TA 8.1 Tackling Affordability and Vulnerability Technical Annex

September 2018
Version 1.0

Southern Water

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Purpose:

This technical annex provides supporting evidence to Chapter 8 - Addressing affordability and vulnerability. In particular, it provides detailed and supplementary evidence of our:

- Comparative performance in supporting customers
- Analysis of best practice support for customers based on our cross-sector review
- Analysis of customers' ability to pay their bills
- Detailed activities underpinning our Reach and Support Strategy
- The efficiency of our approach to supporting customers who struggle to pay
- Analysis of customers in wider circumstances of vulnerability
- How we will support our customers in wider circumstances of vulnerability

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Annex.

Table 1 - Relevant Ofwat tests

Ref	Ofwat test		Comment
Primary Focus Areas			
AV1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?	• The company's approach to affordability will be based on strong evidence and customer engagement. The company will demonstrate it understands what affordability looks like for its customers now and in the future and that this is reflected in its plan, alongside a high level of customer support for the affordability of the plan. • The company's approach to affordability for those struggling to pay will be highly effective and efficient. This is supported by strong evidence, for example, a net customer benefit analysis of a company's social tariff, demonstrating that the company has taken the most cost efficient approach, or strong evidence that customers are supportive of social tariffs that go beyond the revenue-neutral level, and that this assistance is provided in the most efficient way. • The company will take a targeted, efficient and effective approach to supporting customers in circumstances which might make them vulnerable. This approach will bring about a step change in the identification, accessibility	This annex provides supporting evidence to demonstrate the affordability of bills in AMP7. Specifically sets out some of our understanding of affordability in our customer base. This includes projections of the number of customers that might struggle to pay their bills in AMP7.
AV2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?		This annex provides supporting evidence to demonstrate the affordability of bills beyond AMP7. Specifically, it sets out some of our understanding of affordability in our customer base. This includes our projections of the number of customers that might struggle to pay their bills beyond AMP7.
AV3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling or at risk of struggling to pay?		This annex presents analysis and evidence used to inform the financial assistance and support we will provide in AMP7 and beyond. This includes projections of customers struggling to pay their bills, the results of cross sector benchmarking, and a best practice review. It also demonstrates the approach we have used to challenge our support for efficiency.
AV4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable,		This annex presents analysis and evidence used to inform our approach to supporting customers in situations of vulnerability. Specifically, it: • Details the range of support we currently provide, and the increase in support we will provide in AMP7 • Summarises cross sector benchmarking, analysis of our current support and a best practice review.

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Ref	Ofwat test		Comment
	including proposing a bespoke performance commitment related to vulnerability?	and support for these customers. • The company will adopt a high-quality bespoke performance commitment on its approach to supporting customers in circumstances which might make them vulnerable. • The company's approach for affordability and vulnerability should be supported with evidence of high-quality, independent challenge, scrutiny and assurance from the Customer Challenge Group and evidence from other expert organisations	• Presents a detailed analysis of the requirements of customers who are in situations of vulnerability, and an appraisal of the potential number of customers that could require support. • Details the range of support we currently provide, and the increase in support we will provide in AMP7
Secondary Focus Areas			
EC1			Customer-engagement

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Defining Affordability and Vulnerability

Affordability

We define affordability as the ability of customers to pay their water bill. This is consistent with Ofwat's definition of affordability as set out in the PR19 Methodology.[1]

We use both the 3% and 5% bill to income thresholds to understand the affordability of our bills, and the extent to which our customers might struggle to pay. As set out in Ofwat's Affordability and Debt Report[2], the UK and Welsh Governments have previously used a 3% bill to income ratio as a measure for water affordability. Ofwat state that according to indicators, affordability risks emerge at the point when household disposable income spend on water services exceeds 3% or 5% of disposable income.

Aligned to this, we have used 3%[3] and 5%[4] bill-to-income ratio metrics to measure affordability in our customer base.[5] Here, we consider that:

- Bill-to-income ratio > 5%: struggling to pay
- Bill-to-income ratio < 5% and > 3%: at risk of struggling to pay

Our approach to affordability is anchored by our Essentials tariff which is designed to help customers who are struggling to pay. It provides a discount of at least 20% on future bills.

Vulnerability

We consider a customer as being in a state of vulnerability when they 'require additional help and support to receive an accessible and inclusive service. The barriers to service may be transient or permanent in nature.'

This definition has been developed and iterated through customer and stakeholder input, and has been tested with our Customer Challenge Group (CCG), and Customer Inclusion Partnership Network (CIPN).

We consider that customers who are struggling or at risk of struggling to pay are in a position of vulnerability, specifically financial vulnerability. There are also a wider range of circumstances, many of which are non-financial, that are also included in our understanding of vulnerability.

Importantly, we know that defining 'types of vulnerability' is not sufficient when supporting customers in vulnerable circumstances due to the complex and dynamic links between different circumstances, and the varying requirements they induce. This has motivated our approach of developing a holistic strategy to support customers in vulnerable circumstances, whatever circumstances these may be.

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[1] Ofwat: Delivering Water 2020: Our final methodology for the 2019 price review (2017).
[2] Ofwat: Affordability and debt 2014-15 (2015).
[3] For water and wastewater only customers, we use thresholds of 1.1% and 1.9% respectively.
[4] 1.8% or 3.2% for water and wastewater only customers respectively.
[5] We note that our income data source differs slightly as compared to that used by Ofwat. The data we used for our model was equivalised household income, net of tax. Ofwat used unequivalised household income data after housing costs. Equivalisation is a technique widely used in economics. It adjusts the household income taking account of household size and composition, allowing different types of households to be compared more easily.

Benchmarking our performance on vulnerability

We have benchmarked our historic performance in supporting customers in financial and non-financial vulnerability to understand key areas for prioritisation. Further information on our performance can be found in Data Tables App4.

Financial support

Our approach to financial vulnerability support is reasonably well developed; Figure 1 illustrates our good performance in terms of number of customers registered per 10,000 connections on our social tariff as compared to other WASCs. We have performed significantly above the average WOC and WASC level.
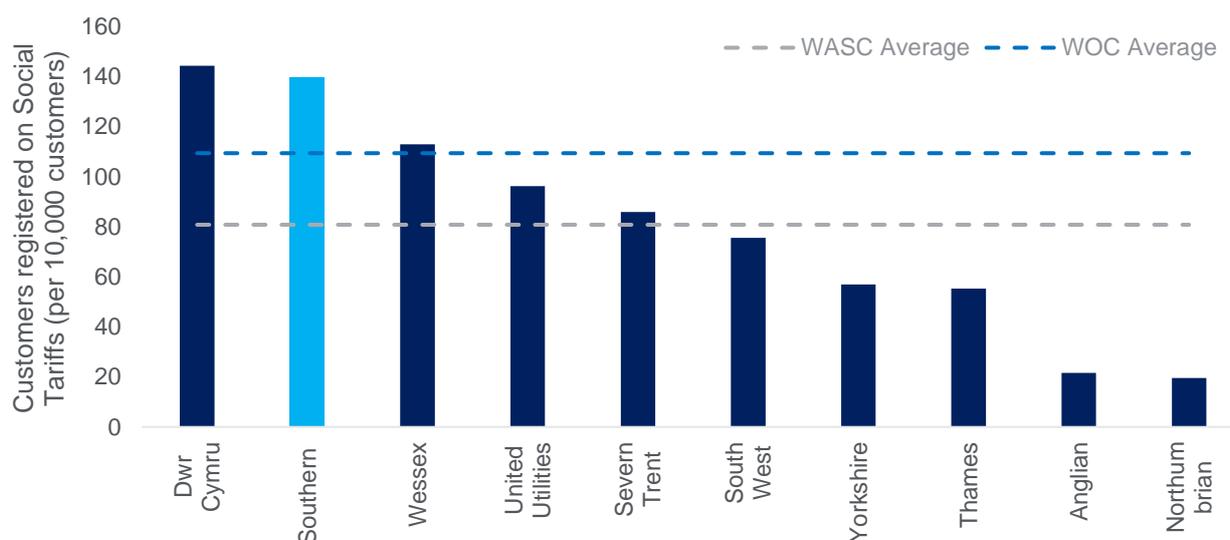
Table 2 - Customers helped by our social tariff per 10,000 connections (2016-17)[6]

Our support provision per 10,000 customers is above the median level for our debt write off scheme, and at the median level for WaterSure, however we perform relatively poorly in our support provision for Water Direct. [7] This is likely partly due to the fact that customers cannot both be on our Essentials Social Tariff and WaterSure.

This analysis has helped to inform our priorities for increasing the uptake of support in AMP7. Our projections are set out in Chapter 8 Helping Customers who need our support.

Non-financial support

Quantitative analysis indicates that the number of different types of special assistance offerings we provide is below average as assessed by a CCWater desktop review (see Figure 2). Although we reach the median number of support services with regards to accessible communications, there is scope for improvement, especially around accessibility and safety.

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[6] CCWater: Staying afloat – data appendices (2016), SWS analysis
[7] CCWater: Staying afloat – data appendices (2016), SWS analysis
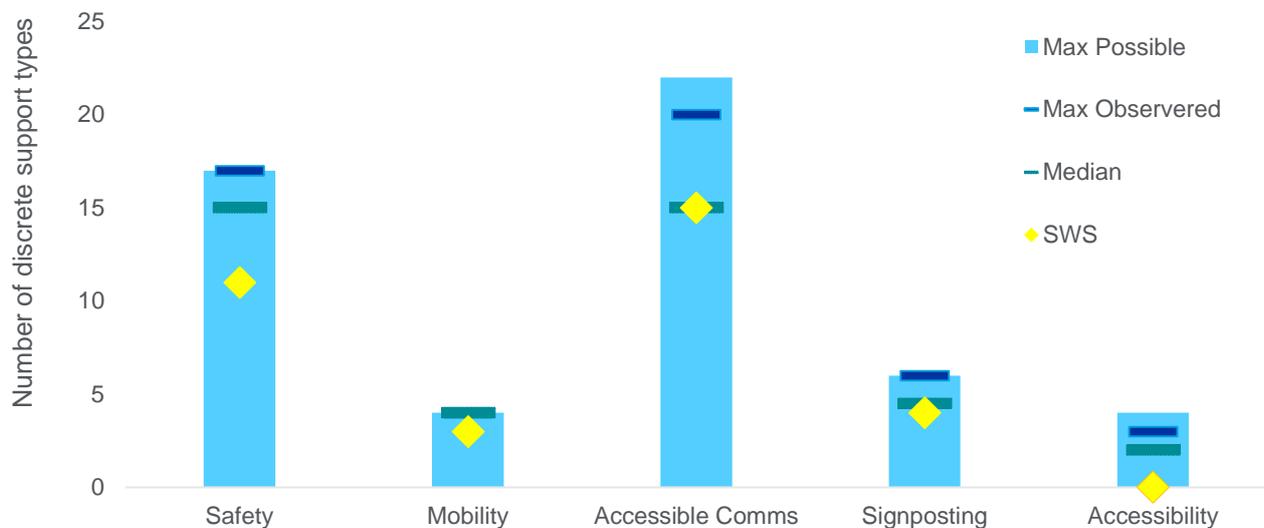
Table 3 - Number of support services provided by type [8]
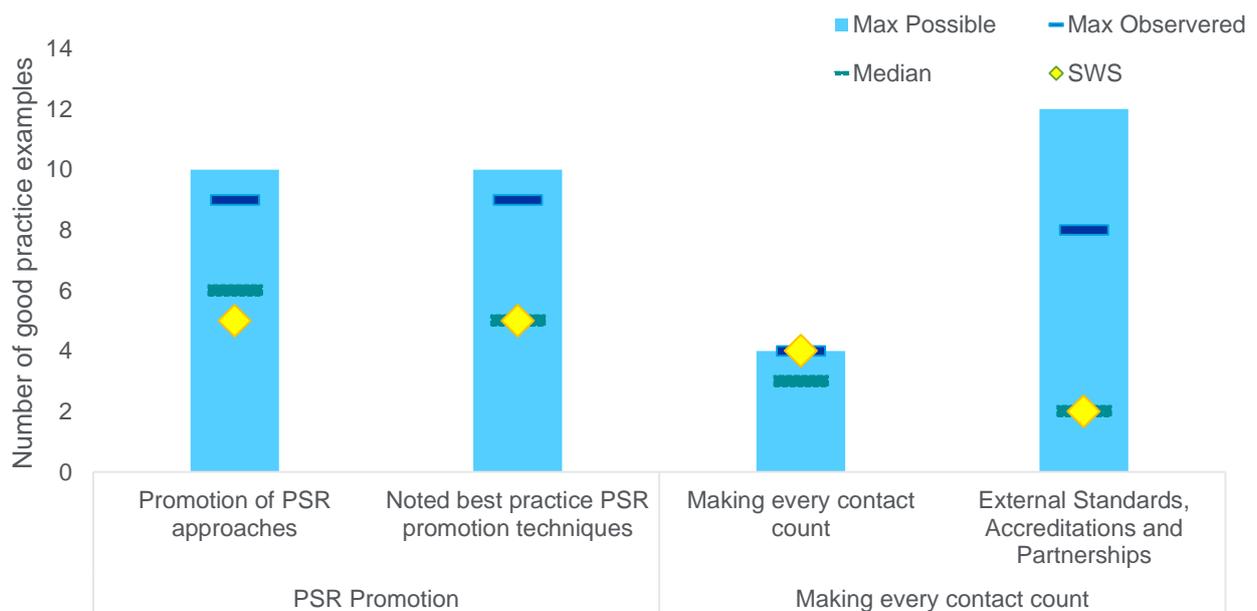
Table 4 - Embedding good practice vulnerability support across organisations[9]

Table 4 illustrates that we are already performing relatively well in our contacts with customers however there is more to do in our promotion of our Priority Services Register (PSR) and our external standards, accreditations and partnerships. Our Reach and Support strategy has identification and accessibility as a key pillar, and the formalisation of partnerships is a priority for AMP7.

We also have significantly fewer customers signed up our PSR per 10,000 customers than other WOCs and WASCs as illustrated by Table 5. Expanding our support offerings and the number of

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[8] CCWater: progress review of Priority Services and Safeguarding report, SWS analysis
[9] CCWater: progress review of Priority Services and Safeguarding report, SWS analysis

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people we support through our PSR are key benefits of our Reach and Support strategy, quantified in Chapter 8 Helping Customers who need our support.

Table 5 - Cross industry PSR uptake[10]

Group	Customers on PSR per 10,000 connections (16/17)
Southern Water	68
WASCS Average	105
Industry Average	97

British Standards Institute Gap Analysis

In 2016, we commissioned the British Standards Institute (BSI) to undertake a gap analysis of our services against the International Standards Organisation (ISO) for Inclusive Service Provision. This cross-sector standard identifies and specifies the critical procedures to ensure inclusive services are accessible to all consumers, equally.

The gap assessment identified a number of key findings which have been used to help us improve our approach over the past two years and develop the structure and initiatives of our Reach and Support strategy. The findings of the report included:

■ **A good understanding of requirements:** We demonstrated high levels of commitment and understanding across our management functions, and established community engagement and vulnerability requirements at a primary level**.** Application forms for tariffs were clear and accessible.

■ **Improve our training and understanding of risk factors:** It was not clear in the review that there was a formal operator risk identification process in place for call agents, and there was inconsistent visibility of customer vulnerability on operator systems. In addition, further dedicated vulnerability training for staff was identified as something that could be improved.

■ **Increase the accessibility of our website:** While it was found that support could be accessed through our website, and the design considered the needs of customers in vulnerable circumstances in some areas, front page direct access to relevant information would be beneficial.

■ **Improve our approach to debt management:** Information sharing and a solution-led approaches should be introduced as part of a pro-active rather than re-active response to debt management.

■ **Processes, policies, objectives and performance monitoring:** We needed to do more to formally define processes and procedures, and improve consistency of monitoring, reporting and KPI tracking relating to customer vulnerability.

We have already addressed many of the findings of the BSI report. For example, we have launched our #HeretoHelp campaign to improve accessibility and are working with our Customer Inclusion Partnership Network (CIPN) to raise awareness and accessibility of support for customers that are hard to reach. We have already defined our Safeguarding Customer Welfare policy and implemented this across our organisation. We have created a collaborative and tailored approach to debt management (see TA.13.1 - Doubtful debt and debt management), and we have created an expert panel of independent assessors (our CIPN) and a bespoke vulnerability performance commitment to help us track and monitor our performance.

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[10] CCWater: Staying afloat – data appendices (2016)

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Assessment of best practice support for vulnerability

Customer vulnerability is a key focus for regulators and stakeholders across a range of industries, and many companies are improving their approaches to supporting customers in vulnerable situations. Despite the differences between sectors, much of the guidance and many of the best practice initiatives are applicable to the water sector. Table 6 lists a number of the sources we have considered in conducting a review of guidance and best practice in supporting customers. The key themes we have identified have formed a large part of our Reach and Support strategy as set out in Chapter 8 Helping Customers who need our support.

Table 6 - Selection of sources considered in best-practice review

Author	Title	Date
BBA	Improving outcomes for customers in vulnerable circumstances	2016
CCWater	Priority Services Progress Review Water Industry (England and Wales)	2018
CCWater	Special Assistance Schemes Review	2016
CCWater	Staying afloat – Addressing customer vulnerability in the water sector	2016-17
Citizens advice	Struggling to pay your bills*	N/A
CRESR	Delivering Affordability Assistance to water customers: cross sector lessons	2016
Department for Business, Energy and Industrial Strategy	Modernising Consumer Markets: Consumer Green Paper	2018
DMA	The vulnerable consumer: Recognising vulnerability and taking a customer-centric approach	2016
Echo	Counting the cost of debt recovery	2018
FCA	Occasional Paper No.8 – Consumer Vulnerability	2015
HM Treasury	Breathing space: call for evidence	2018
Huntswood	Customers in Vulnerable Circumstances	2017
Money Advice Trust	Vulnerability, mental health and the energy sector: a guide to help identify and support consumers	2017
Ofcom	Consumer Vulnerability*	N/A
Ofcom	Access and Inclusion in 2016	2017
Ofgem	Vulnerable customers in the retail energy market	2017, 2018
Ofgem	Customer Vulnerability Strategy: Prepayment meters*	N/A
Ofwat	Vulnerability Focus Report	2016
Ofwat	PR19 Methodology	2017

Author	Title	Date
Ofwat	Affordability and Debt	2014-2015
UK Government	Warm Home Discount Scheme*	N/A
UK Government	Cold Weather Payment*	N/A
UK Government	Support for Mortgage Interest (SMI)*	
UKRN	Making better use of data: identifying customers in vulnerable situations	2017
Various companies	*Various company-specific special assistance webpages and company authored reports**	N/A

*Webpages/ Websites

Cross-sector regulator and stakeholder guidance

Regulator guidance is often tailored to specific industries. However, when it comes to the support for customers in vulnerable situations (both financial and non-financial), a number of high level principles can be distilled that apply across the regulator guidance we have reviewed.

- **Sensitive response and support to all customers:** Companies should provide a sensitive response to all customers in vulnerable circumstances and offer a range of support and communication channels to customers that is suited to the needs of individual customers.

- **Embedding a culture of support:** Companies should develop a consistent approach to supporting customers in vulnerable situations that is embedded holistically throughout the organisation, with staff incentivised and empowered to stop, think and give customers in vulnerable situations the time and attention they require.

- **Effective training for all relevant staff:** All staff should be aware of the approach to vulnerability and understand the key escalation and referral lines within the organisation. Staff in positions to deal with customers in vulnerable situations on a regular basis should be trained on a wide variety of requirements, support and approaches to tackling vulnerability.

- **Use a variety of approaches for identification and make every contact count:** Companies should use a range of tools including internal data, data sharing with partners, a dynamic understanding of vulnerability and moments of change in relationships with customers to identify customers who might require support. Companies should be proactive in their support where possible, and customers should not need to repeat their requirements multiple times.

- **Raise awareness to increase support provision:** Companies should proactively promote the support available and encourage self-disclosure of requirements through empathetic disclosure processes. Application and disclosure processes should be simply and easy, with provisions made for nominated contacts where appropriate.

- **Work with experts:** Companies should have awareness of further support options available to customers (including through third parties and other utility suppliers). Formal and informal collaboration can aid signposting where further support is required and help to reach customers that would otherwise be hard to reach.

- **Collaborate with industry colleagues:** Companies should work with partners in the water sector and other industries to tackle issues around vulnerability. In particular, companies can work together to bring alignment and consistency in the support available to customers.

- **Evaluate and monitor support regularly:** Companies should undertake monitoring and evaluation of their provisions for

vulnerability on a regular basis, with a focus on customer outcomes and engagement with customers to understand the effectiveness of support.

Cross-sector good practice support

We have considered examples of leading initiatives and support offerings across a number of sectors including energy, financial services, local government and telecoms. In doing so, we have synthesised a number of key 'initiative groups', summarised below, and have embedded the learnings from this best practice in our Reach and Support Strategy.

- **Identifying vulnerability pre-emptively:** Several companies actively identify potentially customers in vulnerability through data analysis and providing training to staff on potential cues and triggers.

- **Aligning incentives for customers and employees:** Some companies designing employee incentives to help ensure that a consistent level of service is delivered to all customers.

- **Company-wide approaches to vulnerability:** Some companies install an organisation-wide approach to vulnerability, making best use of specialised teams were appropriate.

- **Utilising expert knowledge of charities:** Many companies have developed strong links with local and national charities, signposting further support and enhancing their identification procedures.

- **Bespoke approaches to those struggling to pay:** Common identified initiatives to assist those struggling to pay include tailored approaches to debt repayment, and "basic" service provisions for those who can't afford full product packages.

- **Flexible payment options:** Where appropriate, some companies make allowances for customers with high demand/usage due to situations of vulnerability.

Reach and Support – detailed approach

In Chapter 8 Helping Customers who need our support, we set our overall strategy for support supporting customers, Reach and Support.

Here we set out in detail the key, new initiatives that underpin our Reach and Support strategy.

Identification and accessibility

We will make our support (financial and non-financial) accessible to customers by raising awareness and by identifying those that require support through easy self-identification and proactive use of all of our customer contacts and data. This approach provides information on individual's needs and requirement that allows us to tailor our services. The key, new initiatives are:

- **Easy disclosure of requirements:** Pre-population of forms where possible and dedicated support for customers to complete forms, such as home visits or telephone assistance. Simplification of criteria for support (for example aligning social tariff with water companies in our region) and step-change in disclosure receipt processes through TEXAS[11] and IDEA[12] methodologies which help customer-facing staff to support customers in disclosure, regardless of the customer's particular requirements and needs.

- **Awareness-raising mechanisms:** Use partner relationships to proactively raise awareness of Reach and Support using multiple channels, including a Hard to Reach approach, and our #HeretoHelp campaign.

- **Identifying vulnerability triggers:** Improve training for agents through relationships with expert partners to better spot and act on vulnerability identifiers in customer contacts across our entire business. This can include signs of financial difficulty and notably high consumption data.

- **Embed customer vulnerability data:** Standardise proactive data collection and embed in customer accounts to provide granular view of customer requirements to agents who can make customers aware of support available in business-as-usual activities. All our activities will be GDPR compliant.

Support and Services

We will adapt to our customers' requirements providing a wide range of support tailored to our customers' individual needs. Each customer has different requirements. We do not group our customers into 'vulnerable groups', instead we assist customers to overcome specific barriers they face to receive an inclusive and accessible service. The key, new initiatives are:

- **Support for those struggling to pay:** See Chapter 8 and the below section 'Efficient support for customers who are struggling to pay their bills'.

- **Support to those with wider vulnerability:** See Chapter 8 and the below section 'Expanding support for customers in wider vulnerable circumstances'.

- **Focus on transient vulnerability:** We are implementing a payment holidays scheme for customers facing particular temporary challenges such as those set out in the section 'Assessment of wider vulnerability' below'. These arrangements, for individual customers, will be managed by our specialist affordability team, which will then provide support through a payment plan to help get the customer back on track.

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[11] TEXAS – Thank them, Explain how their information will be used, explicit consent, Ask three key questions to understand their situation, Signpost to external and internal help.
[12] IDEA – Impact, Duration, Episodes, Assistance.

- **Approach to service provision:** Our support for customers (whether financial or otherwise) will be case managed through specialist teams. This will mean that the support is tailored to the individual needs of customers such as nominated contacts for customers who find it difficult to engage with us, large print or braille bills for the visually impaired, and sign language and alternate language communications for those whose first language is not English.

Delivering with expert partners

We are working with external expert organisations to deliver leading signposting support to our customers in situations where the tailored support they require extends beyond what we can provide as a water services company. The key, new initiatives are:

- **Increased signposting:** Increase available signposting on website to a wider range of partners and industry colleagues to better allow us to tailor the advice we give to our customers for their requirements.

- **Formalise partnerships:** Including with members of our CIPN such as StepChange, Mind and AgeUK.

- **Partner collaboration:** Collaborate with our CIPN on a series of initiatives and ongoing evaluation of our approach. Leverage our partners' expertise in identification to share data and best practices to increase accessibility of support and identification of customers who need our help. Adopt data sharing referral schemes with organisations such as CAB, Money Advice Trust and the DWP.

- **Rural community support:** Partner with Rural England to provide targeted support to our rural communities and working with local authorities to build awareness through their community hubs.

Organisational processes

We will adopt organisational processes to embed support for customers in situations of vulnerability throughout our organisation and to equip our staff to identify and support our customers effectively through monitoring customers' changing requirements. The key, new initiatives are:

- **Data and analytics for proactive contact:** Make better use of internal and external data to provide proactive contact to customers who may be struggling with vulnerability, including those who are struggling to pay after receiving support

- **Vulnerability-focused staff training:** Deliver wider vulnerability training initiatives to ensure staff have the skills to be empathetic to individual cases of vulnerability and tailor their conversations and support they offer. Work with partners to deliver this training and embed operational success into employee reward systems

- **Vulnerability centre of excellence:** Dedicated teams to act as a focal point for support and case management to ensure it is tailored and effective for all individual customers' requirements.

Evaluating our approach

We work with our customers and stakeholders to continually develop our approach to supporting customers in vulnerable situations, adapting to changing customer needs at the individual level and implementing best practice initiatives. The key, new initiatives are:

- **Independent audit of performance:** Set the bar for performance monitoring and evaluation by leveraging our CIPN to review our approach to tackling vulnerability.

- **Customer engagement:** Engage customers who need our help in the design and trial of improved support.

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- **Ongoing monitoring and case management:** Liaise with individual customers receiving financial and non-financial support to make sure it continues to be tailored to their needs using our specialist teams.

A cross regional approach

We are collaborating with water companies and service providers across our region to implement a common approach to supporting customers in situations of vulnerability. The key, new initiatives are:

- **Cross-regional data sharing:** Work with our cross-region working group to deliver affordability and vulnerability data sharing across the South East[13].

- **Cross-sector data sharing:** Explore data-sharing pilots with EDF, SSEN and UKPN to exchange information regarding customer requirements as tracked by energy and water PSRs. We are also working in the ongoing Water UK / Energy Networks Association initiative for cross-sector data sharing

- **Consistency in approach:** Align with our cross-region partners to simplify the support process for customers, including social tariff eligibility criteria to simplify registration and training and process initiatives.

How we developed our Reach and Support initiatives

When defining the initiatives that underpin Reach and Support, we conducted a prioritisation exercise in order to identify the most effective and efficient activities to deliver this proposition. We measure effectiveness through our bespoke performance commitment for vulnerability. A high level illustration of the initiative prioritisation process can be found in Table 7, and further detail below.
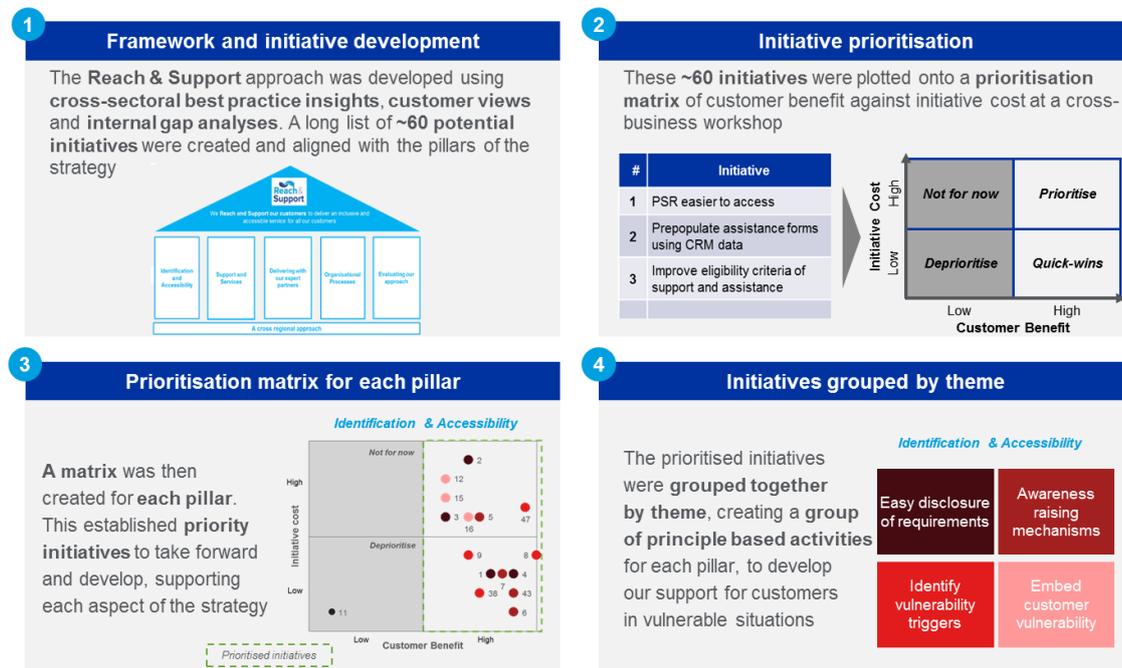
Table 7 - Initiative prioritisation process

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[13] Note that all data sharing will take place in strict accordance with the rules set out under the GDPR. No data will be shared without explicit consent of the customer and proactive communications will be clear and accessible to all customers. A cross energy/water sector working group is developing a data privacy impact assessment with the assistance of the Information Commissioner's Office that will govern data sharing across water/ energy industries, and we will seek to adhere to UKRN's principles on data sharing.

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1. The activities required to deliver Reach and Support were developed using cross-sectoral best practice insights, customer and stakeholder views, and an internal gap analysis of our support and services. A long-list of approximately 60 initiatives were developed and aligned with the pillars of the strategy.

2. These approximately 60 initiatives were plotted onto a prioritisation matrix of customer benefit against initiative cost (see Table 8). This process allowed us to challenge the efficiency of our approach through a workshop with internal experts.
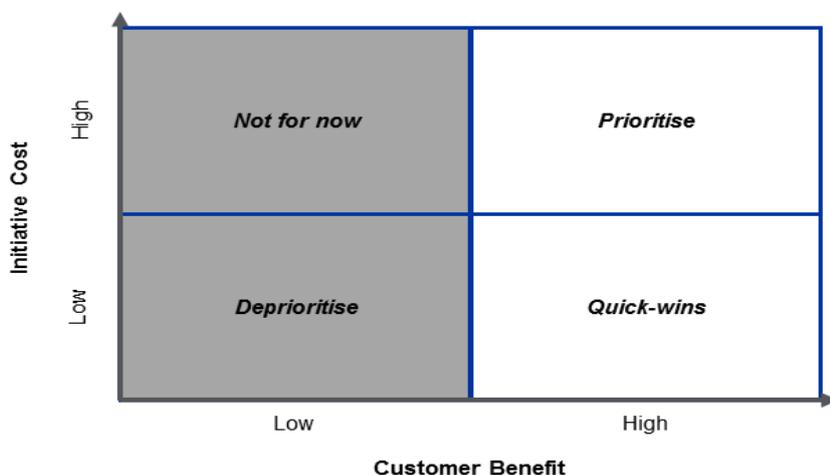

Table 8 - Prioritisation matrix

By conducting this exercise at an individual initiative level, we ensured each activity AMP7 initiative would deliver a relatively high customer benefit. We made sure that if a particular activity had a high cost associated with it, it would deliver a particularly large customer benefit. Conversely, we eliminated those initiatives which had limited customer benefits.

In addition to this method of prioritising activities using a cost benefit framework, we are also challenging our retail delivery costs (see Chapter 13 Retail Controls). By testing our delivery strategy at both a granular and high (aggregate) level, we are ensuring that our approach to vulnerability is efficient.

3. As the initial long-list of initiatives were aligned to the Reach and Support pillars, the output of this activity was to produce a matrix for each pillar. This enabled us to establish, for each element of delivering Reach and Support, which activities should be taken forward and developed further, supporting each aspect of the strategy.

The prioritised initiatives were grouped together by theme creating a group of principle based activities for each pillar, to allow us to develop our support for customers in vulnerable situations.

The overall cost of our Reach and Support initiatives can be found in Chapter 8 Helping Customers who need our support and the cost of our retail plan is in Chapter 13 Retail Controls.

Assessment of the customers who are struggling to pay

To provide effective support to customers that struggle to pay, we need to understand affordability across our customer base.

We operate in a relatively affluent region as measured by household income. However, income varies significantly within our region. [14] Figure 9 below shows that while we have a number of NUTS[15] regions well above the UK average for Gross Household Disposable Income (GHDI) per capita, we also have a number of regions below average.
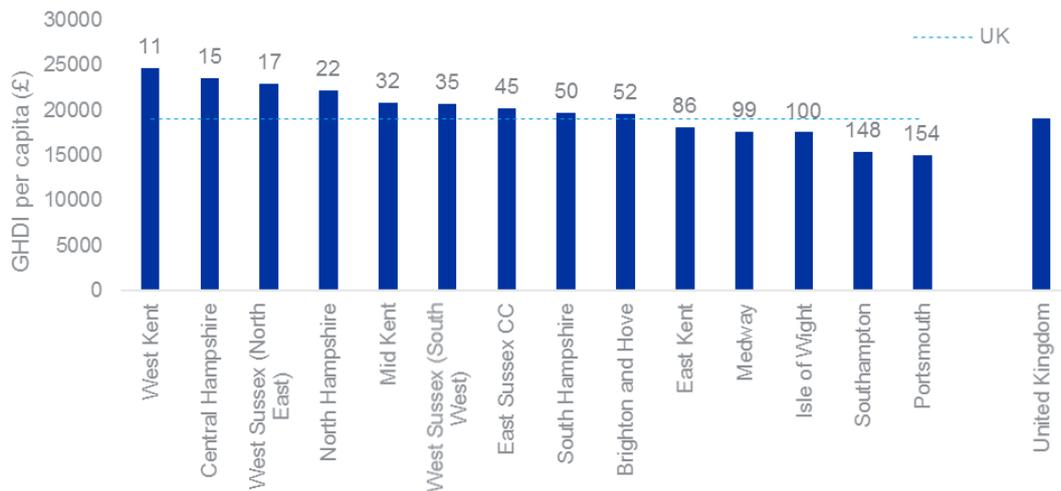
Figure 9 - Gross household disposable income per head by NUTS region (2015)[16]

Table 10 below illustrates income deprivation by geographical region as measured by the Department for Communities and Local Government (DCLG). Again, we find significant variations across our region, with a darker colour representing a more deprived area.

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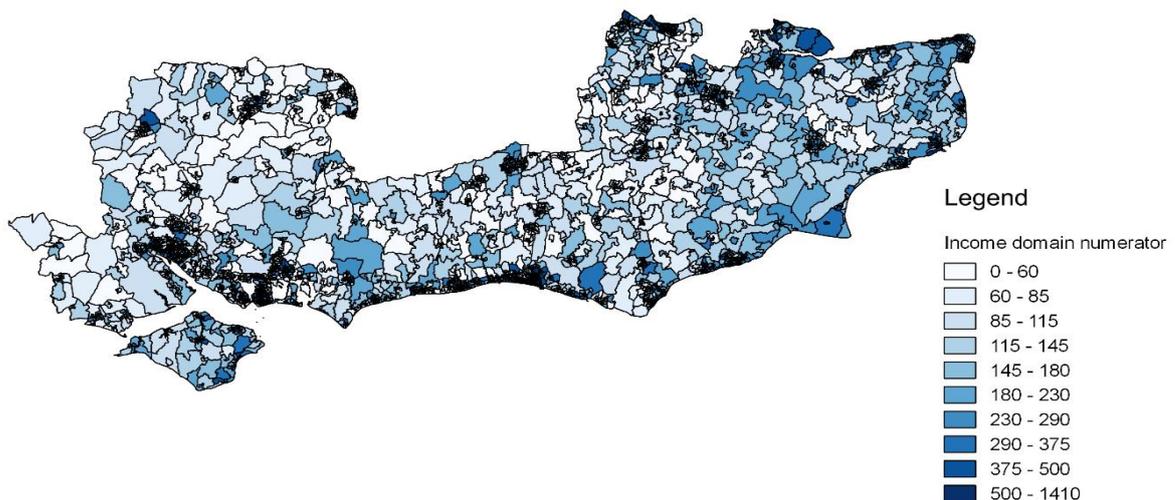
[14] ONS: Gross Household Disposable Income (2015), SWS Analysis
[15] Nomenclature of Territorial Units for Statistics
[16] ONS: Gross Household Disposable Income (2015), SWS Analysis

Table 10 - Income deprivation by geographical region[17]

In order to understand the scale of affordability issues within our customer base for AMP7 and beyond, we conducted a comprehensive analysis of customer affordability now and out to the year 2040. The analysis contains a view of charges and income, now and in the future, for each of our customers in our customer base for whom we had the relevant data. In particular, we used data on:

- **Charges and bills:** We calculated charges for each customer based on 16/17 consumption data and their tariff. We projected these charges forward using AMP7 and long-term bill projections as set out in Chapter 8 Helping Customers who need our support.

- **Income data:** We sourced banded household equivalised income data from Experian at the individual customer level.[18] Experian also provided us with projections of income growth. Income growth projections where specific to the income bands provided and the counties within our operational area. For years after 2025 an aggregate year-on-year inflation rate was applied.

Using this data, we calculated a bill-to-income ratio for each of our customers in our customer base from 2017/18 to 2040/41.[19]

Table 11 - Overall affordability in AMP7 and in the long term (before assistance)[20]

	17/18	19/20	24/25	30/31	35/36	40/41
Number of customers struggling to pay	98,000	102,000	90,000	92,000	89,000	87,000
Percentage of customers struggling to pay	5.2%	5.1%	4.4%	4.1%	3.8%	3.5%
Number of customers at risk of struggling to pay	153,000	165,000	162,000	165,000	165,000	165,000
Percentage of customers at risk of struggling to pay	8.1%	8.3%	7.8%	7.4%	7.0%	6.6%

Our analysis shows that, if we did not provide any financial assistance, 90,000 customers could be struggling to pay at the end of AMP7, and 87,000 by 2040/41. While this shows that affordability is likely to improve over time (both in AMP7 and in the longer term), it also demonstrates that there is a clear need for the provision of financial assistance.

Table 12 below provides a more granular view of affordability, broken down by different income bands. As we would expect, we see that in lower income bands, there is a significantly greater proportion of customers that struggle to pay or are at risk of struggling to pay. It is therefore appropriate to target support towards customers on relatively low incomes, and we are adapting the eligibility criteria for our social tariff accordingly.

Table 12 - Percentage of customers in each income band who could struggle to pay[21]

Income Band	2017/18	2024/25	2040/41

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[17] DCLG: Index of Multiple Deprivation 2015, SWS Analysis
[18] This data was provided after income tax, national insurance, council tax and the household size and composition were taken into account.
[19] Note that where we had missing data for a given customer, they were excluded from the model. To compensate for this, we scaled up our output by the proportion of customers for whom there was missing data.
[20] SWS PR19 Affordability Models
[21] SWS PR19 Affordability Models

£	>3% <5%	>5%	>3% <5%	>5%	>3% <5%	>5%
< 10,000	21%	65%	28%	55%	33%	45%
10,000 - 14,999	36%	8%	35%	7%	28%	5%
15,000 - 19,999	15%	2%	14%	1%	9%	1%
20,000 - 24,999	6%	1%	4%	0%	2%	0%
25,000 - 29,999	3%	0%	3%	0%	3%	0%
30,000 - 34,999	1%	0%	1%	0%	1%	0%
35,000 - 39,999	1%	0%	0%	0%	0%	0%
40,000 - 49,999	0%	0%	0%	0%	0%	0%
50,000 - 64,9999	0%	0%	0%	0%	0%	0%
> 65,000	0%	0%	0%	0%	0%	0%

Debt and affordability

Affordability issues can interact with debt to make it more of a struggle for customers to pay. In 2017/18, at the time of our analysis, we found that 26% of customers who were in debt with us were also struggling to pay. The fact that an even larger proportion of customers in debt *do not* struggle to pay highlights the need for a comprehensive approach to debt management for those who can afford to pay, but do not pay. Debt management is addressed separately in TA.13.1 - Doubtful debt and debt management

Table 13 - Affordability and debt[22]

% of customers in debt with low income (under £16105)	25%
% of customers in debt who are struggling to pay	26%
% of customers with affordability issues that are in debt	33%

We also find that average debt is higher for customers who are struggling to pay than other customers. For dual service customers, the average debt of customers in debt is £634. However, where we restrict the sample to customers in debt that are also struggling to pay, we find the average debt is £1150. This compares to an average debt of £454 for customers who are in debt but do not have affordability issues. Overall this suggests that, as we would expect, debt challenges are more acute for customers who struggle to pay their bills.

Customers who are struggling to pay their bills and in debt may be eligible for both our social tariffs and our payment matching scheme set out in Chapter 8 and the section below 'Efficient support for customers who are struggling to pay their bills'.

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[22] SWS PR19 Affordability Models

Efficient support for customers who are struggling to pay their bills

In Chapter 8 Helping Customers who need our support we set out the support we provide for customers who are struggling to pay their bills, we also set out some of the reasons customers fail to pay their bills.

We have challenged this assistance to make sure it is efficient. To do this, we have taken a four step process which is set out below.

Link support to specific barriers to payment

This first step is to make sure that all the support we provide is directly linked to the barriers to payment our customers face. That is, we only provide support in AMP7 that directly tackles the reasons our customers struggle to pay their bills. Table 14 below identifies how each of our financial assistance types tackles barriers to payment that customers face, and whether they support customers who 'can't afford to pay now' or 'can't afford to pay at all'.

Table 14 - Barriers tackled by the support provided to customers who struggle to pay

Support type	Barriers tackled	Can't afford to pay now	Can't afford to pay at all
Core schemes and tariffs			
Essentials Social Tariff	Barriers faced by customers with low incomes	✗	✓
WaterSure	Abnormally high bills due to medical or other *required* high consumption	✗	✓
Water Direct	Budgeting challenges and low income	✓	✓
NewStart	High levels of outstanding debt	✗	✓
Payment plans			
Payment Plans	Mid-high levels of debt, temporary cash flow problems or transient vulnerability	✓	✗
Payment Holidays	Short term difficulties such as temporary cash flow issues, serious health issues, or bereavement	✓	✗
Other support			
Water efficiency advice visits	High bills due to a lack of understanding about water saving techniques or other reasons	✓	✓
Specialist debt advice	Challenges relating to a variety of transient and longer term factors,	✓	✓

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Support type	Barriers tackled	Can't afford to pay now	Can't afford to pay at all
	and are also tackling outstanding debt		
Referral to expert partners	Where a customer faces barriers that are greater than the support we can provide as a water company	✓	✓

Challenge the eligibility criteria of our schemes and tariffs

The second step is to make sure that support is only provided to those customers who need it most, in line with our customers' preferences that financial assistance support is only provided where there is genuine hardship. Table 15 sets out the eligibility criteria that customers are required to fulfil in order to receive support in the form of either an ongoing scheme or tariff, or a one-off intervention.

Table 15 - Eligibility criteria of schemes and tariffs

Scheme / Tariff	Eligibility criteria
Ongoing schemes and tariffs	

Essentials	(From 2020)
	• Gross household income of less than £16,105 to include all types of income except for:
	  o Child tax credit
	  o Disability living allowance & personal independence payment
	  o Attendance allowance
	  o Housing & council tax benefit
	  o Mortgage interest relief

WaterSure	• Metered household (or assessed charge, with 2+ bedrooms) • Customer / household member receiving one of a selection of benefits / tax credits • Either responsible for 3 or more children under age 19 in full time education, or have one of a specified list of medical conditions that requires high water consumption
NewStart	(From July 2018) • No payment made in the past 1.8 years (22 months) • Passed an income & expenditure assessment • Can afford to pay for their usage, and contribute towards the debt on their account (at a minimum of £3.70 / month) • Read and accepted a verbal declaration • Made no offer of a lump sum payment • Has no existing water usage issues (including high value bills)
Water Direct	• Have at least £50 in arrears

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Scheme / Tariff	Eligibility criteria
	• Receiving one of the following benefits: Job Seekers Allowance, Pension Credits, Income Support or Employment and Support Allowance
One-off interventions	
Special Debt Advice	• Historic arrears
Water Efficiency advice visits	• High water consumption

We have reviewed and improved the eligibility criteria for a number of our schemes and tariffs to ensure that we are not spending customers' or our money supporting customers who are not in genuine need. In particular:

- **Essentials Social Tariff**: we are altering our eligibility criteria to align with other companies in our region. Moving from a bill-to-income ratio to an income eligibility threshold is simpler and more resilient to manipulation. It is also more clearly aligned to the reason our customers (for whom this tariff is intended) are struggling to pay their bill, namely low income. Our customers support this change.

- **NewStart**: We have changed our methodology and eligibility criteria of our debt matching scheme in order to make the scheme resilient to customer manipulation. In particular, we have removed any incentive for customers to deliberately not pay their bill to receive support, thereby ensuring only customers in debt for acceptable reasons are accepted onto the scheme.

Use of dedicated team to deliver support

In 2018 we launched our Affordability Team, tasked with the management of affordability support. This team is involved in the case management of customers facing affordability challenges, and will ensure that the right support is provided to customers who are in genuine need to help them overcome specific barriers to payment. In addition, by improving our performance commitment to measure the effectiveness of support rather than uptake, we ensure that the right incentives are in place.

Customer validation of approach

Our customers are supportive of the approach we have taken to deliver effective and efficient support. Our financial assistance is aligned with the preferences of our wider customer base; they asked us to provide support to customers where there was genuine hardship and they favour bill discounts and water efficiency support. 51% of our customers in vulnerable situations believed our range of financial assistance measures was a great idea, with only 32% expecting it as standard. 60% of our customers find a social tariff acceptable, and we have aligned our support provision with the willingness to pay of our customers. Our CCG endorsed the extent of appropriate support planned for customers at risk of struggling to pay.

Assessment of wider vulnerability

In addition to when they struggle to pay, customers may experience circumstances where they require additional, wider support from us. Some of this is related to circumstances that are non-financial in nature.

As set out in Chapter 8 Helping Customers who need our support, we operate a Priority Services Register (PSR) where customers can self-identify their specific requirements to us in order to receive our support.

We recognise that it is unlikely that all of our customers that could benefit from support are currently identified, due to difficulties associated with self-identification. Research from PwC has found that[23]:

- 70% of customers with a long term life impacting condition or circumstance have not disclosed their vulnerability requirements to service providers, and 46% of non-disclosures would not feel comfortable in disclosing their requirements.

- This was due to a number of reasons:
    - 52% of customers failing to see the relevance of disclosure
    - 46% not being aware of the support available
    - 21% fearing the stigma attached
    - 14% fearing being penalised as a result of disclosure.

Consequently, we recognise the need to improve our identification mechanisms, and to draw upon external data sources to understand the potential levels of non-financial vulnerability in our customer base, while also reducing the barriers to self-identification.

This is a key focus for our vulnerability strategy for AMP7.

The index of multiple deprivation (IMD) allows for comparison of deprivation within areas in the UK, incorporating factors including, income, employment, health deprivation and disability[24]. Therefore, it is a useful indicator in understanding both financial and non-financial vulnerability within our region. We find that authorities in our operational area, on average, have a lower deprivation rank than the English average[25].

With regard specific types of non-financial vulnerability, we find that the South East often has a lower prevalence of vulnerability than other regions. For example, Table 16 shows that the South East has lower levels of disability than almost all other regions.

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[23] PwC Research 2017
[24] IMD Methodology: 22.5% Income; 22.5% Employment; 13.5% Education; 13.5% Health; 9.3% Crime; 9.3% Barriers to housing and services; 9.3% Living environment
[25] DCLG: Index of Multiple Deprivation 2015, SWS Analysis
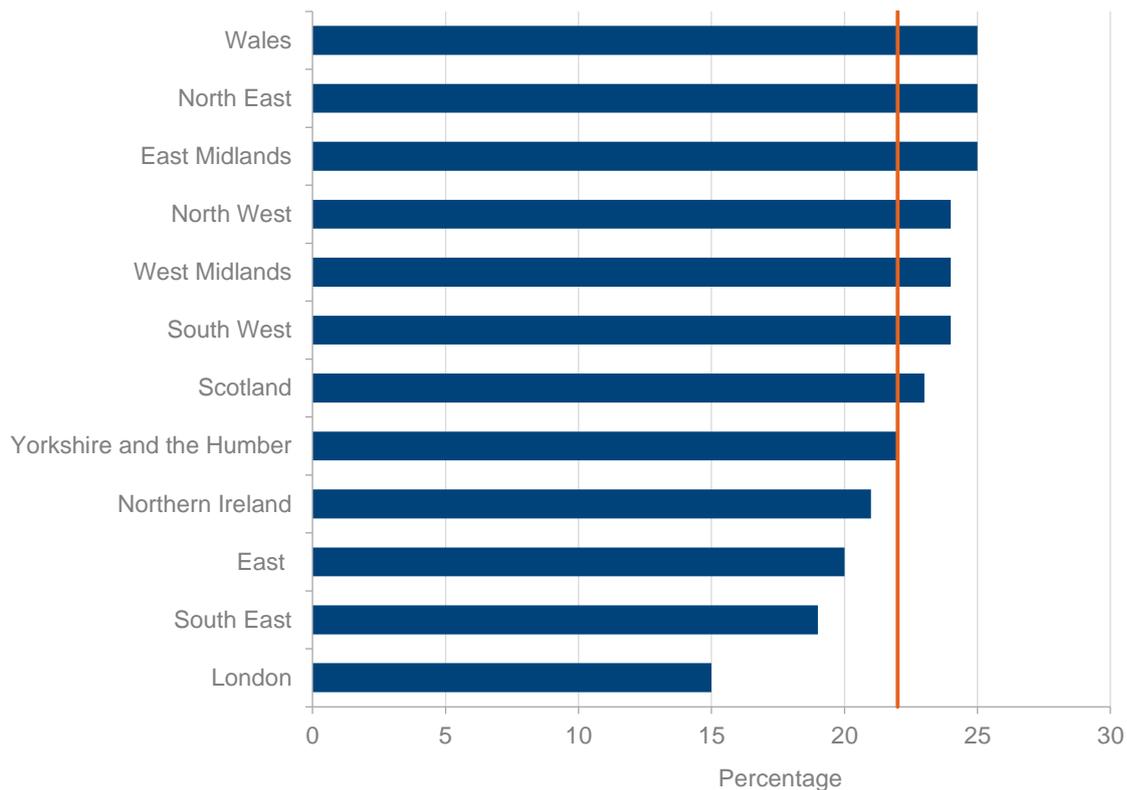
Table 16 - Disability prevalence by region (2016/17)[26]

One notable exception to this is mental health, where the South East is found to have a higher prevalence of people who face vulnerabilities related to mental health than the English average[27].

We also found, however, that there is significant variation between different areas across the region. This mirrors the conclusion drawn from our analysis of financial vulnerability above. For example, Table 17 shows the disparity in the health deprivation and disability rank by local authority within our operational area.
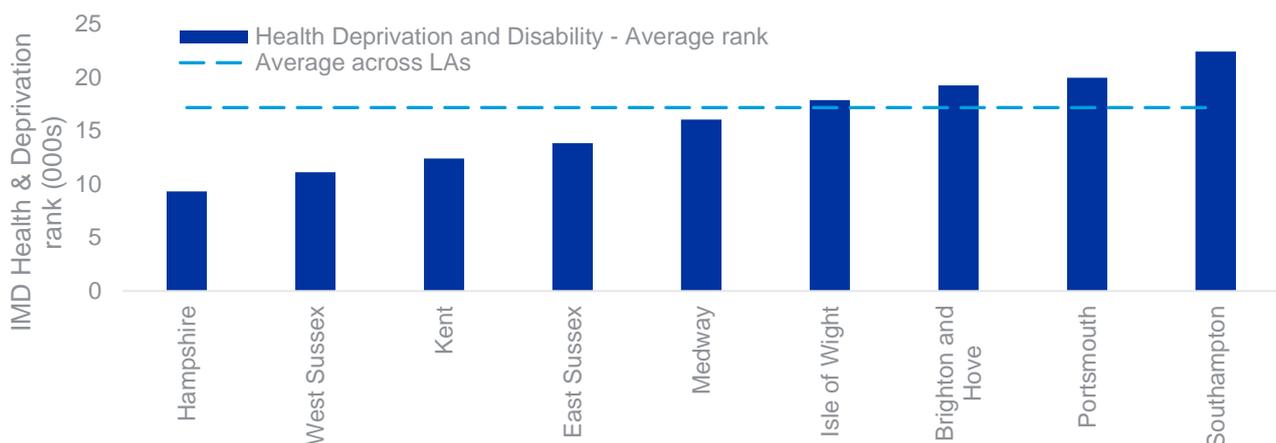
Table 147 - Average IMD health deprivation and disability rank by upper-tier local authority (LAs)[28]

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[26] Family Resources Survey 2016/17
[27] DCLG: Index of Multiple Deprivation 2015, SWS Analysis
[28] DCLG: Index of Multiple Deprivation 2015, SWS Analysis

To aid the development of our Reach and Support vulnerability strategy, we have drawn on external data and customer research to better understand circumstances that customers face and quantify the potential number of customers that could require support. [29] Our analysis identifies that, as an upper limit, there could be:

- **373,000** customers in our customer base that could have a (non-financial) barrier to them receiving an inclusive service on an ongoing basis[30]
- **145,000** customers in a given year that could face transient vulnerability in a given year[31]

These numbers were calculated by analysing the prevalence of different circumstances in the South East and applying this information to Southern Water's customer base. [32]

Understanding requirements and needs

To better understand the needs and requirements customers have as a result of vulnerable circumstances we conducted bespoke research with customers and their representatives. We found that defining 'types of vulnerability' is insufficient due to dynamic links between customers' varied circumstances and requirements. Ofwat identify that that companies should not segment customers into 'vulnerable groups'[33]. Rather, we need to understand customers at the individual level. However we can use our understanding of different customer requirements associated with particular circumstances to help develop appropriate support.

Table 18 below sets out a range of ongoing circumstances that our customers might face, their needs and requirements (as determined by our research), and the potential number of our customers that could face such challenges. It is important to note that these categories are not mutually exclusive.

We have used this analysis to identify key initiatives that comprise our Reach and Support Strategy, the support we provide as set out below, and it will inform the training programme for customer advisors within our organisation.

Table 18 -Identifying the requirements of customers in vulnerable circumstances[34,35]

Circumstances	Needs and Requirements	Potential customers
Mental Health Challenges	- Service providers to listen closely and understand situation - Engagement at appropriate times - Support completing tasks including, for example, meter reading - Flexible debt repayment if appropriate - Minimising stress that water and water consumption can cause through not pushing behaviour change.	86,000

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[29] Note here that the impact of these vulnerabilities may result in requirements for financial assistance, but that the circumstance is not necessarily financial in nature

[30] SWS customers who could face ongoing barriers to service due to language barriers (17,000) and/or disability, illnesses (360,000) or impairments, as understood under the 2010 Equality Act. We adjust this for the potential between these two groups. Source: SWS Vulnerability analysis, SWS Internal data (2017/18), ONS Data (2011, 2013, 2015-17), Family Resources Survey Data (2016/17), NHS Digital Data (2015/16)

[31] SWS customers who could face short-term vulnerability due to bereavement, temporary illness, job loss, leaving care and divorce as per Table 16 below. We adjust this for the potential overlaps between these groups. SWS Vulnerability analysis, SWS Internal data (2017/18), ONS Data (2011, 2013, 2015-17), UK Government statistics (2016/17)

[32] Note that where statistics were not available for the South East, England or UK data was used.

[33] Ofwat: Vulnerability Focus Report (2016)

[34] SWS Customer Research

[35] SWS Vulnerability analysis, SWS Internal data (2017/18), ONS Data (2011, 2013, 2015-17), Family Resources Survey Data (2016/17), NHS Digital Data (2015/16)

Circumstances	Needs and Requirements	Potential customers
Learning Challenges	■ Understanding of customers' limitations and channel preferences (e.g. direct phone number) ■ Support and understanding in situations of dispute ■ Support provision through charitable organisations.	50,000
Mobility challenges	■ Empathetic support with call agents ■ Practical help with mobility such as meter reads and form filling ■ Signposting to further targeted help, particularly local support ■ Proactivity in identification and support provision.	183,000
Visibility Challenges	■ Practical support through provision of channels for disclosure and discussion of information ■ Simplified communication processes such as forms and variety of channels ■ Staff trained to understand visibility channels.	43,000
Long-term/ serious illness	■ Reduction in form filling where possible ■ Proactive advice on availability of support ■ Flexibility as personal situation changes.	N/A[36]
Hearing Challenges	■ Patient and understanding phone contacts ■ Flexibility including nominated contacts/account representatives ■ Use of special phones and technology for communication.	54,000
Other (e.g. Language Barriers)	N/A	17,000

Individuals can move into and out of situations of vulnerability over time; vulnerable circumstances may not be permanent. Our research suggests that short-term issues can have a more acute impact on customers as compared to longer-term issues that customers have had time to adapt to.

For these reasons, it is also important to understand the landscape for and requirements of those individuals who are in a state of transient vulnerability. While the definition of transient vulnerability should not be rigid, we think of it as individuals whose circumstances, characteristics or situations result in them requiring additional support in order to receive an inclusive service for a temporary period of time.

Table 159 below sets out a range of transient circumstances that our customers might face, the needs and requirements they may induce (as determined by our research), and the number of our customers that could face such challenges. Some of these requirements are related to affordability.

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[36] Examples include Cancer (57,000) and Chronic Kidney Disease (82,000)

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Table 159 - Identifying the requirements of customers in transient vulnerable circumstances[37,38]

Circumstances	Needs and Requirements	Potential customers*
Short term medical dependency	■ Support and understanding regarding debt and financial difficulties ■ Practical help filling in complex forms, providing advice on consumption reduction ■ Understanding and flexibility from providers ■ Advice on rights and benefits, and signposting available support.	26,000
Become unemployed	■ Proactive support due to tendency to shy away ■ Understanding and flexibility from providers ■ Help with budgeting from trusted sources.	29,000
Bereaved	■ Time and space to adjust at their own pace ■ Simple processes for changing account details and registration ■ Financial advice from trusted sources and charities ■ Understanding and flexibility from providers.	84,000
Separation/ divorce	■ Support for first time users in setting up accounts and payments ■ Advice on available financial support ■ Empathetic approach and understanding of their situation	8,000
Young adults leaving care	■ Support in managing budgets ■ Understanding that they are struggling and make allowances for late payments ■ Being supportive and empathetic of situation ■ Engagement through text, Apps, and potentially social media.	2,300

*In a given year

We are using this analysis to help develop our payment holidays, a support package for transient vulnerability set out in Chapter 8.

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[37] SWS Customer Research
[38] SWS Vulnerability analysis, SWS Internal data (2017/18), ONS Data (2011,2013,2015-17), UK Government statistics (2016/17)

Expanding support for customers in wider vulnerable circumstances

In Chapter 8 Helping customers who need our support, we present examples of the support we provide to customers in wider circumstances of vulnerability now and support we will provide in the future.

Table 201620 illustrates a long-list of all the activities that the Consumer Council for Water (CCWater) identify as assistance offerings in supporting customers in vulnerable situations[39]. It also illustrates what CCWater define to be core support, the services we currently provide, and those that we intend to provide going forwards.

There are some gaps in our current provision of assistance as compared to this 'core support'[40], and widening our support provision is a key part of Reach and Support. We intend to provide all the assistance offerings that CC Water identify.

Table 2016 - Evaluation of our current and future support provision

Assistance	Core support (CCWater)	We currently provide	We will provide in AMP7
Safety			
Advance supply interruption notice	✓	✓	✓
Priority reconnection if supply interrupted	✓	✓	✓
Personal supply interruption notice	✓	✓	✓
Emergency water supply for consumers who medically need it	✓	✓	✓
Emergency water supply for consumers who need to take lots of medication	✓	✓	✓
Emergency water supply for consumers unable to leave the property due to illness/recovery from illness	✓	✓	✓
Emergency water supply for consumers who have mobility restrictions	✓	✓	✓
Emergency water supply for consumers unable to leave the property due to experiencing mental or emotional distress such as social agoraphobia	✓		✓
Emergency water supply for consumers with a cognitive disorder who are unable to leave the property	✓		✓
Emergency water supply for nursing mothers or who have children living in the house who need regular bottle feeds	✓		✓
Emergency water supply for those who have children under 5 living in the house	✓	✓	✓
Password scheme	✓	✓	✓
Identity card in large print			✓
Identity cards in braille			✓
Identity check of employees	✓	✓	✓

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[39] CCWater: Annex 1 - Progress Review of Priority Services and Safeguarding report (2018)
[40] Core support defined in CCWater: Special Assistance Schemes Review (2016)

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Assistance	Core support (CCWater)	We currently provide	We will provide in AMP7
Company follows the principles of UK Water Industry Distraction Protocol	☐		☐
Company follows the principals of National Cold Call Protocol	☐	☐	☐
Mobility			
Knock & Wait – giving a longer time to answer the door	☐	☐	☐
Help if flooding (caused by a company asset) occurs	☐	☐	☐
Meter moved if you cannot read the meter in its present location	☐	☐	☐
Help reading the water meter	☐	☐	☐
Accessible communications			
Accessible & adaptable website	☐	☐	☐
Help understanding your water bill video or guide	☐	☐	☐
Help to make arrangements to pay your water bill	☐	☐	☐
Nominated contact for bills (e.g. friend, relative or carer)	☐	☐	☐
Nominated contact for incidents (e.g. friend, relative or carer)			
Home visits	☐	☐	☐
Large print	☐	☐	☐
Braille	☐	☐	☐
Talking bills / leaflets		☐	☐
Audio tape / CD	☐		☐
Magnifying strip		☐	☐
Text phone	☐	☐	☐
Type talk / Text relay	☐	☐	☐
Minicom	☐	☐	☐
Personalised call assistance (e.g. speaking slower / giving longer thinking / response time)	☐	☐	☐
Preferred method of contact stored on system and used for future communication		☐	☐
Web chat (ideally with a "still here" button if it's a timed transaction)	☐	☐	☐
Alternate colour background documents	☐		☐
Sign language / subtitled videos on website	☐		☐
Sign language home visits / live sign language technology	☐		☐
Alternative language formats	☐	☐	

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Assistance	Core support (CCWater)	We currently provide	We will provide in AMP7
Interpreter services	Offered		Offered
Signposting to other assistance			
Signpost to help for those struggling to pay	Offered	Offered	Offered
Signpost to where to get water devices and water aids	Offered	Offered	Offered
Signpost to energy & telecom priority services	Offered		Offered
Signpost to approved plumbers scheme	Offered	Offered	Offered
Signpost to Floodline		Offered	Offered
Accessibility			
Promotion of accessible public buildings (where relevant)	Offered		Offered
Promotion of accessible leisure facilities (where relevant)	Offered		Offered
Wheely boats at leisure sites			Offered
Tramper all terrain mobility scooters for hire at leisure sites			Offered

Key	Not offered	Offered	In progress

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