

Minutes

The next steps for affordability and the national social tariff for water
Tuesday 5 March | 10:00-11:00
Residence Room 1, House of Lords, and via Zoom

Chair: Liz Twist MP, Co-Chair of the APPWG

Parliamentarians in attendance or represented:

- Baroness McIntosh (Co-Chair)
- Baroness Berridge

Speakers:

- Dr Mike Keil, Chief Executive of Consumer Council for Water
- Adam Scorer, Chief Executive of National Energy Action
- Peter Holland, Director of Customer and Wholesale Services at Anglian Water

Liz Twist MP opened the meeting, introduced the theme of the meeting – affordability in the water sector – and passed over to Dr Mike Keil, Chief Executive of Consumer Council for Water.

Mike opened his remarks by flagging two items for context. Firstly, three years ago CCW was asked by the UK and Welsh Governments to conduct a review into water affordability which was delivered in May 2021, many recommendations of which have been taken forward with the support of water companies, so progress is being made. She said the major recommendation was that the water section needed consistent support in place in the form of a single social tariff, funded by a central pot.

Secondly, he highlighted that in 2019, through WaterUK, water companies launched their public interest commitments: one of the commitments was to make bills affordable by 2030, as a minimum, for those households which spend more than 5% of their disposable income on water and sewage services, and develop a strategy to alleviate water poverty,

He said that the sector is facing a “very difficult price review”, especially for those struggling during the cost-of-living crisis. Ofwat are proposing price increasing of up to 74% in one case. Despite all water companies modelling the impact of any proposed increases, the affordability scores in business plans paints an extremely bleak picture. It is estimated that only 16% of customers can afford the proposed price increases.

Mike reiterated CCW’s support for sustained long-term investment in the water sector, but he argued that keeping bills artificially low would be “disastrous for the sector in the long term”.

There is a greater focus on affordability in the sector, but it is still grappling to address the cost of living through the same framework of affordability support that has always existed – a social tariff funded by companies at a level set by how much customers are willing to pay.

Dr Keil contended that while of the focus on affordability is there, the framework has not moved on – which leads to limitations.

He welcomed the step up in social tariff support being proposed, with roughly double the number of households expected to be supported by water companies – according to their business plans – compared to their current positions.

He stated that, due to the rise in costs, some companies will be “running just to stand still” in terms of their water poverty statistics. For example, one company expects to see poverty levels at the same level in 2030 as they are now, despite an increase in customer support of 50%.

He also reported that only 1/3 of water companies expect to address water poverty over the next five years. So many companies are far away from meeting their public interest commitments on water poverty. 25% of current households are unable to meet the cost of their water bill, according to recent Ofwat research.

Liz thanked Dr Mike Keil and noted that this is his first APPWG session as the Chief Executive of CWW. She passed over to Adam Scorer, Chief Executive of National Energy Action.

Mr Scorer opened by referencing the startling data highlighted by Dr Keil in relation to the affordability of future water bills. One of the macro issues apparent to him is that policymakers, especially, are waiting to declare an end to the cost-of living crisis, due to decreasing volatility spikes in the energy markets. We have approximately 6.3m households in fuel poverty – those spending more than 10% of household income to afford heat and power – and £3 billion in household energy debt (80% higher than pre-crisis levels).

He contends that the affordability crisis is here to stay, with many customers are in negative budgets. It is therefore vital to structure an affordability mechanism within the regulatory framework of markets, which protects those households most in need of support.

Mr Scorer’s experience of company social tariffs, where there is a finite number of resources at each company, was that the eligibility requirements were companies’ own and the generosity of the benefit provided was their own – he regards this as “unconscionable” given the tightly-regulated central market.

He then set out his view on the Warm Home Discount: £140 off household bills, if eligible, ten years ago, which has only increased by £10 over the decade. However, the government has targeted those on means-tested benefits, despite evidence suggested that it is those in work – and those claiming means-tested benefits – who are the most vulnerable to price volatility.

At the 2022 Autumn Statement, the Chancellor committed to a consultation on the structure of a social tariff with clear eligibility criteria; however, the commitment was quietly dropped the following year. The commitment to do something with significant support from within both the water and energy sectors, supporting charities/organisations, Citizens Advice and other bodies, has come to a full stop across both parties.

He highlighted that while excellent voluntary work is being carried out by companies in the sector, that should not be the basis of support in an essential market. Support should be mandated on a universal basis, not through “energy meter points”.

Liz thanked Adam Scorer and passed across to Peter Holland, Director of Customer and Wholesale Services at Anglian Water.

Mr Holland opened his remarks by setting out his accountabilities, including Anglian Water's vulnerability and affordability strategy – one of his 'proudest pieces of work to date'.

In the Anglian region, 9% of customer are classified as being in water poverty, and across the next five years, the figure increases to 11%. He contextualised these figures by explaining that there are customers who are permanently in water poverty through their situation, and there are those who are "just about managing" - with very different challenges and solutions to boot.

He reiterated Anglian Water's support for a single social tariff for water. However, from their perspective, they would like to see the tariff as a floor, not a ceiling. Their subsidy has gone from £12 to £24 to offer the support required to vulnerable households. The aspiration for a single tariff feels right, but companies should be able to support customers further where possible. Some of his team's specific expertise lies in its ability to identify those customers in need of support, given that many are not easily identifiable.

Liz thanked Peter Holland and opened questions up to the floor.

Baroness McIntosh, Co-Chair of the APPWG, thanked the speakers and posed a number of questions: enquiring about the level of bad debt at Anglian Water; the likelihood of a national social tariff being introduced in light of the Warm Home Discount championed by NEA supporters in Parliament; and what more the government can do to communicate with and support customers.

Peter Holland responded to the first question, highlighting that Anglian has 2.3% of bad debt – the lowest bad debt amount in the water industry. This is because of the granularity in their customer data and toolkit to support struggling customers who can be divided, broadly speaking, into two groups: those who can't pay and those who refuse to pay. In the latter, Anglian will typically engage third-party enforcement services to recover the money.

He also said that Anglian Water are halfway through their smart meter programme. Up to 20% of customers only realise they have a water leak once they install a meter and can track their water efficiency.

Adam Scorer agreed with Mr Holland, noting that that the arguments have also been same pre-crisis. The Warm Home Discount is ineffective due to the price increases at play, but the mechanism of a means-tested benefit is there. He felt that we should not accept the Discount just because it is available – it hasn't kept pace and the government has amended the eligibility criteria. So the inherent challenge is whether consumers should pick up the bill or whether the additionality can be met by the Exchequer. Mr Scorer's view is that the cost should be met by public funds. The Warm Home Discount, whilst a good starting point, could be responsive to the economic situation and flex as the markets dictate.

Dr Keil stated that affordability has been an important issue at previous price reviews, but given the situation, it should be the primary focus. The whole trust and credibility of the sector is at stake: it is at its lowest point since the Consumer Council for Water started measuring trust twelve years ago. Consumer needs to see services noticeably improve. Smart meters are an enabler to improving water efficiency, but they are not a panacea for all the challenges faced by the sector.

Baroness Berridge asked why there is a disconnect between charitable work and water poverty in the UK, compared with the drive to publicise global charitable initiatives. She also referenced the high salary packages awarded to water company executives.

Dr Fatima Ajia, Lecturer in Environmental Management at Glasgow Caledonian University, asked about the link between water and energy prices. A significant proportion of household water bills is the result of heating water; however, Government interventions are very much separate, which she feels there should be a more joined-up approach.

Peter Holland responded to Baroness Berridge, stating that he is absolutely incentivised to meet affordability commitments, as are other senior leaders at Anglian Water. They are trying to increase their hyper-local engagement with communities.

Adam Scorer argued that it was less about affordability; it is more about investment in the environment and reducing pollution.

Baroness Berridge injected to posit whether there is a communications issue as people are not informed when a water company executive is awarded a bonus for reasons other than profit. More broadly, she felt that few people are aware of water poverty.

Dr Keil related to trust as a huge barrier to overcome, without which people were less likely to approach their water provider in times of need. On Dr Ajia's point, he agreed that there is much more to be done, including on retrofitting schemes.

Adam Scorer asked what measures need to be done to meet the dual objectives of net zero and affordability. He argued that there are two things missing from this debate: a response to policymakers asking whether we really need to take drastic action on affordability; and to take hold of that data matching problem – who are in greatest need and how can they be identified and what is the appropriate level of support to ensure they can afford a decent level of water and energy without going into debt, which is a government challenge. “We need enduring architectures of regulatory support for people in need.”

Baroness McIntosh raised concerns about data privacy, and expressed scepticism that customers would agree to their information being released to accept support from another individuals.

Mr Holland followed upon the points raised around trust, He argued that trust is not a water industry challenge; it is a much wider issue. The customer experience needs to be made easier. Anglian Water has worked with Policy in Practice to integrate within the latter's benefit calculator.

Julian Jacobs from AtkinsRealis argued that smart meters are a red herring from an affordability perspective – chemicals and energy are the only variable costs. As more people move onto smart meters, the unit cost will only increase. He also raised the issue of international comparisons. Mr Jacobs' experience is that the support provided to low-income households in the UK is actually at the top-end compared with other countries.

Genevieve Orford from Policy in Practice sought attendees' views on the fundamental barriers to reducing water poverty. Data, funding, agreeing a tariff structure seem to be common answers.

Dr Keil responded to Mr Jacobs by arguing that despite international comparisons, the UK has much more to do. He also refuted the idea that unit costs will rise if everyone moves onto smart meters. On Ms Orford's question, he argued in favour of strong leadership that could drive forward a social tariff, which would trump all other barriers.

With regard to international comparisons, Adam Scorer argued that there are some markets where the eligibility requirements are much more flexible, whereas the UK has narrowed down on means-tested benefits.

Peter Holland argued in response to Mr Jacobs that the key point around smart meters is less about the fixed costs and more about helping households use less water.

Liz Twist MP closed the meeting by thanking all the speakers and those who attended in person and remotely.