

WONDERFUL ON TAP



David Black
Chief Executive
Ofwat

Emma Clancy
Chief Executive
CCW

Severn Trent Centre



By email

6 December 2022

Dear David and Emma,

Supporting customers through cost of living pressures

Thank you for your joint letter of 17 October about supporting customers through the current cost of living pressures.

We welcome the opportunity to set out our plans for supporting customers through the current cost of living pressures. We acted early by launching a new affordability package worth £30m on 25 May. This package is already leading to a substantial increase in the uptake of our Big Difference Scheme (BDS) social tariff, with 31,088 new customers benefitting since the start of the financial year.

We also launched our Societal Strategy on 22 November, which is a landmark plan designed to help up to 100,000 people find employment, while supporting them to reach their potential. We know that this ten-year plan is a huge undertaking, but we are passionate about helping households across our region and will achieve this by working closely with communities and partner organisations.

These initiatives build on our extensive support schemes for our customers and communities, including our £10m Community Fund and the £17.5m we are donating to the Severn Trent Trust Fund over AMP7.

By 2025, our financial schemes, including the social tariff, will be supporting about 315,000 or 6% of our customers, in line with the number of customers assessed as living in water poverty in our region. We make it clear to our customers that we don't want anyone to be struggling to pay. So whilst we currently support 6% of customers we will absolutely look to increase this proportion if needed.

Understanding the needs of our customers

You ask about how we understand the needs of our customers. We take a multi-tiered approach to understanding the needs of our customers including talking to customers in the community, talking to partner organisations with expertise in supporting customers, feedback from our customer-facing retail agents, monitoring our household retail business data, looking at external data and research and learning from customer research.

We have a team out and about in our communities on a daily basis, promoting our range of affordability schemes, raising awareness through training, events and drop-in sessions. We attend foodbanks, community centres and hold regular outreach sessions to help customers with their bills, support them in applying for our schemes and we listen to our customers. We also work with partners to understand our customers' views on affordability and increase awareness of the support we offer. For example, at the end of September we partnered with Nottingham City Council to bring together debt and energy advice organisations for customers. Getting into our communities helps us understand the needs of our customers who are most likely to need help. We also review feedback from our retail agents on the issues coming up in their daily interactions with customers.

We constantly monitor our household retail business data on customer payment behaviour. We look at trends in, for example, payment plan creations and cancellations, switchers to credit card payments and customers missing payments. We supplement this insight with external information, including from debt charities, credit score agencies and our customer research. For example, we purchase records from a credit agency on the hundreds of thousands of our customers who are in arrears so that we can better understand their financial positions and design the best approach to supporting them. At present, at this aggregate level, we are seeing only limited indications of the cost of living pressures coming through, possibly due to the expansion of our financial support this year. However, we are seeing the increased cost of living pressures our customers are facing coming through in our surveys.

At Severn Trent we actively monitor and seek the views of our customers so that we can understand their needs. An independent research agency runs a weekly online representative tracker survey of 100 of our customers. The latest results for October show that the number of customers considering they are likely to fall into arrears with their next water bill has increased from 12% a year ago to 19%. The number of customers saying they are often or nearly always behind on their household bill payments (which include energy, rent and mortgage bills) has increased from 8% a year ago to 15%. In addition, our social barometer tracker survey, which we run every six months, asks another 500 customers about the societal issues that concern them the most. The latest results from September found that the cost of living is now our customers' highest concern with 50% extremely concerned and 37% concerned. We also monitor closely other organisations' research on customers' experiences, such as Ofwat's recent Cost of Living Wave Two report.

Looking forward, for PR24 we have just engaged a research agency to carry out our largest-ever, in-depth survey of stakeholder and customer views on affordability. The research will include in-depth interviews, surveys, focus groups, follow-up interviews and deliberative workshops to make sure we thoroughly understand the needs of our customers as we finalise our PR24 business plan. In addition, our Expert Challenge Panel (ECP) has developed seven financial vulnerability "personas" to test that our existing schemes and PR24 affordability proposals are targeted at those most in need.

Our plans for supporting customers during the remainder of the AMP (2022-25)

We are acting on what our customers are telling us and have robust plans in place to support customers during the rest of this AMP (2022-25). I provide a summary here and there is more detail of our extensive support offering for customers in the appendix to this letter.

1. **We are committing to a below-inflation increase in the average customer bill for 2023-24.** This year our average annual household bill is £389, the second lowest in England, and £30 lower than the industry average. We are committing to a below-inflation increase in the average annual household customer bill next April.
2. **We are expanding our Big Difference Scheme social tariff to a further 100,000 households by 2025.** Anticipating the growing cost of living pressures, we announced a new £30m affordability package on 25 May. This will allow us to help a further 100,000 people to reduce their water bill by up to 90% through our social tariff. To facilitate this expansion we have recently simplified the qualifying criteria and raised the household income threshold from £16,480 to £18,278 in August. We are on track to deliver the 100,000 expansion in our social tariff by 2025, with 31,088 new customers benefiting this financial year already. The Chartered Governance Institute (CGI) awarded our affordability package “ESG initiative” of the year on 10 November.
3. **Our financial schemes, including the social tariff, will be supporting 6% of our customers by 2025, in line with the number of customers assessed as living in water poverty in our region.** In addition to our social tariff the Severn Trent Trust Fund provides £3.5m of support every year to customers in severe hardship. Our Matching Plus scheme helps customers pay off their water bill arrears by matching contributions from Severn Trent. We also run the national schemes of WaterDirect and WaterSure that provide financial support to our customers.

Taken together we were supporting 215,000 customers financially in May 2022, well ahead of our 195,000 target by the end of AMP7. With our expansion of the Big Difference Scheme we expect to be helping around 315,000 of our most financially vulnerable customers by 2025. This will take the proportion of our customers we are helping to around 6%, in line with the number of customers assessed as living in water poverty in our region. We make it clear to our customers that we don't want anyone to be struggling to pay and will absolutely look to increase the proportion we help if needed.

4. **We are working extensively with partners to support our customers and increase awareness of the support we offer.** We are working with partners, such as local authorities, the DWP, housing associations, charities and food banks to identify customers who are struggling and to increase awareness of the support we provide. As part of this we bring together advice and support agencies at events for customers in the local communities most need of support.

We are working with local authorities to proactively identify customers in financial hardship to passport these customers directly onto our schemes. This has enabled us to directly support those customers who might not engage with us through our usual channels and remove any barriers that the application process might create for some of our customers. We are currently working with several local authorities to help allocate water grants made available through the Government's Household Support Fund and have proactively approached every other local authority in our region, with a similar offer. We are currently engaging with Kidney Care UK to see how we can support the

estimated 11,000 customers in our region who need to dialyse regularly, either at home or in hospital units.

We are also building awareness of our affordability schemes across radio, social media, the press and targeted emails to reach those we believe are most in need through our winter campaign that has been live since November and runs until March. We used the media launch of Societal Strategy on 22 November to further promote our affordability schemes. Our Societal Strategy is also highly collaborative and we will be working with local authorities, community groups and schools in long-term relationships over up to ten years.

5. **We are offering support to specific vulnerable groups.** For example, our new Care Leavers' scheme helps young adults leaving the care system by putting them directly onto our social tariff for the first 12 months. Our Care Leavers scheme is now offered to eight Local Authorities and we are actively working to extend it to all Local Authorities in our region. Our ambition is to broaden the support we offer to this group beyond financial support, such as by offering employability training.
6. **As well as supporting individuals, we are extensively supporting our local communities.** Through our Community Fund we are donating around £10m over the 2025-30 period to community projects. In 2021-22 the Fund awarded £1.86m to 73 projects, with 1.1 million beneficiaries according to the successful projects. Our staff also volunteered for 1,360 days in our local communities in 2021-22. During the Covid-19 pandemic we supported local communities by bringing forward £39m in early payments to support our suppliers, donated £1.6m to frontline charities and did not furlough any staff.
7. **We are promoting innovation to support our customers who are struggling.** Severn Trent has been working in partnership with CCW and three other companies on the Ofwat Innovation Fund project "Supporting customers in vulnerable circumstances". The pilot used behavioural science to improve engagement with hard-to-reach customers and communities. On 6 December we launched the ["Engaging hard-to-reach, vulnerable customers" playbook](#) to the sector. The playbook sets out our learning on how to engage hard-to-reach, vulnerable customers. These are the people who might not have the language or capabilities to contact us in a time of crisis when they need support.

In addition to our direct support for customers and communities we are also providing longer-term support to our region.

8. On 22 November we launched our **Societal Strategy**, which is a ten-year vision to help change the lives of 100,000 people in our region, giving them improved chances in life and tackling the underlying causes of poverty. Our societal strategy includes: working with hundreds of schools to provide 500 work experience placements for children each year; giving 10,000 hours of free skills training and employability training in communities and schools to support individuals into their first job, or back in to work; and embedding ourselves directly within communities through pop-up learning and support hubs, which will take over unused retail spaces and community hubs.
Our Societal Strategy is supported by a network of local partnerships in high-deprivation postcodes and our first partnership is with Birmingham City Council as part of the East Birmingham Inclusive Growth Programme.
9. In addition to the Societal Strategy, we have a strong commitment to **education and training** in our region, especially for young people not in education, employment, or training. Our commitment

includes taking on 340 KickStart apprentices, offering 4% of the UK's total internships under the #10000BlackInterns programme and expanding our core apprenticeship and graduate programmes to their widest ever intake across the widest range of roles in 2020-21 with 47% coming from social mobility cold spots. This is made possible by our state-of-the-art technical training Academy at Hawksley Park that opened in 2021.

10. **We are promoting investment, jobs and the Real Living Wage in the areas of our region that need them most.** Our £566m green recovery investment, which Ofwat approved in July 2021, is targeted on relatively deprived areas and will create over 3,000 jobs directly and through our supply chain in the Midlands. For example, we are removing up to 25,000 lead pipes in Coventry and creating a flood-resilient community in Mansfield.

We are also supporting our supply chain to move to the Real Living Wage (currently £10.90 per hour) as part of our commitment to have all colleagues, both direct and indirect, receive the Real Living Wage rate of pay by April 2023.

Alongside our extensive support for our customers and communities we are fully engaged with CCW and Ofwat's initiatives on affordability, such as the recommendations of CCW's Independent Water Affordability Review. We welcome Ofwat's consultation on charging innovation for affordability and followed the discussion closely at Ofwat's workshop on 25 November. And we are following closely Ofwat's development of a customer-focussed licence condition and how this could benefit our customers. We look forward to you publishing the results of your information gathering on what companies are doing to supporting customers during the remainder of the AMP because we are continually looking to learn from best practice in all sectors.

Looking further ahead, at the next price review we support additional funding for companies' retail businesses for 2025-30 to allow them to further tailor their support for customers. This would enable the sector to provide an even better service to those customers who struggle to pay.

Yours sincerely,



Liv Garfield
Chief Executive

Appendix 1 – A summary of Severn Trent's support for its customers and communities.

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Severn Trent has an extensive package of support for its customers and communities which we summarise below. Due to the extensive range of support options, we have grouped them into direct support, national schemes, working with partners and supporting our communities. We have also included the long-term support we provide to our communities through training, education, investment and job creation, which supports improving long-term affordability for our customers.



Direct support for customers

- The **Big Difference Scheme**, Severn Trent’s social tariff, offers banded discounts of up to 90% off annual bills for customers meeting the scheme’s criteria. On 25 May we launched a new affordability package worth £30m to expand the scheme by a further 100,000 customers by 2025. This package is already leading to a substantial increase in the uptake of our Big Difference Scheme, with 31,088 new customers benefitting since the start of the financial year. To support this expansion we simplified the qualifying criteria and raised the household income threshold from £16,480 to £18,278 in August. We now have a new clearer landing page on our website for our financial assistance schemes. Our

partner, Auriga, who administers the BDS application portal on our behalf tracks customers who start an application but fail to complete it. The portal then sends prompts to these customers to remind them to complete their applications.

- We donate £3.5m to the **Severn Trent Trust Fund** every year so that it can help our customers in severe hardship. The Severn Trent Trust Fund provides grants, referrals to our support schemes and money management and debt/budgeting advice. There are 20 anonymised cases studies on the Trust's website. For example, the fund awarded Miss A nearly £400 after her daughter shattered both her legs in an accident, meaning Miss A had to spend large amounts of time in hospital for her daughter's operations and then look after her daughter and her daughter's 5-month-old baby when they returned home. The Fund also applied for the Big Difference Scheme for her, which she was accepted on to. Full details are available on the Severn Trent Trust Fund website: <http://www.sttf.org.uk/>
- Through **Matching Plus**, we make payments to help customers pay off what they owe on their accounts. For example, the amount might be set at a £20 contribution per month to reduce arrears on the account. Severn Trent will match this payment with a £20 contribution per month and will provide an additional £20 bonus payment for 3 months of consecutive payments.
- We implemented **new customer journeys for late payers** in September 2021. The new journeys include earlier and consistent contact via phone, SMS and letter to help customers avoid building up arrears.
- We have improved our **debt recovery journeys** for those customers where data informs us the customer may be financially stressed. We use credit bureau information on 100,000s of our customers in our credit recovery system - where details of financial vulnerability are highlighted, we ensure that appropriate support is signposted to the customer.
- We offer **Payment Plan Concessions (PPCs)** to customers who cannot afford the standard payment plan amount. We negotiate the plan with the customer to manage their temporary inability to pay and we review the PPC regularly to make sure it remains effective and appropriate.
- We also offer **payment breaks** that provide a temporary hold on recovery for up to 28 days to allow more time for the customer to make a payment. Under the Debt Respite Scheme we provide payment breaks when customers have applied for formal Breathing Space through a regulated debt advice organisation. Standard breathing space gives customers legal protection for up to 60 days and a Mental Health Crisis Breathing Space gives protection for as long as the person's mental health crisis treatment lasts, plus 30 days.
- We are trialling **speech analytics**, to help us create a more personalised and customer-specific experience when contacting us.
- We have recently started offering **free repairs of bursts on private pipes** for vulnerable customers, such as those with chronic or serious illnesses.
- Our new **Care Leavers' scheme** helps young adults leaving the care system by putting them directly onto the BDS for the first 12 months because data suggests they will struggle to pay. We have piloted the scheme with Coventry City Council and have now rolled out the scheme to a further seven local authorities: Shropshire; Telford & Wrekin; Wolverhampton; Derbyshire; Dudley; Stoke-on-Trent and Warwickshire. We are currently progressing data sharing agreements with Birmingham and Leicestershire so that they can take part. So far the scheme has benefitted 350 customers but we

estimate across our 20 local authority areas that the eventual size of the scheme could be as many as 8,000 care leavers.

Promoting awareness of our support for customers

- We are continually looking at how we can **raise awareness of our affordability schemes across radio, social media and through the press**, in addition to our work with partners (please see the next section). We have also been using **targeted emails** to reach those we consider are most in need. Our winter campaign has been live from November and will continue until March 2023. It is reaching out to our customers at key periods, for example in the New Year when people might be reviewing their finances and in February/March when our main billing period takes place. During the media campaign for our new Societal Strategy (please see the section below on the Societal Strategy) on 22 November and the days following we raised awareness of our affordability schemes.
- We have **added text promoting our affordability schemes to our paper billing envelopes** in response to a recommendation from CCW's Independent Water Affordability Review. These will start to be used next February when main billing commences.

Working with partners

One of the main ways we are improving our support for customers is working with partners such as local authorities, the DWP, charities, community groups and schools.

- **Proactively identifying customers in need with local authorities.** We are using the new opportunities offered by the Digital Economy Act to obtain data from local authorities for customers who are struggling financially. We are then able to passport these customers onto our financial support schemes. We have been working with Coventry City Council who have a population of 345,000 and around 20,000 households identified as financially struggling on their Low Income Family Tracker (LIFT). We are in similar discussions with Birmingham City Council to expand the scheme to their 1,149,000 population.
- **Proactively identifying customers in need with the Department for Work and Pensions (DWP).** We have just gone live with a scheme where the DWP validates if a customer is eligible for our support schemes by confirming if they are in receipt of certain welfare benefits. This allows us to passport the customer directly onto our support schemes. We have recently been given permission to validate Pension Credit customers, who could be eligible for the BDS.
- We have written to the chief executive of every local authority in our region to offer help identifying households that might need support. This is building on the work we have been doing with several local authorities in our area to help them allocate the funding available from central government through the **Household Support Fund**, allocating some to ease water bills. Through our work with local authorities we have secured additional grants being paid directly to customers.
- We are also in discussions with a number of **other organisations and charities**. For example, we are in discussion with Kidney Care UK. Research suggests that there are more than 11,000 customers within the Severn Trent region with kidney disease who need to dialyse regularly, either at home or in hospital units. We only have a quarter of these on our Priority Service Register (PSR) currently.

These patients are also likely to be struggling financially due to their condition restricting their ability to work.

- We **regularly visit foodbanks, community centres and outreach centres** to raise awareness of the support we provide and to engage with customers. We are monitoring the “Warm Hubs” initiative as it is set up as another potential venue for engaging with customers. This enables us to engage with hard-to-reach customers, including family and friends of those who most need help. We assist customers in the completion of applications for our financial support schemes. In cases of acute need we issue foodbank vouchers so that customers can access emergency food donations.
- As part of our programme of partnership working, at the end of September we partnered with Nottingham City Council to **bring together advice and support agencies** for customers at an event including St. Ann’s Advice Centre (debt advice), Green Doctor (energy efficiency experts) and Nottinghamshire Energy Partnership (delivering projects that tackle fuel poverty).
- **Our Societal Strategy is built on long-term collaboration** with local authorities, community groups and schools. In the first implementation area of East Birmingham, we have aligned our strategy with the local authority’s East Birmingham Inclusive Growth Strategy. We are already working with 26 partners, mostly charities and community groups, on delivering the 10,000 hours of free employability training in communities. We will eventually be working with 100s of schools on providing work experience to 500 young people per year in socially-deprived areas. We will also work with other organisations to understand and remove the barriers that could prevent children undertaking work experience, such as affordability and transport.

National schemes

Severn Trent’s support for customers includes several national schemes that we run in our region to help customers with affordability:

- Under the **WaterDirect** scheme we offer customers the option to pay their bill directly from their benefits payments to help with budgeting. This is a DWP scheme that we run in our region.
- **WaterSure** caps a customer’s bill if their income is low and they use a lot of water, due to a medical condition or having 3 or more children.
- We offer and promote **free meter switching** for customers, with the option to revert back to unmetered billing within 12 months. For low-occupancy households, such as single pensioners, switching to a meter can save a considerable amount on their bill.

During the Covid-19 pandemic we suspended the need for customers on our support schemes, such as WaterSure, from having to reapply and instead auto-enrolled them for another year.

Supporting our communities

- Through our **Community Fund** we donate 1% of our profits (around £2m per year) to community projects. In 2021-22 the Fund awarded £1.86m to 73 projects, with 1.1 million beneficiaries according to the successful projects. The Fund’s donations are supporting the creation or enhancement of 69 community spaces and 731,106m² of the environment. £0.73m (39%) was awarded to projects in the most deprived communities of our region. Full details are available in the Community Fund’s annual

report here: <https://www.stwater.co.uk/about-us/severn-trent-community-fund/community-fund-annual-review/>

- 2,000 of our staff **volunteer** in our communities supporting local charities and organisations. In 2021-22 our employees volunteered for 1,360 days.
- During the **Covid pandemic** we brought forward £39m in early payments to support our suppliers, donated £1.6m to frontline charities (Mind, Age UK, Crisis, Barnardo's and Macmillan) and did not furlough any staff supporting their families and local communities.

Indirect and long-term support for our customers and communities

Alongside the extensive direct support we provide for our customers and communities we also provide long-term support to our communities through training, education, investment and job creation, which supports improving long-term affordability for our customers.

Societal Strategy, training and education

We launched our **Societal Strategy** on 22 November. It is a ten-year plan working with partners to help tackle the underlying causes of poverty across the Midlands in a landmark scheme designed to help up to 100,000 people find employment, while supporting them to reach their potential. The work will begin in East Birmingham working in partnership with Birmingham City Council as part of the East Birmingham Inclusive Growth Programme. We plan to add Derby in 2023, and then include other parts of the Midlands which would benefit from the short and long term support.

The main elements of the Societal Strategy are:

- Delivering **10,000 hours of free skills training and employability training** in communities and schools to support individuals into their first job, or back in to work. The training complements work placements and learns from the extensive experience we have with the Kickstarter programme and the expertise we are building up in our new Academy (please see below). The training is tailored to specific groups and individuals and delivered in communities working with 26 partners, mostly charities and community groups.
- Embedding our team directly within communities through **pop-up learning and support hubs**, which will take over unused retail spaces and community hubs. Our first pop-up will be at Unity Hub in Ward End (East Birmingham) where it will offer a range of workshops and advice, supporting both employment and affordable bills. By 2024 the Ward End pop-up aims to have engaged 5,000 individuals.
- Severn Trent will establish partnerships with schools to deliver a **work experience programme set to benefit 500 young people per year** in socially-deprived areas. Our initial school partnerships in Birmingham will include Bordesley Green Girls' School, Aston Manor Academy, Tile Cross, St John Wall Catholic School and Waverley Secondary School and Sixth Form. Young people are six times more likely to get a job after a work experience placement due to the skills they learn and the inspiration, motivation and exposure to the world of work it provides. We will be helping 1,000s of young people over the next ten years. Severn Trent will also work with other organisations to understand and

remove the barriers that could prevent children undertaking work experience, such as affordability and transport.

Our Societal Strategy builds on the expertise we have built up on training and education in recent years, such as:

- Severn Trent's **new technical training Academy at Hawksley Park** opened in February 2021, which was part of a wider £10 million investment in our learning and development offering. It is open to the local community, including schools and trade bodies, so that they can take advantage of our learning offer.
- Through the **Kickstart Scheme** we have supported 340 16-24 year olds with paid work experience, with 40% of those having secured jobs or gone back into education.
- We take on around 300 **apprentices and graduates** each year with an additional 77 in 2021-22 making it our widest intake ever across the widest range of roles. We welcomed 47% of this year's new talent intake from social mobility cold spots.
- We offered 4% of the UK's total internships under the **#1000BlackInterns programme**.
- We delivered **education programmes** to children in 140 schools about water – including healthy hydration, water efficiency and healthy sewers.

Investment and Jobs

- All colleagues across Severn Trent are paid in line with the Real Living Wage, for which we hold accreditation. We have **supported our supply chain to move to the Real Living Wage** as part of our commitment to have all colleagues, both direct and indirect, receive the Real Living Wage rate of pay by April 2023.
- Our **£566m green recovery** investment, which Ofwat approved in July 2021, is creating over 3,000 jobs at Severn Trent and through our supply chain in the Midlands.
- Our green recovery investments are **targeted on relatively deprived areas**, and thus on providing additional benefits and/or support to areas in which affordability issues are likely to be greater. For example, we are removing up to 25,000 lead pipes in Coventry and creating a flood-resilient community in Mansfield.