to provide advice, and because as water companies will in many cases be creditors, they may not be perceived by customers as able to provide objective holistic financial advice.

Thirdly, we note that there is some overlap between the content of the proposed guidelines and the process established by CCW to take forward the recommendations of the Affordability Review¹.

Specifically, the proposed new requirement to 'offer or accept more frequent billing frequencies to encourage customers to pay and avoid unexpected and unaffordable increases in their bills ('bill shock')' is similar to, but potentially much broader in scope than, the Affordability Review's medium-term recommendation that 'where practical, such as where smart metering is deployed, water companies should give customers the option to receive more frequent bills'.

As part of the process established by CCW to take forward the Affordability Review's recommendations, a pilot is currently being carried by Southern Water to inform how this particular recommendation could be taken forward. It would be premature to introduce a new requirement on more frequent billing until this pilot has been carried out and the costs and benefits evaluated and considered.

Our final point relates to the expectations in the consultation on customer research. Companies agree that understanding customer views and perspectives can helpfully inform service design, but are unclear on why Ofwat has felt it appropriate to include very detailed expectations on this aspect of customer research in the guidelines. We suggest that this is an area where a genuinely principles-based approach would be more appropriate.

¹ <https://www.ccwater.org.uk/wp-content/uploads/2021/05/Independent-review-of-water-affordability.pdf>