

Chapter SRN08

Affordability

8. Affordability

8.1. Executive summary

Our plan is about investing for the long-term to build a service that meets customers' rising expectations, and the significant challenges we face to secure reliable water supplies and protect our environment.

Our customers and communities understand the challenges we face and want us to invest in the right long-term solutions. They want us to invest now and not push the problems to future generations – and understand bills need to rise to meet their priorities.

However, they expect us to support those that need it most. We know 20% of our customers struggle to pay their bills and that this figure is only likely to increase. Our customers have also consistently told us they want their bill increases to be as smooth as possible.

We intend to increase bills incrementally between 2025 and 2030 so people can prepare and plan for the rises. Our current forecast average bill for 2030 is £674 – a 64% increase between 2025 and 2030. We will be open and honest about why bills are increasing and how we will use customers' money.

We are committed to increasing the financial and non-financial support we provide to the most vulnerable.

We are also doing things differently to keep our plan affordable. We plan to install 1 million smart meters – giving customers greater control over their water use and bills.

We will use innovative tariffs to make our charges fairer and encourage water saving. Innovations we have trialled since 2020 are reducing our ongoing operating costs and we will scale these up where possible from 2025. In particular we are piloting a rising block tariff approach to inform the detailed design that will be rolled out from 2027–28.

We have also embraced the use of markets and Alternative Delivery methods. We are proposing to deliver £1.32 billion of our plan this way – using both Ofwat's Direct Procurement for Customers model and our supply chain. See chapter [SRN09: Deliverability](#) for more details. We have identified five key five areas that will enable us to keep bills affordable while supporting our vulnerable customers:

Keeping bills affordable

- Innovative **new tariffs** designed to achieve two simultaneous goals: reducing householders' bills and increasing the sustainable use of water
- Use of innovative markets and partnerships to reduce **financing costs**

- Installing **smart meters** to give our customers accurate information and control over their bills
- By reducing costs across the business – and customers' bills as a result – with efficient and **innovative practices**

Supporting vulnerable customers

- By proactively identifying and reaching out to our most **vulnerable customers** and offering them tailored, compassionate support based on their particular circumstances, ensuring that they have the necessary support with their bills

Unless specified, bill impacts include the innovative charging structures we explain in this chapter¹.

8.2. Our challenge

8.2.1. Increases to customers' bills

Our next plan is significantly bigger than our current plan. It delivers the enhancements to our services and environment our customers and regulators expect – reflecting best value optioneering and efficient costs. Keeping bills affordable is one of our customers' highest priorities – and they expect us to protect the most vulnerable. In our affordability testing 50% of our customers said our plan would be difficult to afford.

Since 2020, our bills reduced by around 6% because of performance penalties and bill rebates to repay our customers and communities for previous shortcomings. From 2025, these rebates will no longer apply.

We also need to significantly increase how much we invest to improve our performance, transform our services and enhance our environment. Our bills will need to increase by up to 64% between 2025 and 2030 to pay for this.

Our average bill in real terms still remains lower than 2017–18 levels (see Figure 1) and in AMP7 we committed to maintaining a flat bill profile in real terms. We achieved this every year except 2021–22 due to the impact of prior years' performance. We then reduced bills in 2022–23, resulting in a bill value well below the industry average.

1 See table Supp. 15

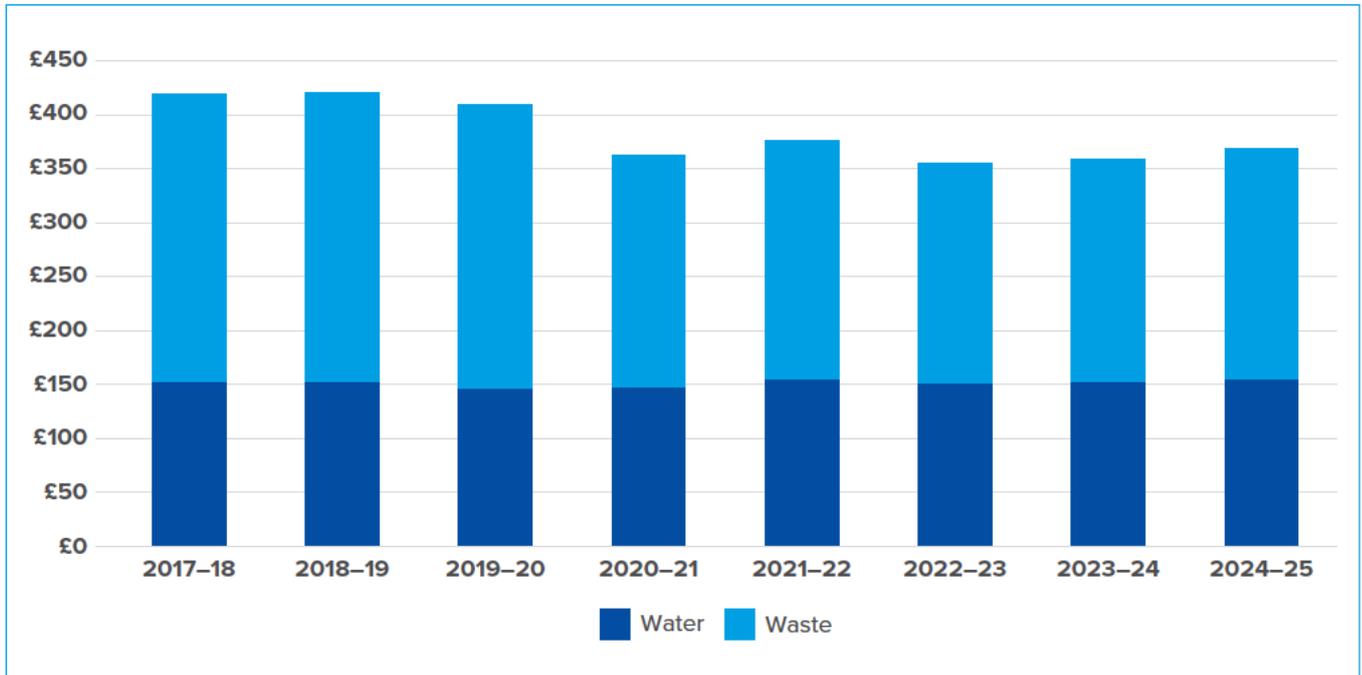


Figure 1: Real average household bill

8.2.2. What our customers say²

Keeping bills affordable is one of our customers' highest priorities. Our current bills are felt to be relatively affordable compared to other utilities and household bills. However, the cost-of-living crisis means customers are feeling more pressure. Future bill affordability is becoming more of a priority for customers.

"This is the big one now, overtaking the pandemic; families are being hit hard and will have to make some major changes to their lives."

Household customer panel

We found around 25% of our customers struggle with comfortably being able to afford their outgoings³, and 7% really struggle. Demographic data shows around 30% of our customers are in lower income brackets, rising to around 34% on the Isle of Wight and in North Kent, compared to more rural areas of North and Central Hampshire and North Sussex having between 22-27%⁴. Ofwat's research found up to 57% can sometimes struggle to pay their household bills⁵.

Around 40% of our customers are concerned around future water bills⁶. The greatest concern from customers on future bills is for energy, food, council tax and travel. Concern peaked in June 2022 and has slowly been decreasing since the height of the cost living crisis. Our customers told us:

- They want bills to be affordable for everyone and for support to be given to those most in need
- Some will struggle and many of our customers are feeling pressure across all household their bills due to the cost-of-living crisis
- They want us to improve the environment and are prepared to invest now, but expect us to provide best value and be transparent about where customer's money is spent
- We should not delay investment so future generations are left with the bill
- Any increases to bills should be predictable and smooth to help with budgeting

In pilot acceptability testing⁷ of our proposed plan, an average bill scenario (pre-inflation in 2030 up to £733) saw affordability dominate feedback. Some customers were concerned about the potential increases and almost a third rated the plan as unaffordable. This was especially true towards the later years (2027–2028 onwards) which adds to an uncertain future.

² See chapter [SRN03: Customer Acceptability for more on our customer engagement and insight](#)

³ See [SRN14: Customer Insight technical annex](#), Section 1 Index: 201d – Water Futures Quant Wave 4 – Aug '23

⁴ See [SRN14: Customer Insight technical annex](#), Section 1 Index: 172 – PR24 Profiles – June '23

⁵ See [SRN14: Customer Insight technical annex](#) Section 1 Index: 170 – Cost of Living Research March '23

⁶ See [SRN14: Customer Insight technical annex](#), Section 1 Index: 201d – Water Futures Quant Wave 4 – Aug '23

⁷ See [SRN14: Customer Insight technical annex](#), Section 1 Index: 207b – Pilot Acceptability and Affordability Qual Report – Mar '23

However, at a 2030 pre-inflation bill level of £677 the feedback was more evenly spread across features of the plan with affordability still significant concern.

We looked at Alternative Delivery methods to help maintain the investment customers wanted while keeping bill increases smoother. While we still see 24% of customers rating the plan as unaffordable⁸, this is more consistent with our other research⁹ and analysis looking at income levels by [REDACTED].

In our affordability testing we found a minority of households and non-household customers said it would be easy to afford the increased bills. Despite this, more customers support the increase in bills to fund the enhanced investment in our services and environment.

For more about our customers' priorities and our affordability and acceptability testing see [SRN03: Customer acceptability](#).

8.3. Keeping bills affordable

Keeping bills affordable is one of our customers' highest priorities – and they expect us to protect the most vulnerable. In our affordability testing 50% of customers said our plan was affordable.

The key measures to assess if our bills are affordable will be the volume of customers below the water affordability threshold, our total debt charge and the volume of customers we support via our social tariffs and hardship funds.

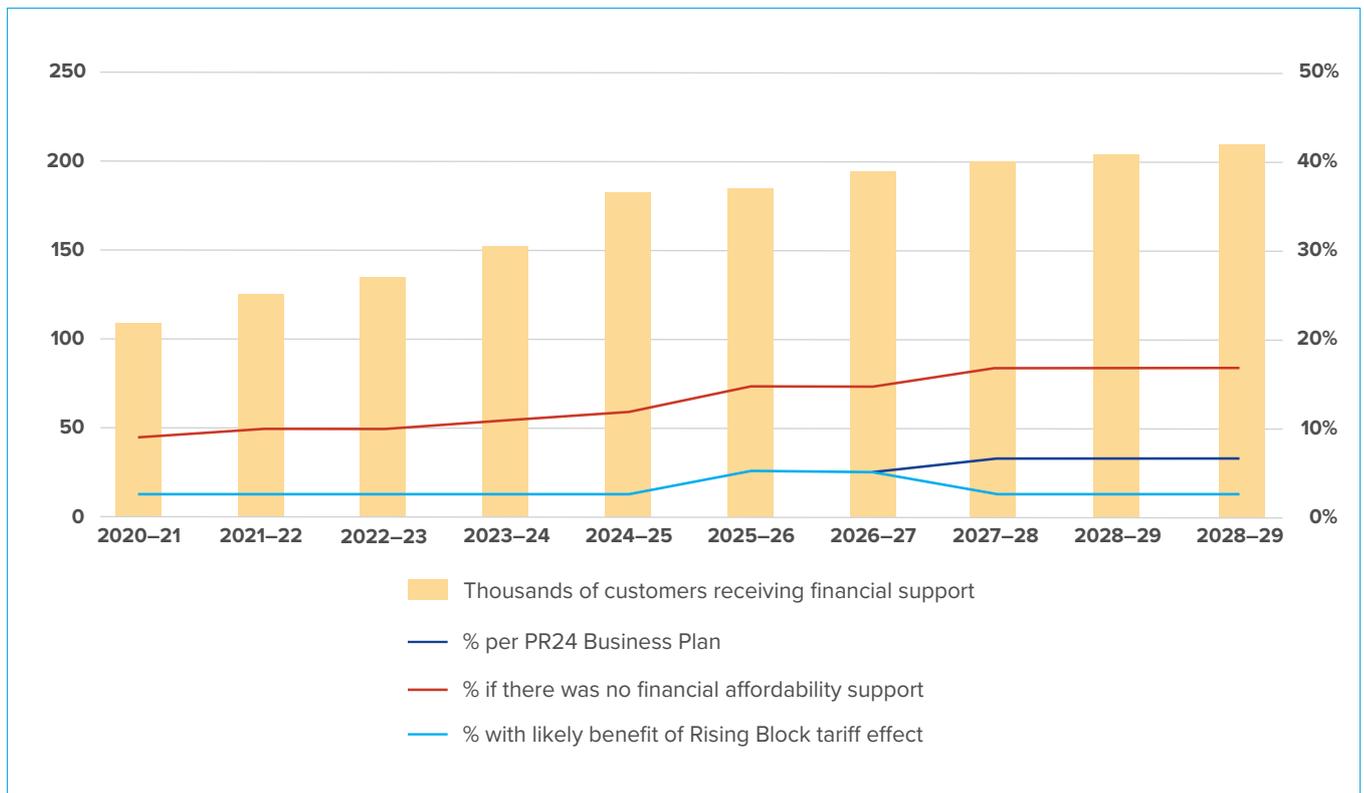


Figure 2: % of household customers below the Water Affordability threshold

We are doing things differently to ensure our plan is efficient and affordable for customers – and making sure we protect the most vulnerable. We are committed to making sure our plan is efficient and bills and are focussing on:

- **Improving operational efficiency to drive down costs**
- **Using smart metering to promote water efficiency**
- **Using tariff innovation and fairer charging structures**
- **Using Alternative Delivery for £1.32 billion of investment**

8 See [SRN14: Customer Insight technical annex](#), Section 1 Index: 207a – FINAL Acceptability and Affordability Presentation – June '23

9 See [SRN14: Customer Insight technical annex](#), Section 1 Index: 201a to 201d Water Futures Quant Wave 4 – Aug '23

8.3.1. Improving operational efficiency to drive down costs

We continue to drive down our running costs through researching and implementing innovative process changes. These include:

- **Sewer digitalisation:** we installed 24,000 sensors across our sewer network networks to monitor our networks and identify potential issues – meaning we can proactively find and prevent flooding and pollutions occurring. This has and will save the company £28 million in reactive spend across AMP8
- **New technology to refurbish pipes:** we trialled a technology using [REDACTED] to refurbish pipes and prevent leaks without the need for excavation. We were the first UK water company to test this technology and will save almost £2 million in excavation work between 2025 and 2030
- **Wetlands feasibility tool:** we identified more efficient and greener solutions to meet nutrient permits. We worked with stakeholders to create a list of focus areas which would enable us to compare wetlands against end-of-pipe solutions and identify where we could use them instead. These nature-based solutions increase natural capital and biodiversity, protect river water quality and reduce our carbon footprint – and will reduce our costs by £3 million between 2025 and 2030

8.3.2. Using smart metering to promote water efficiency

We know customers can gain more control over their usage and resulting bills size when they have better, timelier information. This is why we are installing more than 1 million smart meters by 2030. To ensure we target water advice, tariffs and awareness correctly we already have the following underway.

- **Behavioural science insights:** we carried out ethnographic studies to understand how customers use water as part of their daily routines and the transition of these behaviours into habits. We are using these insights to design the right water-saving options such as cutting-edge water-saving products, services, behavioural nudges, technology and awareness campaigns
- **Innovation trials and pilots:** these are being conducted to determine the water-saving solutions we could provide to customers (households and non-households) to help them save more water
- **Household visits:** some of the trials currently in progress include flush saving tablets, toilet leak sensors, shower timers, garden hose flow monitors, and leak detection systems. If these trials are successful, we will continue to test, learn and scale them up

- **Non-household schemes:** including water audits and water-saving retrofits across social housing and schools with the aim to install water-saving products. Another is the business partnership fund through which retailers or organisations can apply for funds to execute their best water-saving project ideas
- **Education:** we have launched two new Target 100 modules as part of our education programme – New Wave. These are curriculum-based classroom resources, designed by curriculum specialists, to be used by teachers to help children learn simple ways of saving water and protecting our local environment. We are working with the South-East and Wessex Rivers Trusts on a trial that enables children to take part in a range of outdoor activities.

8.3.3. Using tariff innovation and fairer charging structures

Without changing our charging structure, we expect our average dual-service bills to increase by 64% in real terms (and 85% in nominal terms) between 2025 and 2030.

Our Customers and Communities Challenge Group recommended using tariffs as an innovative way to offset some of the impact of bill increases. Our regulators encourage collaboration and knowledge-sharing across the industry and have removed barriers to trialling new charges. We have used this approach to develop three tariff changes:

- Introducing more cost-reflective **surface water drainage charges**, which could reduce average wastewater bills by 7%
- Removing **discounts for large users**, reducing household water bills by 1%
- Introducing **seasonal or rising block tariffs** which could reduce average bills by 10% when fully implemented

8.3.3.1. Site-area-based charging for surface water drainage charges

Our existing tariff structure consists of a fixed annual charge for the costs of surface water drainage for all customers. The charge is linked to meter-pipe-size of a customer and the vast majority of both household and non-household customers incur the lowest charge of £21.

We have been investigating the benefits and impacts on customers of moving to site-area-based-charges. This more accurately reflects the costs associated with the drainage of surface water into our network and will share costs more fairly. This type of charge also encourages the use of more sustainable drainage systems across our area – reducing rainwater entering our network and our use of storm overflows. We already have plans in place to work with our customers to support such enhancements.

To reflect our better understanding of the overall costs of surface water drainage services, within our 2023–24 Wholesale Charges we have already adjusted the balance of revenue recovered via surface water drainage charges versus foul water treated without altering the total revenue recovered.

In 2025 / 26 we aim to provide indicative “shadow charges” for customers with very large site areas draining to our network. This will help us assess the impact on customers and identify benefits and potential next steps.

Our bill impact assessment of using site-area-based surface water drainage charges shows a reduction to the average dual-service bill in real terms by 2030 by a further 4% – and a 7% reduction to a wastewater-only bill (see figure 3 below of total bill reduction from innovative charges).

8.3.3.2. Removing discounts for non-household large users

To reflect the rising cost of water resources more accurately, we intend to phase out the discounts some large users currently receive. This will result in our charges being more cost-reflective and fair for all. This phasing out commenced on a small scale in our 2023–24 charges. By 2030, we anticipate this will achieve a real-terms reduction of 1% from the average bill.

8.3.3.3. Water usage tariffs: seasonal tariffs and rising block tariffs

In 2022 we commissioned a report from Nera Economic Consulting¹⁰ to explore the benefits of alternative charging structures. They recommended seasonal tariffs and rising block tariffs as the most progressive, cost-reflective and effective tariff for both affordability and water efficiency goals. (See figure 3 for assessment of tariff options.)

We expect these to incentivise customers to become more efficient – supported by our smart metering programme and Target 100 campaign. We plan to start trialling new tariffs in 2024–25 to understand the impact on customers’ bills and water use. This will inform the detailed design of an innovative tariff to be rolled out in 2027–28 to help deliver our affordability and sustainability goals.

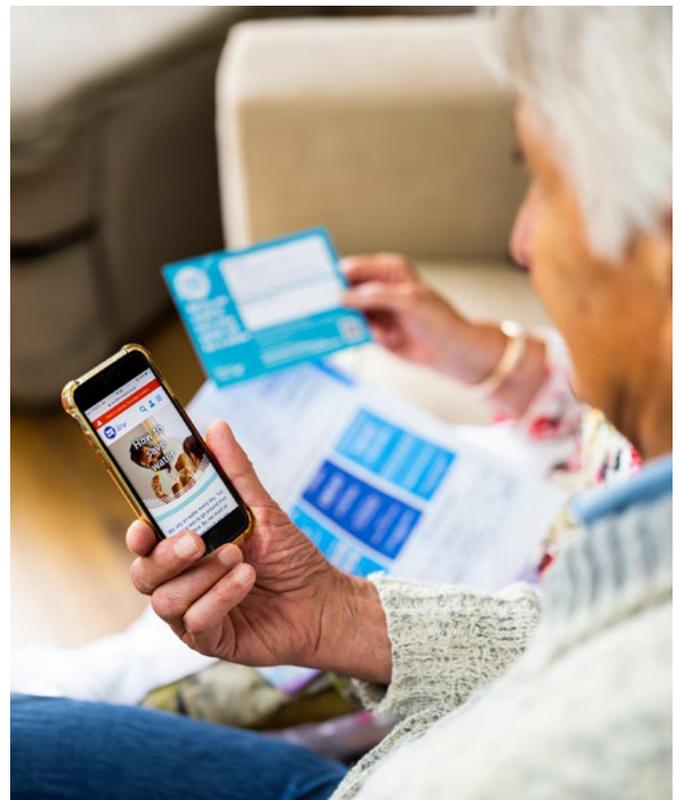
We know most customers use more water in the summer and we will ensure we do not penalise necessary additional use during summers. However, customers who use above what is deemed to be efficient during summer months, such as filling by swimming pools or watering large gardens, will be charged a premium.

These tariffs encourage water efficiency and shift higher costs more fairly to those who use water for non-essential purposes. They will also help customers who make a conscious effort to reduce water usage in order to lower bills by ensuring that they are fairly rewarded. Installing smart meters and rolling out our new CRM system¹¹ are crucial enablers for these charges.

Our Bluewave Innovation lab installed 1,500 smart data enablers on customers’ meters in urban and rural environments to better understand the scale of the benefits we could deliver through smart metering. These devices clip on to existing meters and record hourly readings which are reported for analysis every eight hours, providing almost real-time consumption data while assisting with leak detection.

The four-month trial gave us our first insight into smart meter data and the impact of real-world influences on the ability for smart technology to accurately transmit data. We now better understand how different environments can influence connectivity, the importance of a robust data service provider, and how even sporadic but improved data reports can still help find leaks in customers’ homes.

We started a new 18-month trial in March 2023 to analyse the impact on customers’ daily consumption behaviour when customers have access to more accurate, frequent and comparative data. More about our smart metering programme is in chapter [SRN05: Wholesale Water \(Costs and Outcomes\)](#).



¹⁰ [Southern-Water-Tariff-Design-Final-Report-by-NERA.pdf \(ofwat.gov.uk\)](#)

¹¹ See chapter [SRN07 Customer – Household and Non-Household \(Costs and Outcomes\)](#)

Our bill impact assessment of using innovative water usage tariffs shows a potential reduction to the average dual-service bill in real terms of 10% between 2030 and 2035. (See figure 3 below of total bill reduction from innovative charges in AMP8.)

	Cost reflectivity	Recovery of the revenue requirements	Fairness	Stability and Predictability	Practicality
Current Tariff	✓	✓	✓	✓	✓
Option 1 Higher standing charges	✓	✓	✗	✓	✓
Option 2 Seasonal Tariff / Time-of-use Tariff	✓	✓	✓	✓	✓✗
Option 2 Rising Block Tariff	✓	✓	✓	✓	✓
Option 2 Nil volumetric charge for household below threshold, with time of use tariff	✗	✓	✗	✓	✓✗

Figure 3: Assessment of innovative tariff options

8.3.4. Alternative Delivery

We intend to use Alternative Delivery models for a number of our enhancement programmes, including using Direct Procurement for Customers (DPC). We already use DPC for our Water for Life Hampshire project to build and commission Havant Thicket reservoir through a Competitively Appointed provider (CAP). More about our approach to alternative delivery is in chapter [SRN09: Deliverability](#).

There are a number of benefits for customers from this approach:

- The impact on bills of increased investment will be spread more evenly over the life of the contract
- It matches the profile of the bill impact to the time the services are being provided, which improves intergenerational fairness
- The competitive process of appointing the CAP introduces scope for innovation in design, delivery and financing, providing better value for money

We are intending to use delivery routes like this where appropriate. We have a number of large new water schemes that could be eligible for DPC, and we are considering similar routes without using formal DPC,

but looking for third parties to build infrastructure then provide services which we would pay for via bills.

Upgrading our digesters in the bioresources price control to the latest technology and outsourcing delivery of smart meters are examples of this approach, where we are looking for similar benefits to customers. In each case we will ask third party providers to own and carry out infrastructure work.

Our modelling shows that the average bill is lower by 13% by 2029–30 by using Alternative Delivery.

See chapter [SRN09: Deliverability and SRN17: Direct Procurement for Customers & Alternative Delivery Model technical annex for details](#).

8.4. Supporting vulnerable customers

Our plan to increase the support we offer vulnerable customers is based on adopting a continuous proactive practice of seeking out customers we think might be struggling, or who will start to struggle. Once we have identified them, we will offer compassionate, tailored support. We will help customers to afford their bills and when they need additional support with our services.

8.4.1. How we define vulnerable customers

We define vulnerable household customers as anyone struggling to pay their bills, or who might soon, as well as those whose circumstances mean they need extra assistance during incidents or managing their account. Some customers fall into both categories.

We recognise not all vulnerable circumstances are permanent. Some of our customers may simply need assistance temporarily.

Our Priority Services Register allows us to keep track of the different needs our customers may have using the industry-wide categories but whatever circumstances our customers find themselves in, our emphasis is on understanding how we can help them as an individual.

8.4.2. AMP7 delivery

We have made significant progress in delivering for our vulnerable customers since 2020 both in terms of the financial and non-financial support we offer.

8.4.2.1. Financial support

Our current package of financial support is made up of discount schemes, payment plans and a hardship fund. We have two main discounts: Essentials (our social tariff), which gives customers a discount on future bills from 45% to 90%, and WaterSure, an industry-wide tariff that caps bills at the average household bill.

We also have two payment plans: NewStart, where we match a customer's payment towards their arrears to give them a new start, and WaterDirect where the Department for Work and Pensions takes our payment directly from someone's benefits. We also offer payment breaks to anyone struggling with the current cost-of-living crisis.

We introduced a hardship fund we can use to help customers in several ways. We can use it to pay up to 50% of a customer's bills for up to a year if they are in temporary financial difficulty. We can also write off up to £2,000 of a customer's debt if they have managed to get back on track with their bills but will not be able to pay off their arrears. We can also use hardship money to buy a domestic appliance for someone who cannot afford to replace an item that has broken down or for food vouchers.

We currently (as of end of August 2023) offer discounted bills through our social tariff to 123,000 customers, cap the bills of 16,700 and have helped 11,500 customers with their debt through our NewStart scheme. We have also supported 730 customers with payments through our Hardship Fund, providing an average of £921 of support to each. There are 186,000 customers on our Priority Services Register (PSR), compared to 20,000 in 2020, or 9.3% of our households – 2.3% above our Performance Commitment.

Overall, we will have provided around £97.5 million of financial support for our customers between 2020 and 2025.

8.4.2.2. Improved processes

We recognise the importance of making help easily accessible, so we have consolidated application forms, removed the need for customers to complete complicated income and expenditure forms, and made it easier for third parties to apply for help on a customer's behalf. We also proactively signpost vulnerable customers to other organisations that might be able to help them further, such as Citizens Advice and Step Change.

Our Priority Services Register is key to helping us to understand and track the needs of our customers. We have added a more detailed set of needs to how we define vulnerability, bringing us in line with the rest of the utility sector. These needs are immediately flagged when the customer contacts us. In addition, we have made it easier to apply and now allow applications to be made on a customer's behalf.

8.4.2.3. Specialist support

We have set up dedicated teams to support our vulnerable customers. A specialist office-based team has been trained by the Samaritans, Dementia Friends, Age UK and Step Change to give them the knowledge and skills to support vulnerable customers. They have also received safeguarding and bereavement training, awareness training around kidney disease, and mental health and suicide, and have been taught how to identify and help survivors of domestic abuse.

Kidney Care UK partnership

In early 2023, we partnered with Kidney Care UK to provide support to over 150,000 customers afflicted with Chronic Kidney Disease (CKD) in our area. Our focus is on addressing the needs of approximately 26,500 CKD patients living in disadvantaged areas – as well as supporting more than 3,000 of our customers currently undergoing dialysis.

We have seen a 28% increase in the registration of PSR customers requiring dialysis. Both Southern Water and Kidney Care UK representatives have actively participated in charity events, sharing details of the support we offer.

Kidney Care UK has also provided specialised training to our in-house affordability team, enhancing their understanding of kidney-related health challenges, the specific needs of our customers, and the role we can play in supporting them.

A field-based outreach team is focused on promoting the range of support available for vulnerable customers and providing face-to-face advice and support. They go out into our communities, attend events and network with charities, campaigning and advocacy groups and social care organisations – letting them know about the support we offer anyone struggling financially or as a result of personal circumstances.

8.4.2.4. Working with partners

Data-sharing is a central tool in identifying customers who need assistance. We have started sharing data with charities, central government departments and housing associations to increase the number of customers we can proactively contact because we believe they could be eligible for support. For example, one of our agreements gives us a list of people who are on pension credit – meaning they are eligible for our Essentials tariff and possibly inclusion on our Priority Services Register.

We also work closely with a wide range of partners to help us reach as wide a range of customers as possible. These partnerships come in different formats – it might be financial sponsorship, support at events, running surgeries at key locations such as job centres.

Home and Well

Home and Well is a collaborative effort between us and Citizens Advice Hampshire to support vulnerable customers to recover at home.

We helped start Home and Well by providing financial support and sharing the expertise of our communications team to create a marketing campaign and raise awareness of the available support.

Since Home and Well started in 2020, we have helped more than 1,400 customers return to the comfort of their homes to recover.

8.4.2.5. Responding to the cost-of-living crisis

Since 2020, we have experienced an unprecedented global pandemic which dramatically changed how we live and work. We have also seen a sustained cost of living crisis, been partially driven by the longer-term impacts of the pandemic and the economic impacts of the war in Ukraine.

We responded to the ongoing cost of living crisis by reviewing the level of financial support we provide for our customers. We recognised our basic social tariff discount of 20% was no longer sufficient, so increased this to 45% in October 2022. We transferred all existing social tariff customers receiving the basic discount to this higher level, meaning they would benefit without having to take any action.

We have also maintained our flexible approach to payment plans, focussing on agreeing a payment plan that is compatible with the customer's circumstances.

Responding to the pandemic

The COVID pandemic completely transformed how we needed to support our customers. We acted quickly to ensure we were supporting our customers as best as possible, by:

- Introducing automatic payment breaks of up to 3 months for anyone impacted by COVID
- Increasing the income threshold eligibility criteria
- Writing to all customers who paid by cash or payment card (and therefore may not have been able to use their usual payment points) to let them know about the help they can access if they are struggling
- Moving to automated renewals for those already on a support scheme or tariff
- Changing our policy to allow referrals to our PSR from relatives and trusted third parties
- Giving £20,000 to a consortium to provide funding to Food Banks in our area
- Proactively contacting our most vulnerable, simply to check in
- Emailing all our customers we had an email address for to let them know about our PSR

8.4.3. Supporting vulnerable customers from 2025 to 2030

Our bills will increase to fund the enhancements our customers, communities and regulators expect. We know many of our customers will continue to struggle financially and we also know many of them would benefit from additional support tailored to their circumstances.

Our plan to support vulnerable customers focuses on:

- Expanding the non-financial additional support we provide for customers with specific needs
- Building on our existing outreach programme to leverage greater support from key partners to identify and support more vulnerable customers
- Increasing the financial support we offer our customers – making sure we protect the most vulnerable from bill increases

8.4.3.1. Non-financial support

Supporting our vulnerable customers is about more than providing help with their water bills. In the next AMP we will:

- Deliver an income maximisation approach that will include a benefit calculator, money-saving ideas and best ways to manage money, to help our customers be in the best possible financial position
- Increase our support for customers with communication difficulties by partnering with companies that offer a variety of translation services such as British Sign Language and Makaton, as well as foreign language translation. We will also train staff to raise awareness of language barriers, speech impairments and hearing loss, and equip staff with tools and techniques to look after these customers
- Develop a specific PSR that will track premises offering care in the community (such as small-scale care homes, supported residential accommodation for adults with disabilities, food banks, refugee accommodation) so we can ensure support is provided in the event of an incident
- Improve our support for vulnerable customers during an incident by streamlining the process for collating data in an incident, working collaboratively with Local Resilience Forums and having a more strategic approach that ensures the customers who are most vulnerable are helped first

8.4.3.2. Outreach programme

We know the most effective way of identifying vulnerable customers is by data sharing and partnership working.

We plan to support more customers financially and through our PSR by partnering with a national register for vulnerable people (the Vulnerability Registration Service). This register will identify any customers with a vulnerability in our operating area that we were not aware of already. We will work more closely with local councils so we can use the data they already share with us (for water emergencies) to support more vulnerable customers.

We will build on existing partnerships and assess opportunities for expanding scalable partnership working, for example working with more Job Centres to hold surgeries. We will also seek to identify new partners to help fill gaps in our current outreach strategy, such as rural crime teams or the National Farmers Union to help with outreach in our more rural areas.

We will support these outreach approaches by finding more ways to promote the PSR and financial support available, such as advertising and promoting it through campaigns, community networks, partnership initiatives, staff training and development, and through our website.

8.4.3.3. Financial support

We know a significant number of our customers will continue to struggle financially and are concerned about the impact of increased bills – 35% of those on the PSR have told us they sometimes struggle with household bills. Our customers expect us to increase the financial support we provide for the most vulnerable, with 70% supporting some level of cross subsidy to support those in need.

Social tariff

We have revisited the level of cross subsidy used to support our social tariff and asked our customers how much they might be willing to contribute to support those who are struggling to afford their bills.

We believe our customers are willing to pay up to £7 more than the current level¹², taking the full amount up to £20 per year. This means that we could maintain support for the 158,000 customers that will be receiving it by 2025.

We want to further increase this support. We are proposing Ofwat allows us to use £15 million of the performance-related ODI financial penalties incurred for our performance between 2020 and 2025 to support an additional 24,000 customers. This means we will be able to support 182,000 customers through our social tariff.

Hardship fund

We also want to increase the number of customers supported through our Hardship Fund, as this targets those most in need. We are proposing to use a further £5 million of performance related ODI penalties to increase the Hardship Fund to £1.25 million per year, compared to the current £250,000 a year, across all five years.

These ODI penalties would have been returned to customers in the form of discounts, but we believe the funds could be better focused on our most vulnerable customers. We need Ofwat's permission to be able to do this and will work with them to make this case.

Watersure and Water Direct

We will continue promoting the Watersure tariff and Water Direct payment scheme to ensure customers are receiving the type of financial support right for them.

NewStart

We plan to redesign our debt-matching scheme (NewStart). Our current approach matches arrears payments made until the debt is fully paid off and can mean customers still have a debt for many years. We are proposing a scheme where we agree manageable monthly arrears payments and when customers have made six months of regular payments, we will write off 50% of their debt. If customers can manage to make payments for more than 12 months, we will write off the remainder of their debt.

12 See [SRN14: Customer Insight technical annex](#), Section 4.51 Social Tariff Support

8.4.4. Measuring success

As well as the increases in financial support set out in the above section, we will increase the number of customers receiving a tailored support service through our Priority Services Register to 343,000 or 22% of households.

We will also test how well we are doing by listening to our vulnerable customers. We already survey customers on our PSR to understand if we are providing the services they need. In 2023, 73% of customers on our PSR felt we support their needs – and 30% thought this was done perfectly well¹³. We will continue listening to all our customers, including our vulnerable customers, to make sure we provide the services they need and find ways to continuously improve. In particular, we will test our ideas to improve the services delivered through our PSR with vulnerable customers and their representatives to ensure we are meeting their needs.

To ensure we are continuing to adhere to Customer Services best practice, we will also secure and maintain the BSI Inclusive Services International Kitemark. We already hold the BSI Inclusive Service Kitemark (BS ISO 22458), which marks our commitment to protecting vulnerable customers. We are in the process of applying for the international kitemark for Inclusive Services ISO 22458:2022 as part of our commitment to helping vulnerable customers.

8.5. Conclusion

We know the increases in our bills will make it difficult for some of our customers to pay and we are committed to mitigating that impact as much as possible. Without any financial support, the increased bills required to support our plan would lead to nearly 20% of our customers falling below the water affordability threshold.

We are taking steps to mitigate against further bill increases by seeking efficiencies and innovative approaches. We are also focusing our work on innovative tariffs on approaches that will support the financially vulnerable. We have begun the process to implement a tariff trial for Rising Block Tariffs in 2024–25. Until we have results for those trials, we cannot be definitive about specific bill reductions from behaviour change, nor specific reductions for lower users.

However, based on analysis of our existing billed consumption, we are confident the majority of our customers will see their bills fall – our most vulnerable customers could see an average 25% further reduction to their bill.

The collective action we are taking has reduced the potential bill, as shown in Figure 4 below.

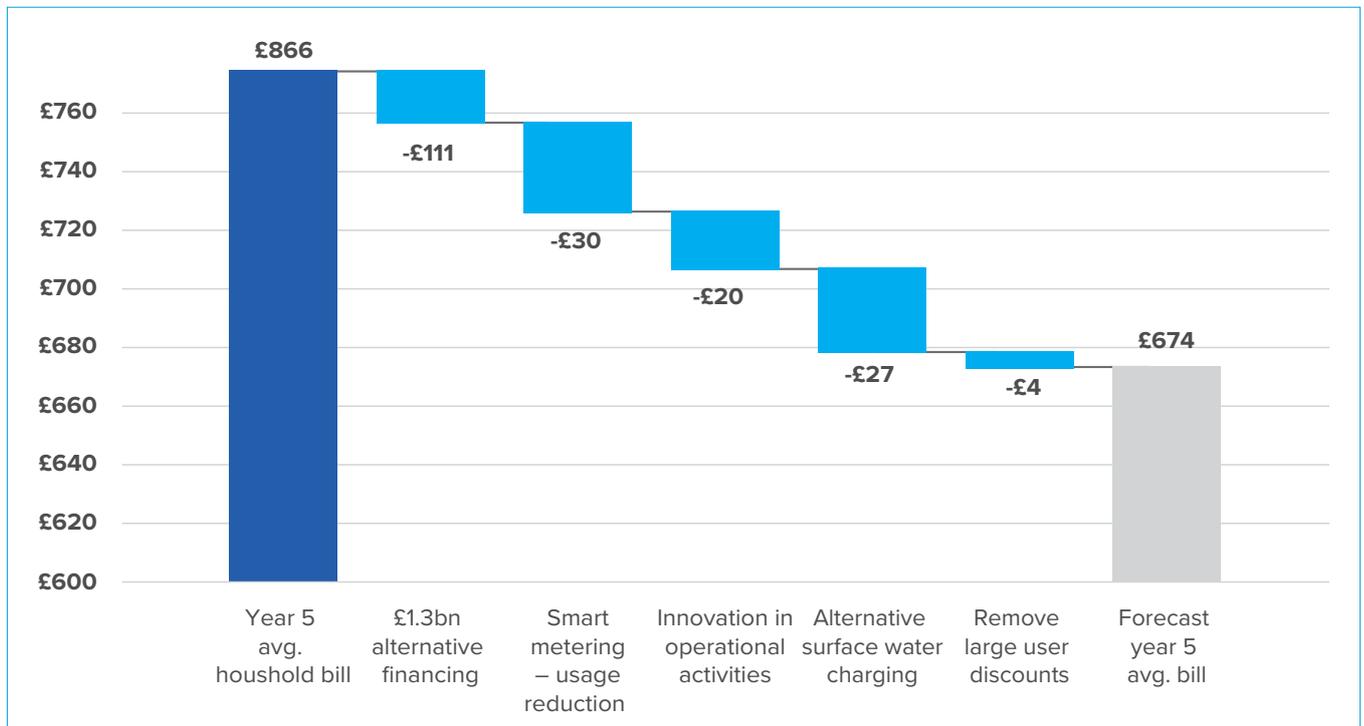


Figure 4: Benefit of affordability activities on average household bill by 2029 / 30

The above shows the Year 5 or 2029–30 average bill would be £866 if we did not implement all of the above affordability measures – and if we were funded for our full plan.

The result is a 22% or £192 reduction on the average dual service bill.

13 See [SRN14: Customer Insight technical annex](#), Section 1 Index: 195 – PSR Research Report March 2023

We are providing further assistance for our most vulnerable customers. Our customers have indicated they are willing to provide an additional £7 of support through the social tariff cross-subsidy, but more is required to maintain a level of under 5% of our customers struggling with Water Affordability.

That is why we are proposing Ofwat allows us to use financial penalties incurred as a result of underperformance to support vulnerable customers, rather than a general bill reduction. This would allow us to help an additional 24,000 customers by 2030, bringing the total number supported to 182,000 – reaching 8.7%.

We know there are many customers who will require more assistance than a simple bill reduction, so we are also proposing to redirect some of some of the financial penalty amount to support a five-fold increase in our Hardship Fund.

We want to work with our customers and our regulators to find the right balance between investing for the future and affordable bills for all of our customers.