

Money and Mental Health submission to Ofwat's consultation on PR24 draft methodology

Introduction

The Money and Mental Health Policy Institute is a research charity, established in 2016 by Martin Lewis to break the link between financial difficulty and mental health problems. The Institute's research and policy work is informed by our Research Community, a group of over 4,500 people with lived experience of mental health problems or of caring for someone who does.

This written submission has been informed by this powerful lived experience testimony, as well as our wider body of research. Unless otherwise specified, all quotes in this response are drawn directly from our Research Community.

In this response we answer questions 2.1, 2.4, 4.1, 5.4, 11.2, 11.3, 11.4, A6.1 and A6.2.

Q2.1: Do you agree with the challenges facing the sector and the ambitions for PR24 we have identified?

We support the inclusion of the need for affordable bills as one of the three main challenges facing the sector. Given water is an essential service this has always been a key priority but the challenge has been exacerbated by the recent cost of living crisis. While the main driver of rising costs is energy bills, the knock on effect will mean that customers will find it harder to afford other bills, including water. With energy bills set to rise considerably in October and then again in January, and with experts predicting energy prices are unlikely to fall to pre-crisis levels for some time,¹ affordability will be a challenge for water companies into the next price period.

Our recent research highlighted the impact that the current cost of living crisis is having.² Nearly three in four (73%) respondents had been forced to make a change to how they live in response to the rising cost of living in the previous two to three months. People with mental health problems were more likely to have made changes. The most common steps people had taken were to cut back on energy use at home (61%) and to reduce spending on essentials like food (46%). Rising costs have also negatively impacted people's mental health, both due to the changes people are having to make but also due to the uncertainty and fear for the future. This negative impact can lead to people ignoring important communication from their essential service providers as they are worried about increased bills or debt letters. For example, 17%

¹ Lowrey C. Cornwall Insight release final predictions for October's Price Cap. Cornwall Insight. 2022. Accessed 30/08/22 -

<https://www.cornwall-insight.com/cornwall-insight-release-final-predictions-for-octobers-price-cap/>.

² D'Arcy C. A tale of two crises: the cost of living and mental health. Money and Mental Health Policy Institute. 2022.

said they had felt dread about opening post from creditors like water companies in recent months, rising to 26% of those who had recently experienced a mental health problem.

Beyond the cost of living crisis, we think it is crucial that affordability is a key element of the methodology as we know that many people with mental health problems will struggle to pay their bills. Before the crisis started, we found that nearly one in five (18%) people with mental health problems were behind on a water bill in the previous 12 months, compared to just 5% of people without mental health problems.³ This can be for a range of different reasons. For example, people with mental health problems are more likely to be on a lower income.⁴ Symptoms of mental health problems such as increased impulsivity and low motivation can contribute to this by making it harder for people to control their spending or manage their finances when unwell.⁵

Affordability is not included as a key ambition for PR24. We understand that Ofwat sees PR24 as one tool to deal with affordability alongside wider regulatory tools. We support the use of tools outside of PR24 to drive this outcome and look forward to the development of the customer-focused licence condition which should add to this. However, while there is sufficient inclusion of affordability throughout the draft methodology, it would still be useful to have an ambition for affordable bills for customers. This could help focus firms' plans on tackling such a key challenge and draw out the related requirements Ofwat has included throughout the methodology.

Q2.4: Do you have any comments on our approach to evaluating progress? What specific evaluation questions (based within the four key ambitions) do you think an evaluation should look to answer?

We think it is essential that Ofwat evaluates the progress of PR24 as this will help it understand which elements were effective at driving change and which were not. This will then allow Ofwat to use such lessons to improve future price review methodologies.

Within the ambition to reflect a clearer understanding of customers and communities, we think a key element that should be assessed is the needs of customers in vulnerable circumstances and/or those who are struggling to pay. Ofwat should evaluate the extent to which water companies have developed this understanding and have responded through their systems and policies to provide improved customer service.

³ Bond N and D'Arcy C. The state we're in. Money and Mental Health Policy Institute. 2021.

⁴ Bond N and D'Arcy C. Mind the income gap. Money and Mental Health Policy Institute. 2020.

⁵ Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.

Q4.1. Do you agree with our approach to making sure that companies' price review submissions and our determinations reflect an understanding of customers', communities' and environmental concerns?

We support Ofwat's approach to ensuring that companies' submission and its determinations reflect an understanding of customers' concerns. We think it is crucial that water companies use this opportunity to develop their understanding of their customers, including those who are in vulnerable circumstances and/or who are struggling to pay.

In previous research we have found that essential services companies, like water providers, often don't understand the needs of their customers with mental health problems which can lead to services being harder to access. For example, we found that half of people (49%) with mental health problems who are protected under the Equality Act say that essential service providers usually don't understand their needs. The rates, while lower than for people with mental health problems, are still considerable for people without a disability (20%) and for people with a physical disability (31%).⁶ This lack of understanding is highlighted when customers come to disclose their mental health problem to their water provider - three in ten people (29%) who disclosed their mental health problems to their water company were not offered any additional support afterwards.⁷

"[My water company] when I used them, have not seemingly listened when problems were raised and mental health issues mentioned."

Expert by experience

Mental health problems can affect people in different ways and can vary in intensity and duration. This means that two people diagnosed with depression, for example, can have significantly different experiences. The ways that mental health problems are entwined with financial difficulty are also diverse. This also applies to the wide range of vulnerable circumstances a customer can find themselves in - no two experiences will be the same. However, there are some key commonalities across mental health problems (and other vulnerable circumstances) which significant numbers of customers will experience at one time. This means that companies need to both develop their understanding of these common experiences but also ensure they are speaking and listening to their customers to understand specific circumstances.

We also think it is essential that firms not only understand the needs of their customers but also understand what support they need to provide in response. This can come from speaking and listening to customers about what would work best for them, but companies should not expect customers to have all the answers and should look at best practice within the sector and in other sectors. We welcome Ofwat's call to water companies not to wait until PR24 to make

⁶ Holkar M. Time to act. Money and Mental Health Policy Institute. 2022.

⁷ Holkar M. Time to act. Money and Mental Health Policy Institute. 2022.

changes to increase help to customers struggling to pay. We believe that PR24 provides a vehicle for Ofwat, in addition to other tools, to raise standards across the sector and ensure that customers in vulnerable circumstances receive consistently good service and outcomes.

Additionally, it is good to see that Ofwat expects firms to take the potential single social tariff into account when they are developing their submissions. This will help prepare firms to implement a potential tariff but also drive them to consider how they could improve their financial support beyond this intervention.

Q5.4. Do you agree with our proposed approach to the measures of experience performance commitments, including to increase the size of C-MeX?

QA6.1. Do you have further views on whether the proposals laid out for C-MeX are appropriate?

QA6.2. Do you agree that C-MeX needs to adapt to provide better service to vulnerable and worse served customers?

We support the proposed changes to C-MeX and think they will help Ofwat and others to better hold water companies to account for their level of customer service.

We welcome Ofwat's proposal to increase the overall incentive size for C-MeX to further focus companies on improving their customer service. Being able to get in touch with your water company and to have a good experience when you do is crucial, especially when something goes wrong. The limitation to this approach is that the incentives are based on the overall customer satisfaction scores which could mask the specific issues people are experiencing. Adapting C-MeX to better take vulnerable and worse-served customers' experiences into account will help in this regard. Equally, Ofwat should ensure that it is enriching the C-MeX data with customer data from other sources such as in-depth interviews with customers. Adding in this extra detail could highlight harms being experienced by specific groups of customers beyond headline satisfaction levels. A negative experience with a firm is likely to have a more significant impact on a customer in vulnerable circumstances than for a customer who is not. For example, being stuck in a call queue could cause someone with anxiety considerable discomfort and might lead to them giving up on the call or struggling to communicate when their call is answered.

The proposal to raise the minimum requirement for the number of communication channels that are offered to customers will be particularly beneficial to customers with mental health problems. Three quarters of people with mental health problems have serious difficulties with at least one communication channel, in particular more than half (54%) particularly struggle to use the phone.⁸ Even among people without mental health problems, half struggle with at least one channel. Therefore for firms to have an accessible service, they need to provide a range of

⁸ Holkar M, Evans K and Langston K. Access Essentials. Money and Mental Health Policy Institute. 2018.

communication channels. This change to C-MeX will hopefully drive up standards and allow more people with mental health problems to get in touch with their provider.

Finally, we think Ofwat should adapt C-MeX to better incentivise the treatment of vulnerable and worse-served customers. At the moment, the specific experiences of customers in vulnerable circumstances are lost within the wider view of customer experiences. Ofwat should consider introducing a range of measures to capture the experiences of customers in vulnerable circumstances - including those on priority service registers, with relevant flags or in financial difficulty. These measures could, for example, record satisfaction with the level of service or support received, or the experience of disclosing to a provider. This could work in two ways - highlighting the specific experiences of customers in vulnerable circumstances and allowing for a comparison with the experiences of customers as a whole. Introducing a specific measure will improve companies' understanding and will provide a tool for Ofwat to monitor performance. Companies that fail to understand and adequately meet the needs of vulnerable customers should be highlighted and penalised. This potential change to C-MeX will benefit Ofwat's work to introduce and then monitor a customer-focused licence condition. It is welcome to read that Ofwat would consider what further action to take if there are indications that vulnerable customers are not being treated fairly. It would also allow consumer organisations to understand which companies are providing the best service to vulnerable customers and which are not.

Q11.2. Do you agree with the proposed scope of our 'quality' assessment?

Specifically, do you agree:

- **we should have minimum expectations in the six areas described above?**
- **with the minimum expectations we specify in each of the six areas?**

We support the inclusion of minimum expectations within the six areas as this will help ensure there is more consistency in how water companies approach their plans. We think the minimum expectations in the customer affordability and acceptability area are welcome, in particular the expectation that the plan includes a proposal to support customers struggling to pay their water bills is essential. As affordability is a key issue for the water industry, firms should reasonably be expected to have come up with wide-ranging and innovative proposals.

Q11.3. Do you agree with the proposed scope of our ambition assessment?

It is good to see that Ofwat wants companies to take account of affordability concerns in their ambitions. We hope that rewarding innovative ways of supporting customers will incentivise companies to do more.

Q11.4. Do you agree with our proposed reputational, financial and procedural rewards and penalties, including the overall package of reward and penalty?

Ofwat should reward companies that have taken a bold approach and penalise those that have not developed adequate plans. While it is good to see that companies will be publicly branded into one of the four categories and will have to prominently state this on direct communications with customers, there may be a limit to which this is noticed or understood by customers. Equally, customers are limited in what they can do with this information as they cannot switch their provider. Customers will be more likely to pick up on how their provider performs if it is covered by national or local media as is the case with the recent focus on the releasing of sewage onto beaches. The reputational risk will likely come more from the comparison to other companies. While it is still important for customers to know how their water company performs, Ofwat should rely more on the financial penalties to affect company behaviour.