

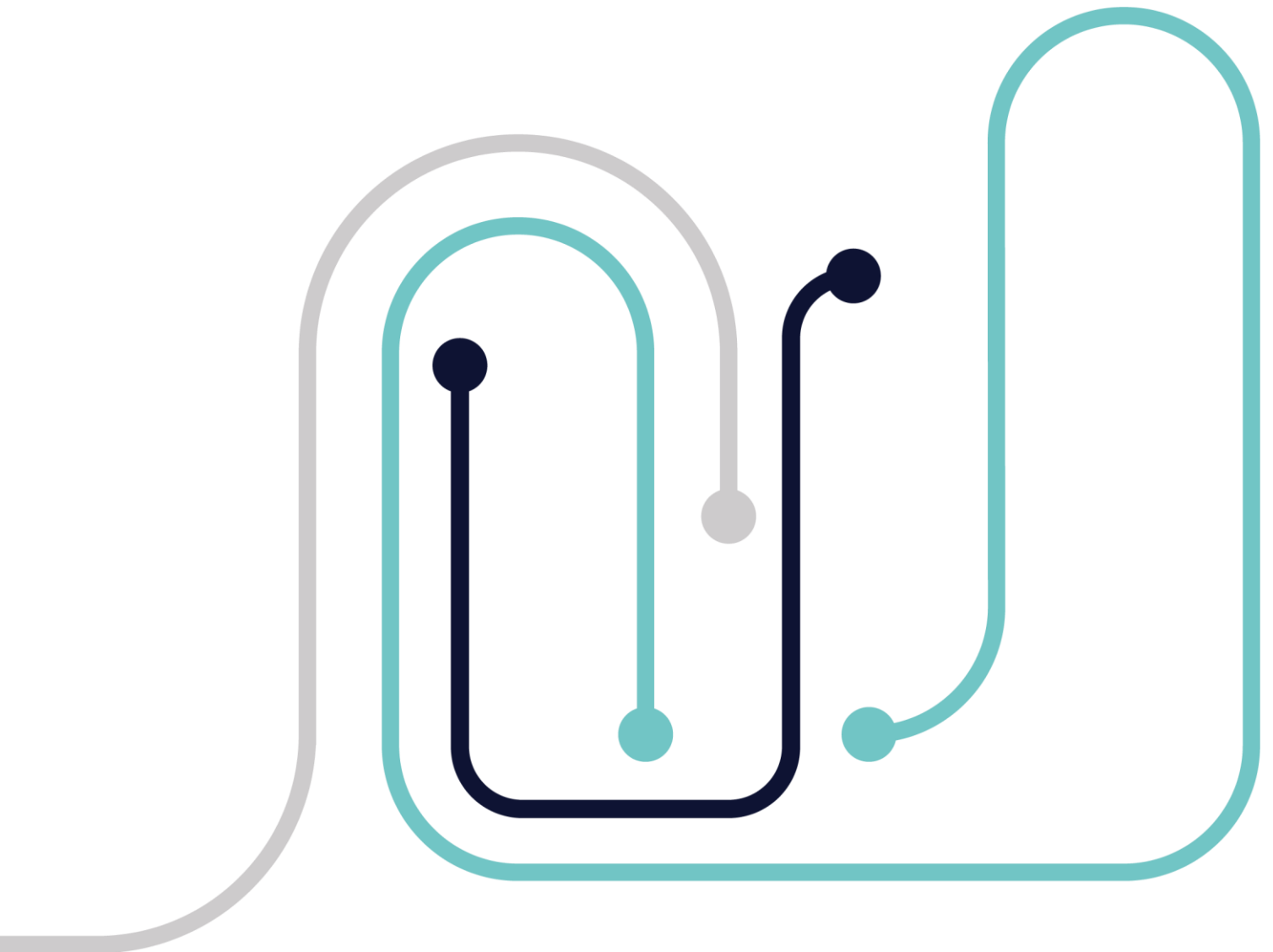


South West Water

# Affordability Customer Research 2022-23

Report

June 2023



# Contents

<b>Executive summary</b> .....	<b>3</b>
ES.1 Project Objectives .....	3
ES.2 Fieldwork.....	3
ES.3 Affordability Performance Commitment .....	4
ES.4 Other key findings.....	5
ES.5 Conclusion .....	6
<b>1 Introduction</b> .....	<b>7</b>
1.1 Project Objectives.....	7
1.2 Tracking Affordability PC.....	7
1.3 Report Structure .....	7
<b>2 Survey Design and Implementation</b> .....	<b>9</b>
2.1 Step 1: Questionnaire Design.....	9
2.2 Step 2: Set Sample Sizes and Quotas.....	11
2.3 Step 3: Fieldwork .....	11
2.4 Step 4: Analysis.....	12
<b>3 Who have we heard from?</b> .....	<b>18</b>
3.1 Sample Size and location .....	18
3.2 Customer profile overview .....	19
<b>4 Survey findings</b> .....	<b>21</b>
4.1 Stated affordability .....	21
4.2 Ability to pay.....	24
4.3 Customer perceptions of value for money.....	28
4.4 Awareness of financial assistance .....	29
4.5 Approach to assessing affordability .....	31
<b>5 Assessed affordability findings</b> .....	<b>38</b>
5.1 Assessment of households with affordable bills.....	38
5.2 Segmentation analysis.....	40
5.3 Comparison to other measures of affordability .....	44
<b>6 Conclusions and future planning</b> .....	<b>46</b>
<b>Assurance</b> .....	<b>47</b>
6.1 Document Assurance .....	47
6.2 Version History .....	47
6.3 File Name.....	47

## Executive summary

### ES.1 Project Objectives

As part of its business as usual (BaU) customer research activity, South West Water undertakes a programme of research to understand its customers' needs and requirements and to support the monitoring of performance commitments.

Understanding the affordability of households' water and sewerage bills and the extent of water poverty is a key focus for current and ongoing research. It allows South West Water to understand the scale of difficulties faced by some bill payers which is important to target help and support.

The affordability customer research study presented in this report has been developed to enable SWW to track affordability in the long term. The developed survey is to be undertaken quarterly over AMP7 with a sample of customers in order to understand:

- Awareness of assistance available to understand if communication of support is appropriate
- Explore views of affordability and value for money
- Proportions of customers finding their bills affordable. This is information that South West Water, regulators and government need.

For the 2020-25 period South West Water (SWW) have a performance commitment (PC) on water affordability. This is a non-financial reputational measure.

The PC is the percentage of customers that are assessed as having an affordable bill through bill and household finance information provided through this affordability survey.

### ES.2 Fieldwork

The survey covers both the South West Water (SWW) and Bournemouth Water (BW) regions. A sample of 600 South West Water and 200 Bournemouth Water domestic customers has been achieved reflecting the diverse customer base. Since 2021/22, the South West Water sample area has been expanded to include the Isles of Scilly.

All fieldwork was managed and delivered by our Market Research partners Feedback Market Research. All fieldwork aligns with the Market Research Society Code of Conduct and Data Protection Regulations. Given the sensitive nature of this survey, it is conducted using telephone (CATI) interviews. The interviewer's role includes ensuring respondents were comfortable providing financial and bill information at the outset of the survey, reassuring customers how the data will and will not be used and ensuring the accuracy of the data.

Customer sample information was provided to Feedback Market Research by SWW. The dataset included customer contact information as well as information on household location, bill and whether the respondent is metered. The sample is aligned with target quotas.

The survey was conducted quarterly throughout 2022/23.

## ES.3 Affordability Performance Commitment

### *For the combined SWW and BW region 96.9% of customers have an affordable bill*

These customers spend less than 5% of their equivalised household income after housing costs on their bill as defined by the Performance Commitment.

This percentage is higher than the Performance Commitment target for 2022/23 of 95.2%. The uncertainty range 95% confidence interval for the year end estimate is 95.7% to 98.1%, demonstrating clear outperformance of the target.

Conversely, 3.1% of respondents have bills above the 5% threshold. This is equivalent to around 28,100 households finding their bill unaffordable.

The findings at a regional level show that 100% of customers in the Bournemouth Water region find their water only bill affordable, whereas for the South West Water region 96.1% customers have an affordable bill.

These final results incorporate:

- updates to the volume data used to calculate metered customers' bills
- updates to the bill and income policy filters applied in the PC assessment.
- adjustments for the £50 Government contribution for SWW customers, the £13 rebate for outperformance for both SWW and BW customers and the £30 Stop the Drop incentive provided to customers in Cornwall.
- updates to incomes to be consistent with latest published "population" income estimates.

**Table ES.1: Percentage of customers who find their water bill affordable**

Company Area	Percentage of customers with affordable bill <i>Paying &lt; 5% of equivalised household income after housing costs</i>	Percentage of customers with unaffordable bill <i>Paying &gt; 5% of equivalised household income after housing costs</i>
<b>Combined area</b>	<b>96.9%</b>	<b>3.1%</b>
<b>South West Water</b>	96.1%	3.9%
<b>Bournemouth Water:</b>		
<b>Water only bill</b>	100.0%	0.0%
<i>Estimated Water &amp; Sewerage bill</i>	90.0%	10.0%

Source: ICS Calculations.

Note: The percentage estimates are based on a final sample of 800 observations.

Analysis of the findings show notably lower affordability for certain customer segments, specifically lower socio-economic groups (DE), unmetered customers, family households, renters and households who report some level of difficulty with paying their water bills.

*The Affordability Performance Commitment continues to improve over time*

These results demonstrate an improvement in affordability compared to previous years. This year the changes are driven by improvement in the South West Water region as the Bournemouth Water results are consistently at 100% affordability since 2021/22.

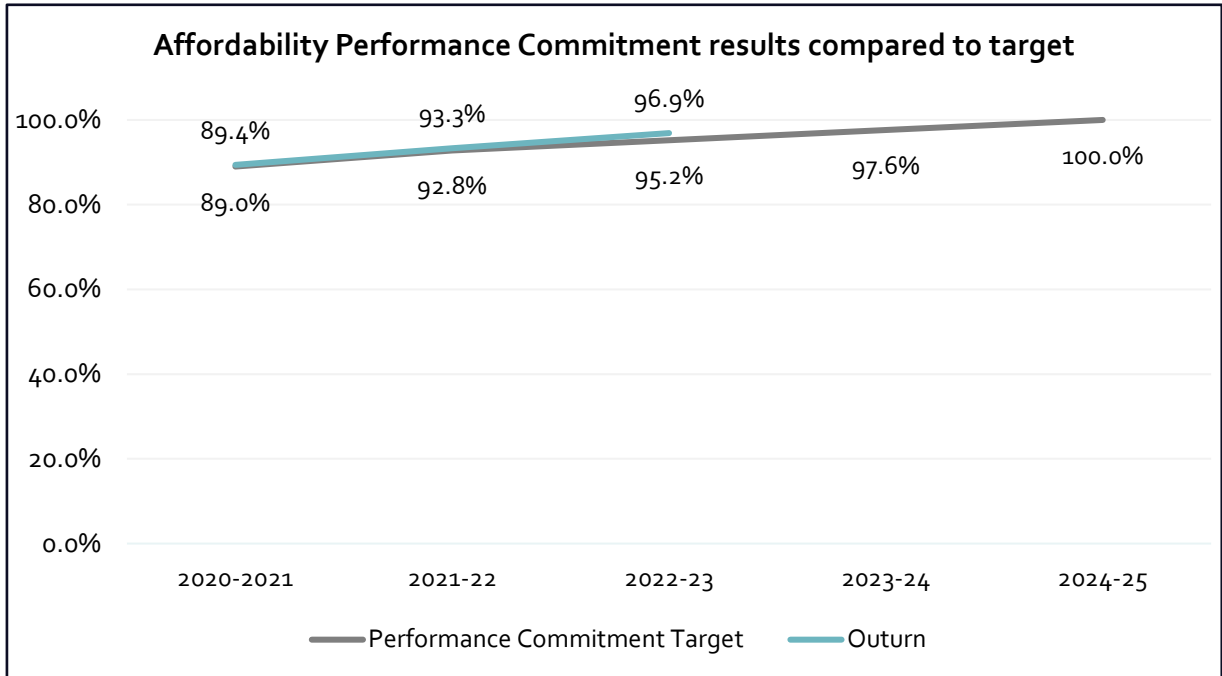


Figure ES -1: Affordability performance commitment against targets

## ES.4 Other key findings

*Customers continue to view their water bill as affordable despite increased cost-of-living*

- Overall, 83% state that the bill payable to South West Water and Bournemouth Water is affordable. This is consistent with 2021/22 (-1%).
- Stated affordability is lower than the Performance Commitment finding. Analysis shows that around 40% the customers who state their bill is unaffordable, do not or rarely have problems paying their bills. This shows that the two measures are capturing different concepts.

*Value for money remains stable compared to 2021/22*

- 80% think that the bill they pay to South West Water and Bournemouth Water is good value for money<sup>1</sup>. Value for money has increased 1% compared to the previous year. This is the same increase observed in the South West Water Long-Term Tracker Survey (LTTS).

*There are indications that the cost-of-living crisis is impacting on household finances*

- 32% of customers sometimes struggle to pay all of their household bills, up from 22% in 2021/22.

<sup>1</sup> Note this is not the value for money performance commitment which is reported via a different question in the LTTS.

- The proportion sometimes finding it difficult to pay their water bill has increased from 10% in 2021/22 to 14% for 2022/23. The proportion of customers self-reporting being regularly in arrears with their water bill has also increased to 7% from 4% in 2021/22.
- These may be lead indicators that affordability may become more of a challenge for customers next year if inflation and wider bills continue to increase.

### *50% of customers are aware of financial assistance measures*

- This is more than the proportion of customers who state they are struggling to pay all their household bills (32%)
- Bournemouth Water customers show lower levels of awareness for some measures.
- These differences could reflect that a lower proportion of Bournemouth Water customers struggle to pay their water bills, which may lead to fewer customers needing to find out about the assistance available.

## ES.5 Conclusion

Overall, the survey has been effective in providing the detailed information around the views of customers relating to affordability that South West Water need to understand the scale of customer affordability difficulties. The survey has shown that high proportions of customers find their bills affordable.

For the combined SWW and BW region 96.9% of customers have an affordable bill, spending less than 5% of their equivalised household income after housing costs on their bill as defined by the Performance Commitment.

The findings at a regional level show that 100% of customers in the Bournemouth Water region find their water only bill affordable, whereas for the South West Water region 96.1% customers have an affordable bill.

These results demonstrate an improvement in affordability in the South West Water region compared to previous years and since measurement began in 2019/20. Overall, this has resulted in an improvement in the affordability performance commitment for 2022/23.

Continuing increased cost of living pressures mean that affordability may become more of a challenge for customers next year if inflation and wider bills continue to increase.

# 1 Introduction

## 1.1 Project Objectives

As part of its business as usual (BaU) customer research activity, South West Water undertakes a programme of research to understand its customers’ needs and requirements and to support the monitoring of performance commitments.

Understanding the affordability of household water and sewerage bills and the extent of water poverty is a key focus for current and ongoing research. It allows South West Water to understand the scale of difficulties faced by some bill payers which is important to target help and support.

The affordability customer research study presented in this report has been developed to enable SWW to track affordability in the long term. The developed survey is to be undertaken quarterly over AMP7 with a sample of customers in order to understand:

- Awareness of assistance available to understand if communication of support is appropriate
- Explore views of affordability and value for money
- Proportions of customers finding their bills affordable. This is information that South West Water, regulators and government need.

## 1.2 Tracking Affordability PC

For the 2020-25 period South West Water (SWW) have a performance commitment (PC) on water affordability. This is a non-financial reputational measure.

The PC is the percentage of customers that are assessed as having an affordable bill through bill and household finance information provided through the affordability survey.

This performance commitment measures affordability of the combined bill for those in the South West Water region and the water bill only in the Bournemouth Water region. The 2024-25 target level of performance is 100%.

Performance targets from 2020-21 are set out below.

**Table 1.1: PC target levels**

2020-21	2021-22	2022-23	2023-24	2024-15
89.0%	92.8%	95.2%	97.6%	100.0%

The affordability survey detailed in this report provides the data to monitor performance on this measure.

## 1.3 Report Structure

This report sets out the findings from undertaking the affordability customer research for 2022/23. The report is structured as follows:

- Survey design and implementation (Section 2)
- Who have we heard from? (Section 3)
- Survey findings (Section 4)
- Assessed affordability findings (Section 5)
- Conclusions and future planning (Section 6)

The report is supported by four appendices:

- Copy of the survey (Appendix A)
- Respondent profile (Appendix B)
- Segmentation of findings (Appendix C)
- Detailed technical methodology (Appendix D)



## 2 Survey Design and Implementation

The survey design and implementation process involved four steps.

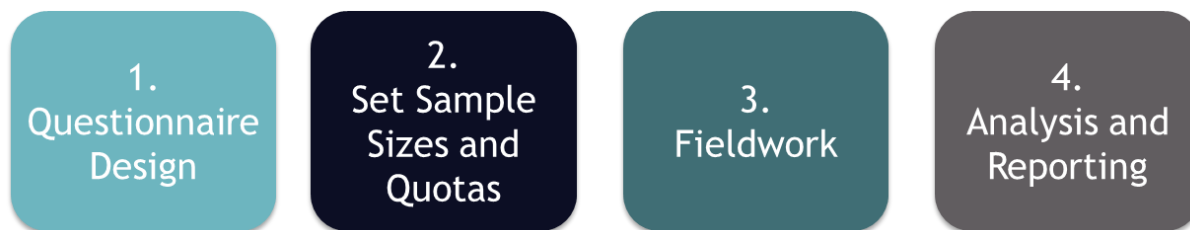


Figure 2-1 Approach to survey design and implementation

The approach is aligned with Market Research Society Code of Conduct, and all Data Protection Regulations.

These four steps are explained in more detail below.

### 2.1 Step 1: Questionnaire Design

The aim of the research is to allow South West Water to understand the extent to which water bills are affordable for all households, and to assess the effectiveness of measures to address water poverty.

The survey builds on the bespoke customer research undertaken during PR19. The survey approach was developed further in 2019/20 to enable South West Water to understand how to improve its performance as well as to ensure it can support the reporting of the affordability performance commitment to Ofwat and stakeholders.

The survey for 2022/23 is the same as the previous year. It retains additional questions added in 2020/21 on the impact of the coronavirus pandemic on water use.

In line with previous years, the survey has been applied in both the South West Water area and the Bournemouth Water area. The survey measures affordability on the combined bill for those in the South West Water region and the water bill only in the Bournemouth Water region.

A summary of the structure of the final survey contents is given below:

**Table 2.1: Questionnaire structure**

Part A RESPONDENT DETAILS	<ul style="list-style-type: none"> <li>• Confirmation of eligibility to complete the survey based on: <ul style="list-style-type: none"> <li>○ South West Water or Bournemouth Water customer</li> <li>○ Jointly or fully responsible for the bill</li> <li>○ Meeting quota specifications (age, gender and socio-economic group, metering, constituency location in the SWW region).</li> </ul> </li> <li>• Followed by profiling questions about the respondent’s household (an input to assess affordability).</li> </ul>
Part B PERCEPTIONS OF AFFORDABILITY	<ul style="list-style-type: none"> <li>• Customers state if they think their bill is affordable and the motivations for this assessment.</li> </ul>
Part C BILL INFORMATION	<ul style="list-style-type: none"> <li>• How much a respondent pays for services.</li> <li>• Views on whether their bill is value for money.</li> <li>• Impacts of Covid-19 on water use.</li> </ul>
Part D ASSESSING AFFORDABILITY AND AWARENESS OF FINANCIAL ASSISTANCE	<ul style="list-style-type: none"> <li>• Ease of paying their water bill and other household bills</li> <li>• Familiarity with financial assistance measures and how customers seek information on the subject.</li> <li>• Views on approaches to assess whether bills are affordable.</li> <li>• The respondent confirms (self-certifies) whether their bill is classed as affordable or not using the Performance Commitment definition (see section 2.4). This is based on a personalised income threshold generated from the respondent’s bill amount.</li> </ul>
Part E HOUSEHOLD FINANCES	<ul style="list-style-type: none"> <li>• Collects information required to measure affordability and levels of disposable income: <ul style="list-style-type: none"> <li>○ Household income before taxation, net household income after taxation and other deductions, net household disposable income after housing costs and housing costs.</li> </ul> </li> </ul>
Part F AWARENESS OF NON-FINANCIAL ASSISTANCE MEASURES	<ul style="list-style-type: none"> <li>• Awareness and membership of the Priorities Service Register.</li> </ul>
Part G HOUSEHOLD INFORMATION	<ul style="list-style-type: none"> <li>• Household profile questions to understand customers who find their bill unaffordable or are assessed as in water poverty and allow customer segmentations. This includes: <ul style="list-style-type: none"> <li>○ Metering, household composition, disability status, employment status, qualifications and home ownership.</li> </ul> </li> </ul>

## PERFORMANCE COMMITMENT ON WATER BILL AFFORDABILITY

The performance commitment (PC) on water affordability is measured as: Percentage of customers who find their water bill affordable

$$PC = \frac{\text{Number customers estimated to have an affordable bill in the sample}}{\text{Number customers in the sample}}$$

This is further defined as:

“The percentage of customers that have an affordable water bill, as measured by the ratio of equivalised household income after housing costs to bill. An affordable water bill is assessed as the water bill being less than 5% of equivalised household income.”

Data collected in the survey allows an assessment per surveyed household of the ratio of equivalised household income after housing costs to the bill. Equivalised income is a measure of household income that takes account of the differences in a household's size and composition, and thus is made equivalent for all household sizes and composition.

Households that spend more than 5% of equivalised household income after housing costs on their water bill are classified as having an unaffordable bill.

### 2.2 Step 2: Set Sample Sizes and Quotas

The sample covered the South West Water and Bournemouth Water regions. Since 2021/22 the South West Water sample area has been expanded to include the Isles of Scilly.

The target sample sizes, and household quotas were set based on NOMIS<sup>2</sup> data and aligned with the South West Water PR19 Sampling and Survey Strategy. Quotas covered respondents' gender, age and socio-economic group (SEG) and metering.

A survey size of 600 in the South West Water region; 200 in the Bournemouth Water region has been agreed between South West Water. Bournemouth Water is over sampled to ensure performance in this region is understood. Results are weighted 78.5% South West Water and 21.5% Bournemouth Water to provide an overall company analysis.

The sample of 800 is sufficient to apply statistical analysis for households in total whilst also facilitating drill down, for example by SEG or region.

### 2.3 Step 3: Fieldwork

Feedback Market Research conducted the market research. Feedback is an independent market researcher that conducts research in compliance with the Market Research Society Code of Conduct.

#### SURVEY MODE

The research was delivered via telephone (CATI) surveys. Customer sample information was provided by SWW. The dataset included customer contact information as well as information on household location, bill and whether the respondent is metered.

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<sup>2</sup> NOMIS is a service provided by the Office for National Statistics, ONS, which gives access to UK labour market statistics from official sources.

Given the sensitive nature of this survey, this is an interviewer telephone survey. The interviewer is needed to ensure respondents are comfortable providing financial and bill information at the outset of the survey, to reassure customers how the data will and will not be used, and to ensure accuracy of the data.

## SURVEY TIMINGS

Q1 of 2022-23 fieldwork was conducted in May and June 2022. Quarter 2 fieldwork was conducted in September 2022, Quarter 3 in November and December 2022 and Quarter 4 in February and March 2023.

## 2.4 Step 4: Analysis

The key findings from the full year survey data are presented in the next section. The questions are presented and for key questions the combined results are weighted in proportion for the customer base between South West Water and Bournemouth Water.

The key analysis of the survey is the Affordability PC, which is assessed using the ratio of household bills to equivalised household income after housing costs. Equivalised income is a measure of household income that takes account of the differences in a household's size and composition, and thus is made equivalent for all household sizes and composition.

Households that spend more than 5% of equivalised household income after housing costs on their water bill are classified as having an unaffordable bill.

Below we set out **the estimation methodology for assessment**. The estimation tasks to provide a credible estimate of the proportion of bills that are affordable in summary are:

1. Assessment of the raw data - The estimation methodology uses self-reported data from the survey on household bills and incomes (financial circumstances). The first step is to assess how complete the responses are. Where the responses are sufficiently complete, this data is used to directly estimate the affordability ratio for a representative household sample.<sup>3</sup> As shown in section 4 below this approach accounts for about 97.6% of the overall sample data used.
2. Treatment of "missing" data identified at step 1 above. A number of steps are used for this purpose (see further details below).
  - First, data is utilised from the self-assessment affordability checker (Q23c). In section 4 we show that this approach accounts for about 1.2% of the data observations used in the overall affordability assessment.
  - Secondly, where a response to Q23c is not available (e.g., some respondents will respond with "Don't Know") or is not validated, statistical models are available to predict values for calculating bill to income ratios. For 2022-23 these models were not required.
3. Calculation of equivalised income – for each respondent their household income (reported or modelled) is adjusted to produce equivalised income.
4. Re-weightings for household incomes, metering and average bills. Both income and bill data are re-weighted before comparing equivalised income to bill levels to determine

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<sup>3</sup> The survey dataset also includes actual bill estimates provided by South West Water. For sampled households this information is included in the datafile provided by the fieldwork team who match the SWW bill database to their sampled households. This "actual" bill data is the preferred basis for the estimation of bills to income, although the survey responses to Q1 (BW water bill) and Q2 (Water & sewerage bill) have been retained as cross-checks.

whether the 5% threshold is exceeded. This is to ensure that the data set is aligned with mean values for household incomes and bills that are representative of the South West Water population. The sample observations are also re-weighted to ensure they are representative of the proportion of metered / unmetered households in the South West and Bournemouth areas. For 2022-23 indexation factors derived from external published sources were applied to the population data on household incomes (see further below).

5. Policy filters. As a final step a number of policy filters are applied. These filters reflect policy positions on minimum bill levels or income levels that are considered consistent with affordable bills. These filters were reviewed and updated for 2022-23 where applicable.

## TASK 1: ASSESSMENT OF THE SURVEY RESPONSES

The assessment methodology uses self-reported data on household bills and incomes (financial circumstances). The key survey questions that are utilised are summarised below:

**Table 2.2: Bill and household income questions**

Question Nr.	Question Label
Q1 (BW only)	What is the total amount your household pays to Bournemouth Water for water services?
Q2	Q2: What is the total amount your household pays per year for both water and sewerage services?
Q9 Gross Household Income	Q9. Please can I ask what is your total household income before tax and other deductions? This includes income from employment, pensions, state support and other sources.
Q10 Disposable Household Income before housing costs	Q10. Can you state your monthly or weekly household income AFTER tax and other deductions?
Q11 Housing Costs	Q11. Please can I ask, what is your approximate weekly or monthly rent or mortgage payments? Please include any payments to your mortgage lender, landlord or housing association paid from your household income or state benefits (e.g., housing benefit).
Q11a	Do you have any annual property maintenance fees (for example if you live in a block of apartments and pay service charges to cover the maintenance of common areas)
Q12 Disposable Household Income after housing costs	Instead of providing that detail, please could you state your weekly or monthly disposal income after all deductions for taxation, rent or mortgage payments. This will ensure that South West Water and the regulator can test to what extent bills are affordable across all customer types. Try to capture actual amounts – but if not, use the bands

It is the responses to Q10, Q11 or Q12 that are utilised to construct for each sample household respondent an estimate of net (disposable) household income after housing costs.

A key first step in the analysis of the survey data was to understand how complete the responses are. For the income questions respondents were permitted to select a “Prefer not to say” response and for the bill questions they were able to select “Don’t Know”. These responses are treated as non-responses.

Bills data is provided by through SWW billing system records and this has been used in preference to customer reported bills and bill bands in the assessment of affordability. The bills data from the billing system records is extracted at the beginning of the charging year (in this case April 2022) and based on prior year (2021-22) meter reads. Metered billings during the 2022-23 charge year were also checked and provided evidence of variability in household usage over the current billing year. SWW provided analysis based on around 68,000 meter readings (updated in February 2023) that showed that metered billings were on average around 5.2% lower than the start year volumes used for the estimate of annual metered bills. These metered demand adjustments estimates were used to recalibrate the volume element of the actual bills used for metered households in the analysis.

## TASK 2: TREATMENT OF MISSING DATA

Any respondents with missing data at task 1 are identified and treated as follows.

As a first preference, data is utilised from the self-certification affordability checker (Q23) Where the task 1 data does not allow the direct estimation of the bill to income (for example due to incomplete survey responses), the responses to Q23 are used to determine affordability. In Q23 households are presented with the threshold income figure consistent with a 5% bill to equivalised income ratio. Therefore, without disclosing their actual income circumstances they can indicate if they consider their bill to be above or below this threshold. As part of this step in the assessment these responses are cross-checked and validated against other responses in the survey (Q17 relating to ease of bill payment and Q18 relating to arrears with water bills). In section 4 we show that this approach accounts for about 1.2% of the data observations used in the overall affordability assessment.

Only where a response to Q23 is not available (e.g., some respondents will respond with “Don’t Know”) or where the response to Q23 is not validated against other data from the survey, statistical models are used to predict values for the minority of respondents providing a non-response for key questions (e.g., income and bill data not provided). Due to the completeness of the 2022-23 survey data this modelling approach was not required.

The estimates of *after housing cost* incomes are derived as *before housing cost* incomes minus estimated housing costs. Where the calculated after housing cost incomes – either self-reported or modelled – are negative these observations are excluded from the sample. As documented in Section 4, no sample observations were required to be excluded in this way.

## TASK 3: CALCULATION OF THE EQUIVALISATION SCALES

Once a full set of income observations – either self-reported or modelled – is available, this income data is then equivalised to align the income data to the definition of the SWW performance commitment.

Two questions about household composition are included in the survey to enable the equivalisation of household incomes. Equivalisation is a weighting technique used to adjust a household’s stated income for the purchasing power or standard of living it would provide to the members of a household. These questions are:

**Table 2.3: Questions used for developing income equivalence scales**

Question Nr.	Question Label
QK	How many children aged 13 or less are there in your household?
QL	How many adults and children aged 14 and over are there in your household?

We equalise using the recommended modified OECD scales as follows:

**Table 2.4: OECD equivalence scales**

	Before housing costs income	After housing cost incomes
First adult	0.67	0.58
Additional adults or Children >13 years old	0.33	0.42
Children up to 13 years old	0.2	0.2

These scales are combined with the information reported in questions QK and QL and then used to scale the household income data.

## TASK 4: REWEIGHTING OF DISTRIBUTIONS

The sample data is principally designed to allow SWW to estimate the *distribution* of household incomes and bills. Estimation of the number of households with affordable bills also benefits from accurate evidence on the *average* level of incomes (and bills), or in other words the means of those distributions.

Both income and bill data are reweighted before comparing equalised income to bill levels to determine whether the 5% threshold is breached. This is to ensure that the data set is aligned with expected values. The dataset is also weighted to ensure that the proportion of metered customers is representative of the SWW customer base. The data used for the reweighting is set out below.

### *Average household income*

We have used published data on average household incomes for the SWW areas to ensure that our estimated distributions align to other available data on household incomes for the SWW areas.

Average household incomes at local authority level are available from ONS for all local authorities in England and Wales.<sup>4</sup> The published data include the following measures:

- Net annual household income (equalised) after housing costs, financial year ending March 2018
- Net annual household income (equalised) before housing costs, financial year ending March 2018

In the assessment of affordability, the sample data on household incomes (before and after housing costs) is always compared to these published estimates for mean household incomes (at area level = Bournemouth, Devon, Cornwall). We have used this data to estimate the average weekly household incomes (equalised) by region/area as summarised in Table 2.5 below.

<sup>4</sup> The data source for these published estimates is:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/smallareaincomeestimatesformiddlelayersuperoutputareasenglandandwales> and the last available estimates are for the year 2017-18.

**Table 2.5: Average weekly household incomes by region (2017-18)**

Area	Net weekly income after housing costs (£) – 2017-18	Net weekly income before housing costs (£) – 2017-18
Bournemouth Water	557	625
South West Water	502	555
Cornwall	487	543
Devon	509	561

Source: ONS, financial year end 2017-18.

The sample income data available from the survey previously was re-weighted to be consistent with these estimates of average weekly household incomes. One implication of this approach is that no annual growth in net household incomes since 2017-18 is recognised in the affordability assessment.

These population estimates are now very likely to under-state the true position for 2022-23 (a period of five years). Therefore, in the absence of updates to the ONS source data, we have used other sources to recognise changes to population incomes in the period since 2017-18. We have developed income indexation factors based on these published sources.

Two sources were used to develop these income indexation factors:

- *Institute of Fiscal Studies, Living Standards, Inequality and Poverty Spreadsheet* (September 2022)<sup>5</sup> - This provides an annual time series for incomes (BHC) and incomes (AHC) to 2020-21 (derived from the annual Family Resources Survey).
- *Office of Budget Responsibility, March 2023 Economic and fiscal outlook*.<sup>6</sup> These published datasets provide projections to 2027-28 for growth in household disposable incomes (nominal and real) as well as year on year growth projections in inflation (overall and housing cost components like mortgage interest and rentals).

We have combined the OBR projections for housing cost inflation with data available from the affordability survey to provide a blended indexation factor for housing costs that is weighted to the proportions of SWW households with mortgages or paying rents or paying no mortgage.

Relative to 2017-18, our calculations translate to about a 14.8% increase in net (nominal) incomes (AHC) by 2022-23.<sup>7</sup> The table below summarises the changes to our assumed average population net incomes (AHC) after applying the indexation factors:

**Table 2.6: Average weekly household incomes (after housing costs) with indexation to 2022-23**

Area	Net weekly income after housing costs (£) – before indexation	Net weekly income before housing costs (£) – after indexation
Bournemouth Water	557	639
Cornwall	487	584
Devon	509	560

Source: ICS Calculations

For the 2022-23 assessments the sample data for incomes is now calibrated to these mean net incomes after indexation.

<sup>5</sup> <https://ifs.org.uk/living-standards-poverty-and-inequality-uk>

<sup>6</sup> <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

<sup>7</sup> Also of note, the projections from the OBR also suggest a decline in this growth by 2023-24 to about 12.3% (with a forecast decline in nominal income (AHC) growth in 2022-23 due primarily to housing cost inflation)



### Average household bills

The sample data on bills was scaled to be consistent with the 2022-23 values for average household bills. The South West Water bills used in our analysis are expressed net of the £50 Government contribution. The bills used in the affordability assessments also take account of two rebates received by households during 2022-23:

- Households in South West Water and Bournemouth received a performance (ODI) rebate of £13; and
- Households in Cornwall received a further £30 bill rebate related to the Stop the Drop campaign.

**Table 2.7: Average household bills 2022-23\***

Area	Metered (£)	Unmetered (£)
Bournemouth Water (Water Only Bill)	£134	£143
South West Water (combined Water and Sewerage Bill less £50 Contribution)	£406	£739

\*Based on expected average bills 2022-23 after any metered volume adjustments and before rebates

### Household metered numbers

The sample data was re-calibrated to be consistent with the unmetered/metered proportions as reported in the table below:

**Table 2.8: Household numbers by company area**

Area	Metered %	Unmetered %
Bournemouth Water	74.6%	25.4%
South West Water (Dual)	87.1%	12.9%

\*Based on actual numbers of households at year end 31.3.2022

## TASK 5: POLICY FILTERS

The first set of filters applied are:

- Any respondent with equivalised after housing cost (AHC) income (after scaling) > £295/week is classified as affordable OR
- Any respondent with an annual bill (after scaling) < £200 (water and sewerage) or £80 (BW water only) is classified as affordable.

The income filters align with South West Water's overall affordability strategy (and eligibility for WaterCare social tariff support).

These household bill filters are used to be consistent with recent industry work by CEPA (2021) for Water UK which assumes that any water and sewerage bill below a £200 threshold should be below a 5% water poverty threshold based on the minimum available Universal Credit (UC) allowances of £4,000 per annum.

Further examination of the incomes data (after scaling) highlighted a need for further refinement to these filters for specific household types. A second additional set of more granular income filters were developed based on the UC allowances (2022-23) for working age households (differentiated by household size and composition) and by state age pension levels for single and dual pensioner households. These filters were used as minimum income floors for the applicable household types. We recommend these filters are reviewed again for 2023-24.

### 3 Who have we heard from?

This section provides an overview of customers who participated in the survey. Unless otherwise stated the data is presented for the combined sample and unweighted.

Further details of the respondent profile are provided in Appendix C.

#### 3.1 Sample Size and location

A total of 800 respondents were surveyed, meeting the target of 800. The breakdown of the sample across regions and iterations of the survey is shown in Table 3.1.

The fieldwork took place across all four quarters of 2022-23.

**Table 3.1: Sample sizes**

	<b>Bournemouth</b>	<b>South West</b>	<b>Total</b>
<b>Quarter 1</b>	50	150	200
<b>Quarter 2</b>	50	150	200
<b>Quarter 3</b>	50	150	200
<b>Quarter 4</b>	50	150	200
<b>Total</b>	<b>200</b>	<b>600</b>	<b>800</b>

The location of the sample respondents is shown separately for each region in Figure 3-1 and Figure 3-2.

For the South West Water region, Figure 3-1 shows the location expressed using MP constituencies. The results show wide geographical diversity has been achieved. Since 2021-22 the survey has included customers from the Isle of Scilly. The sample size reflects that Isle of Scilly is a small proportion of the overall customer base.

As the Bournemouth Water region is smaller, the location is differentiated using sewerage provider. Figure 3-2 shows that 89% are based in the Wessex Water region, 4% in the Southern Water region with the remainder stating don't know. This reflects that Wessex Water as a sewerage provider covers a larger proportion of the region.

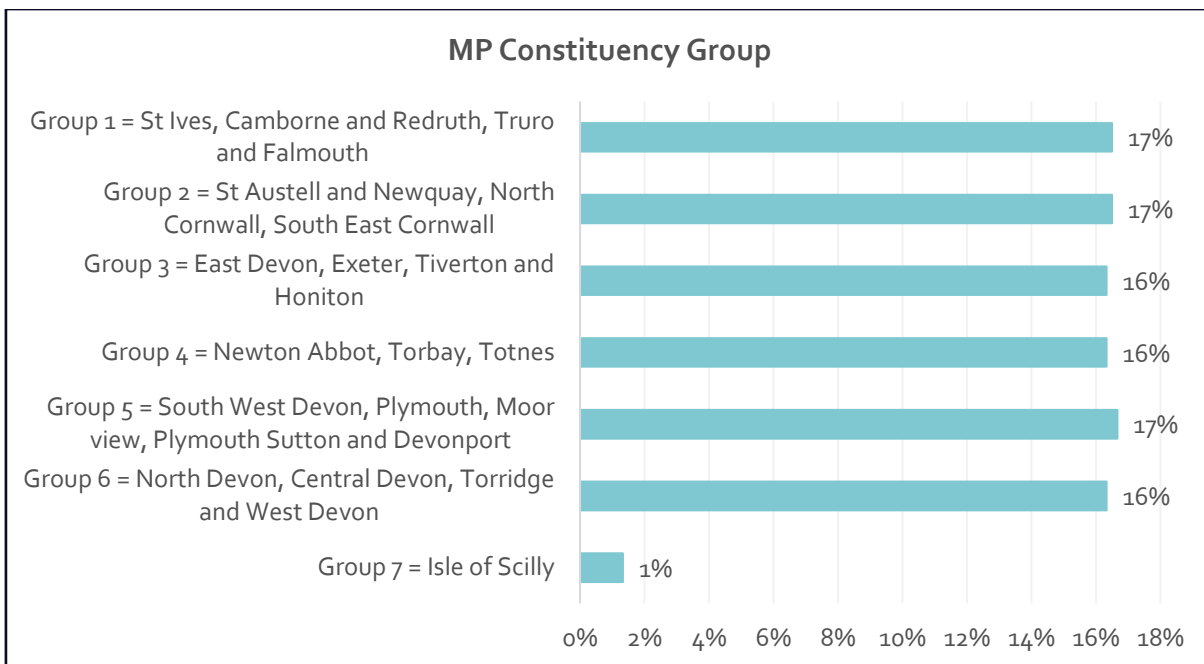


Figure 3-1: Location of respondents in the South West Water region by MP constituency

(n = 600)

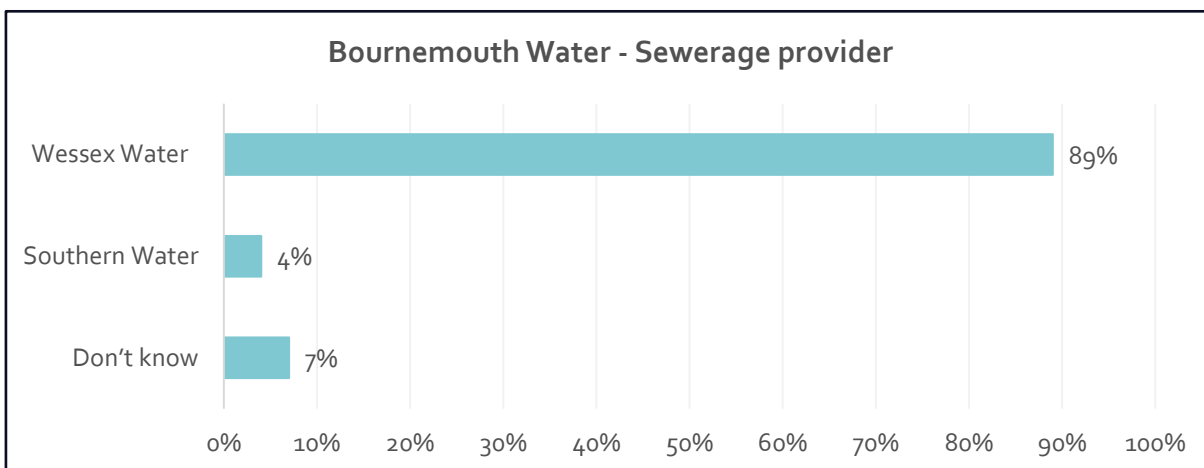


Figure 3-2: Location of respondents in the Bournemouth Water region by sewerage provider

(n = 200)

### 3.2 Customer profile overview

The figure below sets out how the overall sample aligns with the quota. The sample matches the population profile for gender, socio-economic grouping and age. The sample is also representative when considering the profile of metered customers.



49% 51%



79% households metered

5% in receipt of financial assistance with their water bills

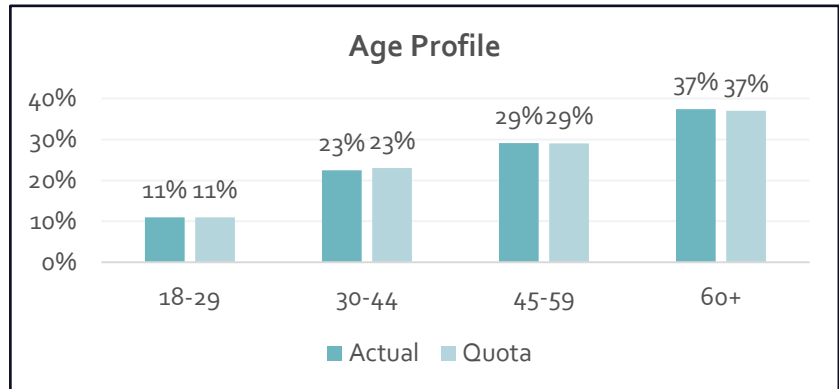
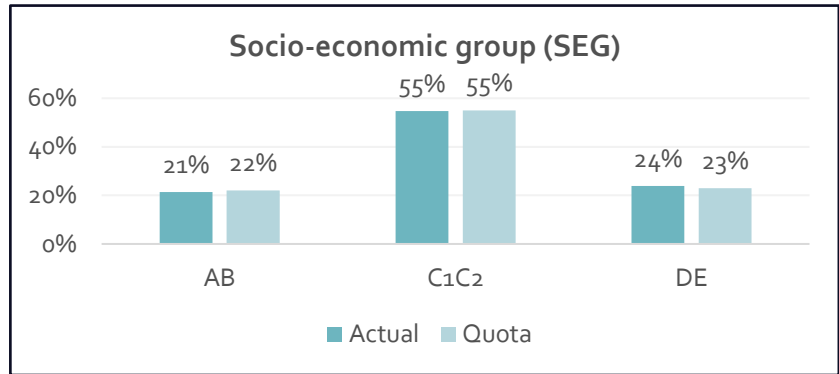


Figure 3-3: Overall summary of the sample dataset (n=800)

## 4 Survey findings

### 4.1 Stated affordability

#### BILL PAYABLE

The cost of living is having limited effect on stated affordability since 2021/22. Overall, 83% of respondents state the bill they pay<sup>8</sup> is affordable (Figure 4-1). This is consistent with 84% the previous year.

It is worth noting 2021/22 was affected by the withdrawal of the Covid-19 furlough scheme, and this year has brought a cost-of-living crisis driven by energy bills and inflation.

At a regional level, perceptions of affordability are lower for South West Water at 81%. The BW region findings are 92%. The results are broadly unchanged for SWW (82% in 2021/22), and for BW (92% in 2021/22).

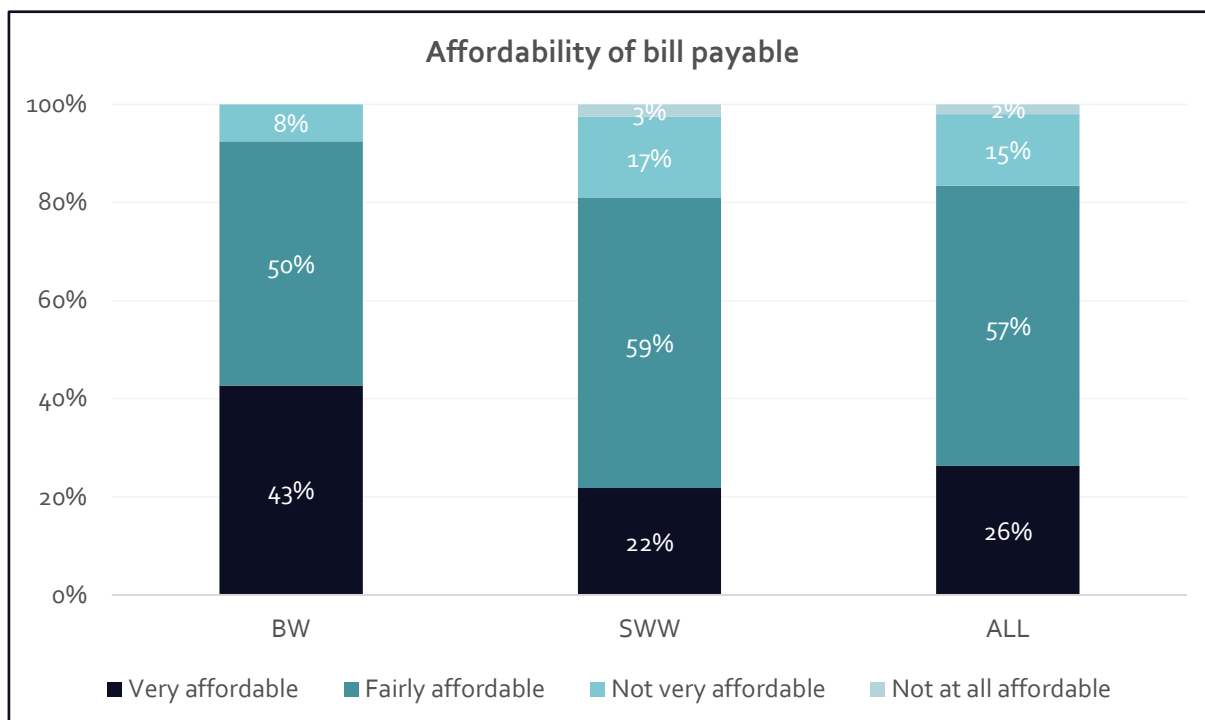


Figure 4-1: Perception of affordability of the bill payable to SWW

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Excludes respondents that don't know. Figures in graph are shown to the nearest whole percent.

(n=597 for ALL, n=199 for BW, n=796 for SWW)

Reasons for finding bills affordable focus on the bill amount and a respondent's ability to pay and not struggling to pay (Figure 4-2).

Being metered is also a driver, with 25% of customers indicating that paying for the water they use is fair and 19% indicating how being metered enables them to have an affordable bill (either through being careful or by lowering their bills through limited water use).

<sup>8</sup> For South West Water customers in the sample, this is for water and wastewater services. For Bournemouth Water customers, this is the water only bill.

Another key reason for some customers is that bills are perceived to provide good value for money (14%). Finally, customers also felt that their bills were affordable relative to other utility bills (13%).

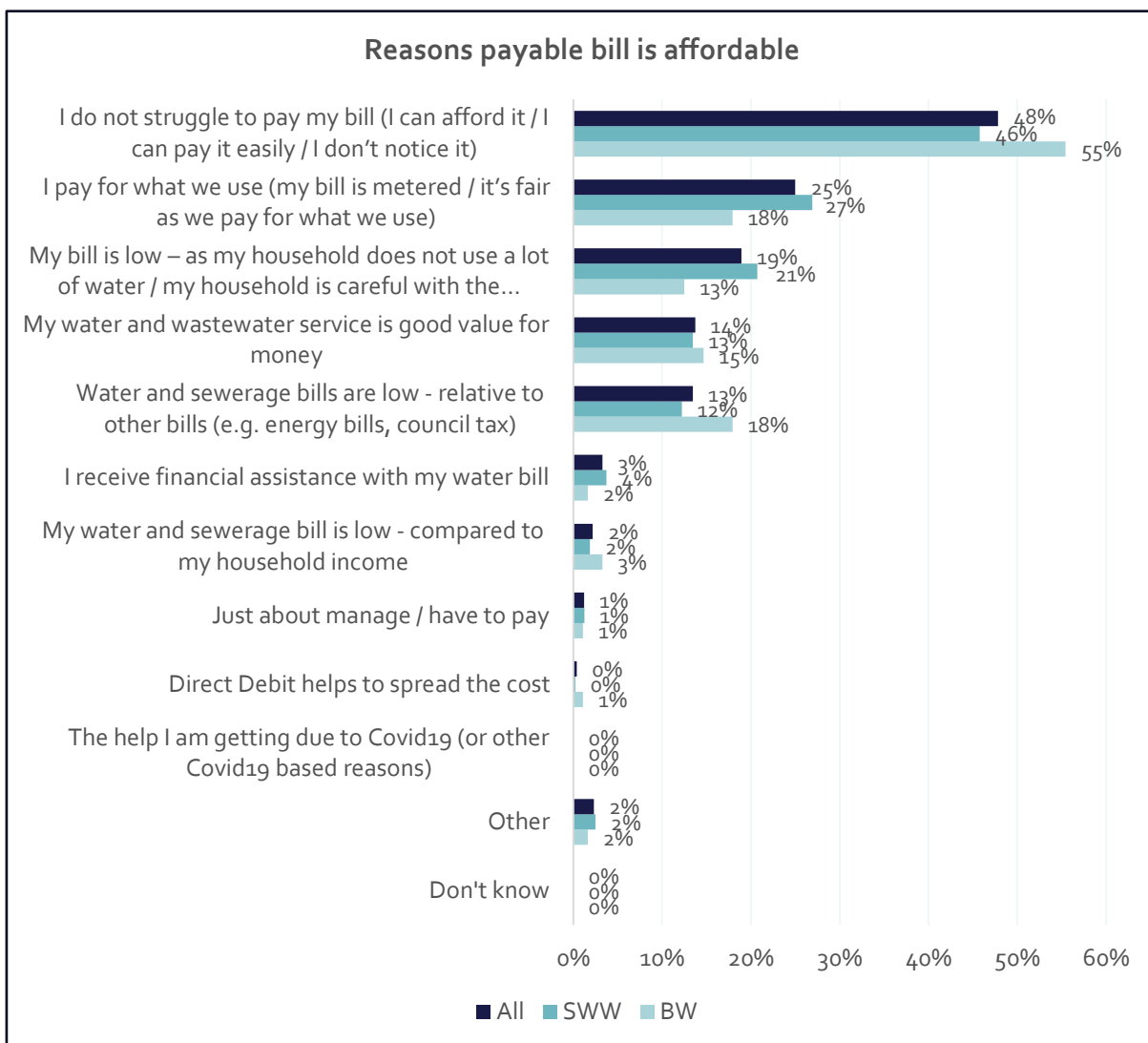


Figure 4-2: Reasons for finding bill payable affordable

Note: Results are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=667 for All, n=483 for SWW, n=184 for BW).

In line with 2021/22, high bills (41%) and struggling to pay (29%) remain the main reasons for stated unaffordability (Figure 4-3).

A quarter of customers said they struggle to pay all their utility bills (25%), this is notably more prevalent in the Bournemouth Water region<sup>9</sup>. Water bills being too high relative to other water bills in the country is also a factor in the South West Water region.

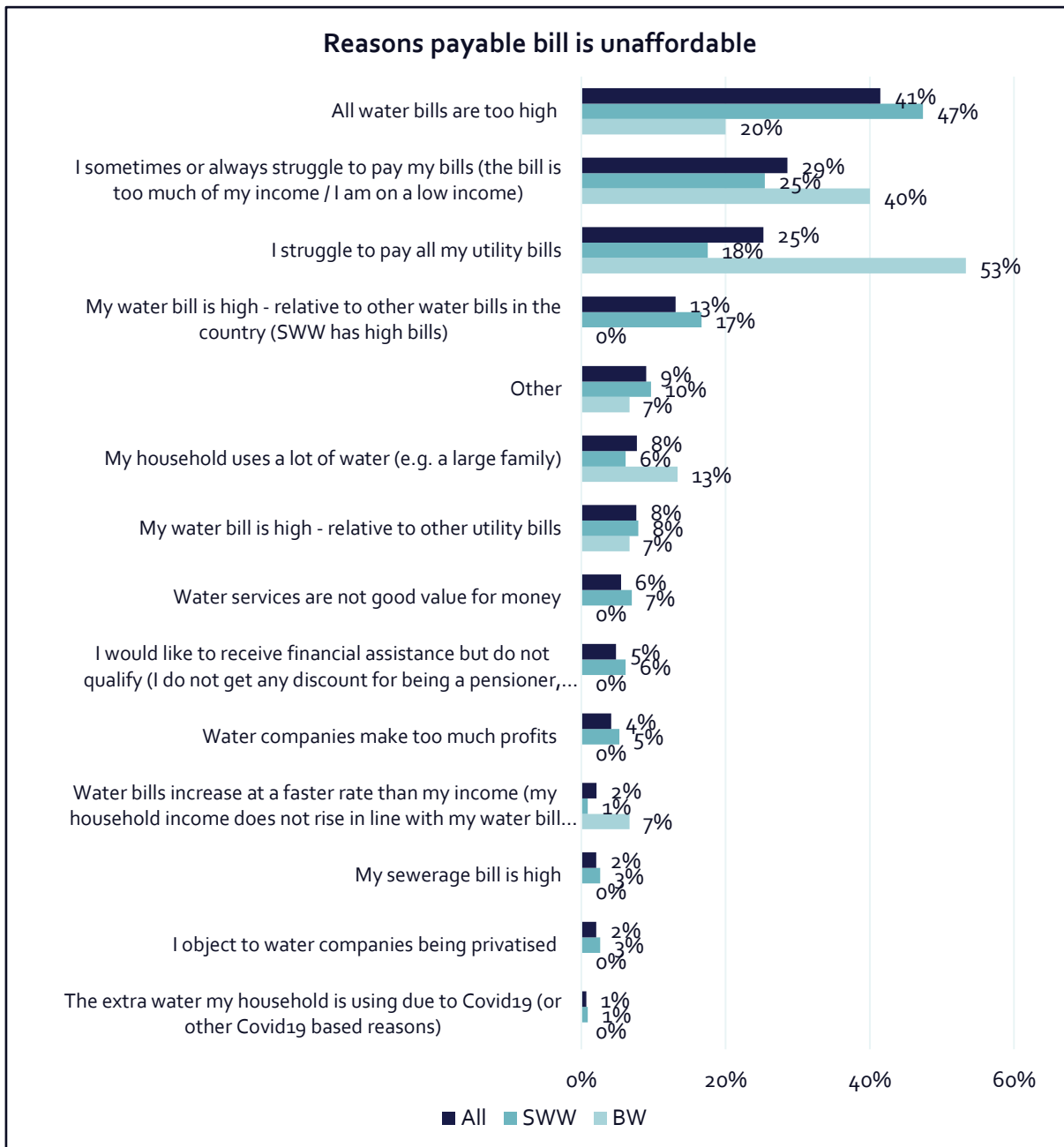


Figure 4-3: Reasons the bill payable is not affordable

Note: Results are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=129 for All, n=114 for SWW, n=15 for BW).

<sup>9</sup> Results for Bournemouth Water are indicative due to the smaller number of customers indicating that their bill is unaffordable. The smaller sample size means there can be more variability year to year in reasons provided.

Other reasons included:

- Being unable to get a water meter fitted
- Bills high given household size
- A change of personal circumstances (maternity leave)
- Standing charges are too high

### STATED AFFORDABILITY – BOURNEMOUTH WATER COMBINED BILL

We have separately considered the combined bill for Bournemouth Water. Overall, 85% say their water and sewerage bill is affordable in the Bournemouth Water region.

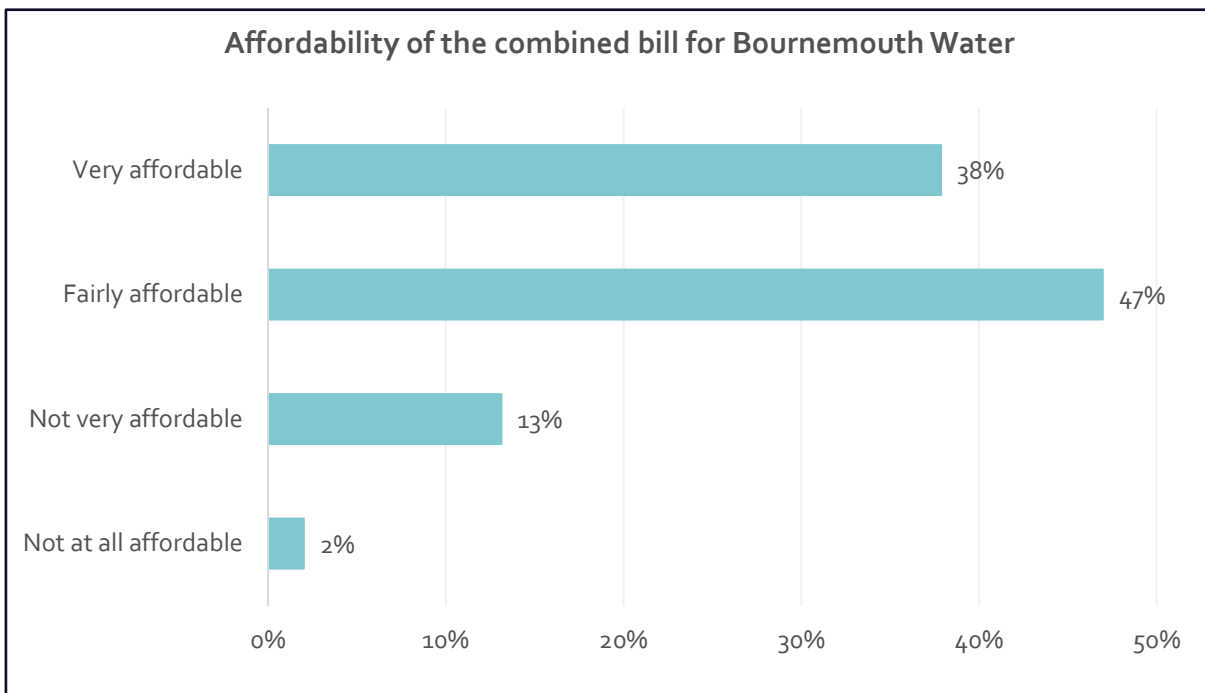


Figure 4-4: Unconstrained affordability of water and sewerage bill in the Bournemouth Water region (n=198) Excludes don't know responses. Figures in graph are shown to the nearest whole percent.

## 4.2 Ability to pay

The results for 2022/23 show indications the ease of paying the water bill is decreasing.

Whilst the proportion of customers sampled who always find it difficult to pay their bill (3%) is the same as 2021/22 (Figure 4-5), the proportion sometimes finding it difficult to pay their water bill has increased from 10% in 2021/22 to 14% for 2022/23, even though there is no change in the proportion always having difficulty paying.

Customers that do not have any problems paying their bill has fallen from 70% in 2021/22 to 66% for 2022/23<sup>10</sup>.

At a regional level, the ability to pay is lower for the South West Water region compared to Bournemouth Water.

<sup>10</sup> The change for customers that sometimes find it difficult to pay their bill is statistically significant at 95% confidence level. Those that do not have any problems is not significantly different due to the size of the change relative to the proportion of customers selecting the option.



A further indication that ease of paying the water bill is decreasing comes from the proportion of customers regularly in arrears with their bill. For 2022/23 this figure is 7%, which is higher than 4% in 2021/22.

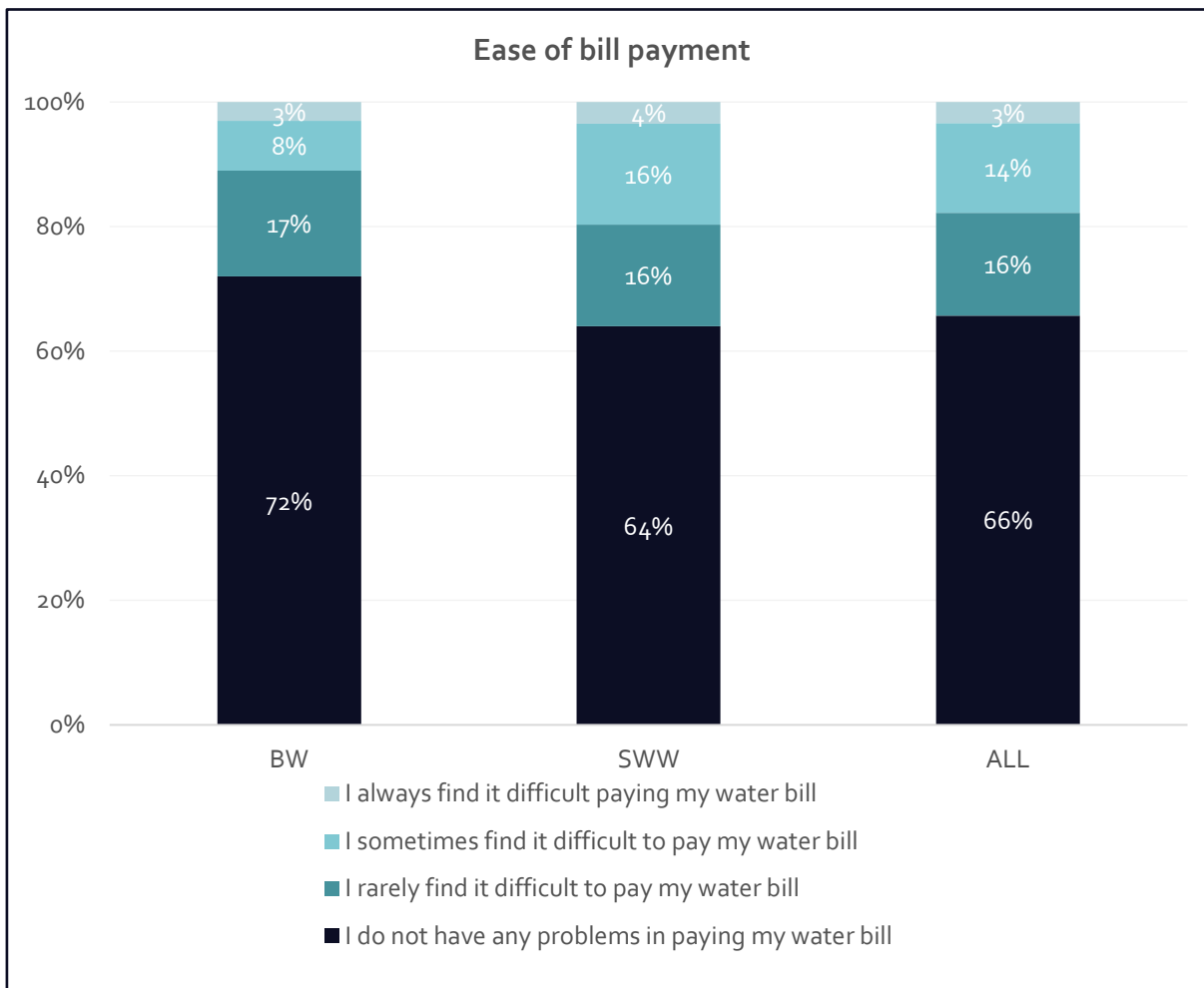


Figure 4-5: Ease of paying water bill

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=800 for ALL, n=200 for BW, n=600 for SWW)

The proportion of customers struggling to pay all bills has increased significantly since 2021/22. 32% of respondents agree they sometimes struggle to pay all their household bills (Figure 4-6) compared to 22% in 2021/22.

This overall trend is observed for both regions. The extent of the change is greater for the Bournemouth region where 31% struggle to pay compared to 15% in 2021/22 – an increase of 17%. In the South West region, the increase is lower at 9%. Here 33% struggle to pay compared to 24% in 2021/22.

Altogether, 59% of customers say they do not struggle to pay all their household bills in 2022/23.

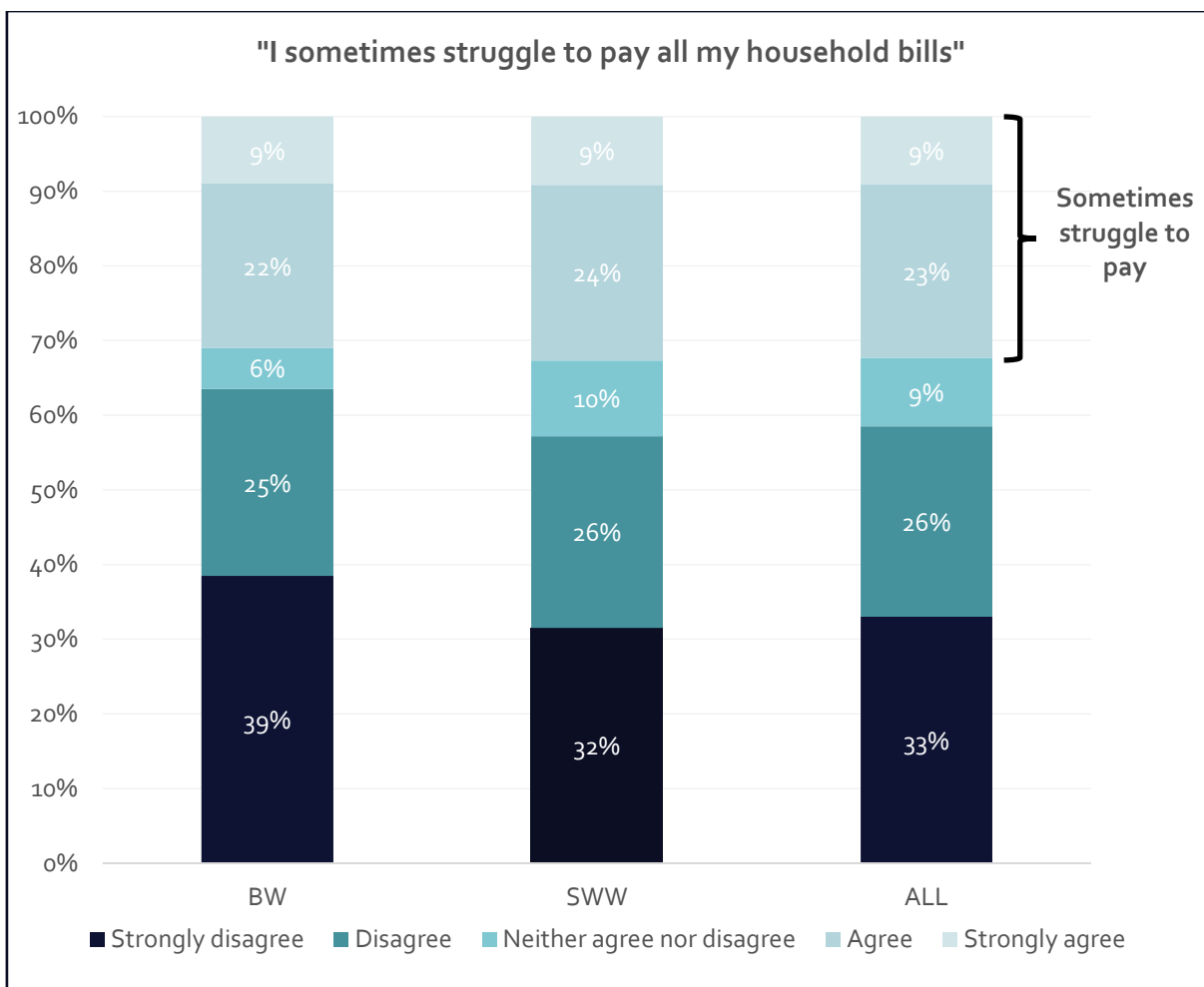


Figure 4-6: Struggle to pay household bills

Figures in graph are shown to the nearest whole percent. (n=800 for ALL, n=600 for SWW, n=200 for BW)

### linking customer views on affordability and ability to pay

The findings for ease of payment have been compared to the results for stated affordability of the bill payable to South West Water. The results for those that stated their bill to be unaffordable (not very affordable and not at all affordable) are shown in Figure 4-7.

This shows that views on stated affordability do not always reflect ease of paying the water bill. 40% of those stating their bill is unaffordable do not or rarely have problems paying their bill. This indicates that some customers are thinking about reasons other than ability to pay when answering the unconstrained affordability question.

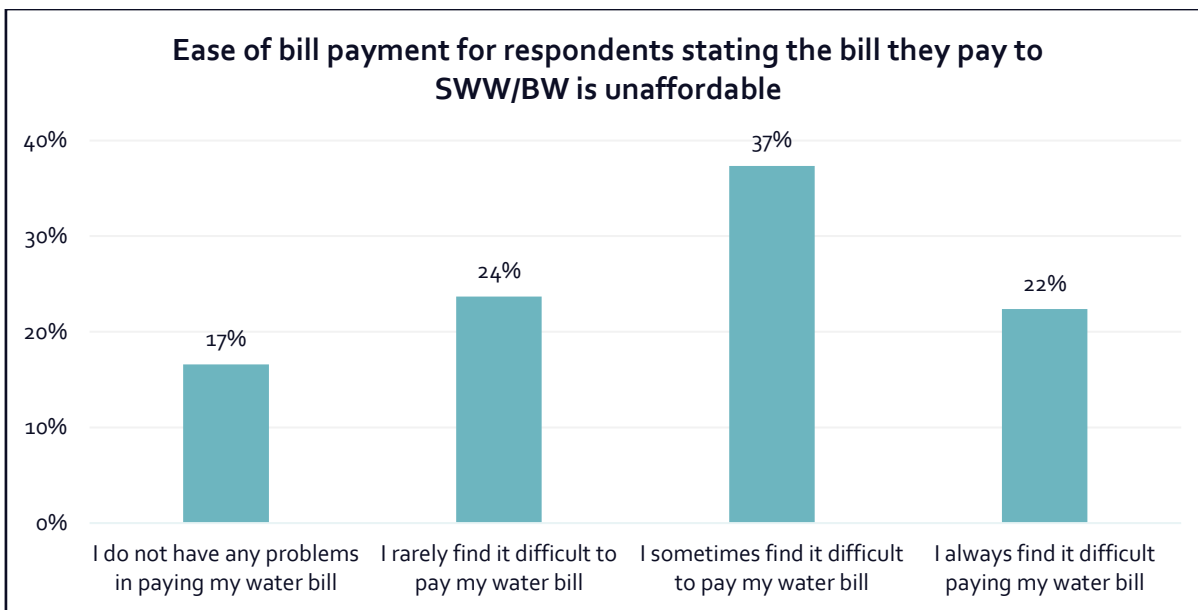


Figure 4-7: Ease of bill payment for respondents stating that their bill payable is unaffordable

Note: Results are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=129)

### Impact of Coronavirus pandemic

Water use due to COVID-19 continues to decrease from its peak in 2020/21. The figure below shows the extent the coronavirus pandemic has increased customers’ water use for different activities in the home.

Hygiene is the most frequently cited cause of increased water use. The primary reasons for increased water use are washing hands (45%), washing clothes (30%), and cleaning and disinfecting homes (26%).

This question indicates that water use due to Covid-19 has decreased compared to 2021/22. Compared to 2021/22, all impacts have decreased. The greatest decreases are for washing hands (13% lower) and cleaning and disinfecting the home (9% lower). These findings align with SWW meter reading data that showed household usage has reduced compared to 2021-22.

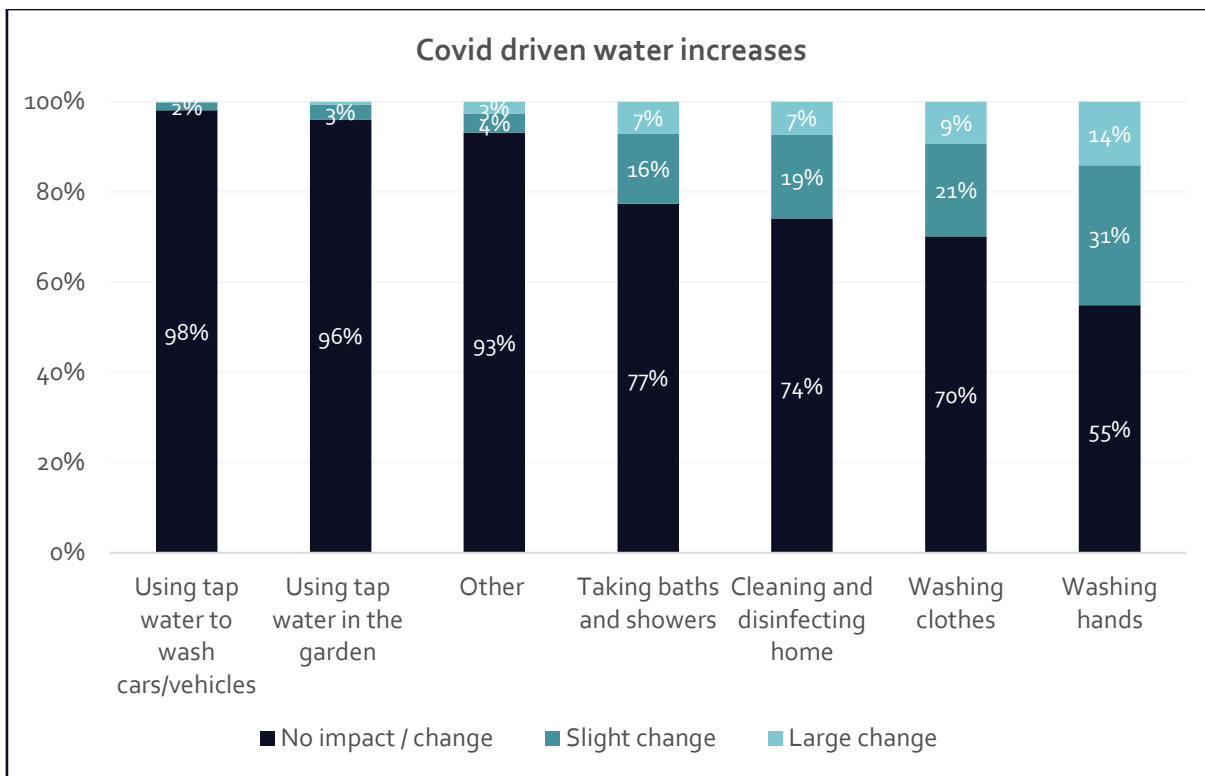


Figure 4-8: Extent that the Coronavirus pandemic has increased customer's water use in the home

Figures in graph are shown to the nearest whole percent. (n=800 for ALL, n=600 for SWW, n=200 for BW)

### 4.3 Customer perceptions of value for money

The majority of customers find their water bill provides value for money (Figure 4-9). Overall, 80% think that the bill they pay to South West Water or Bournemouth Water is value for money.

This is stable compared to the average of 79% in 2021/22. There are notable differences between the two regions with 89% of Bournemouth Water's respondents agreeing that the bill is value for money. The comparable figure is 77% for South West Water.

Although the value for money measure in the LTTS survey is asked differently, both measures have increased by 1% compared to 2021/22.

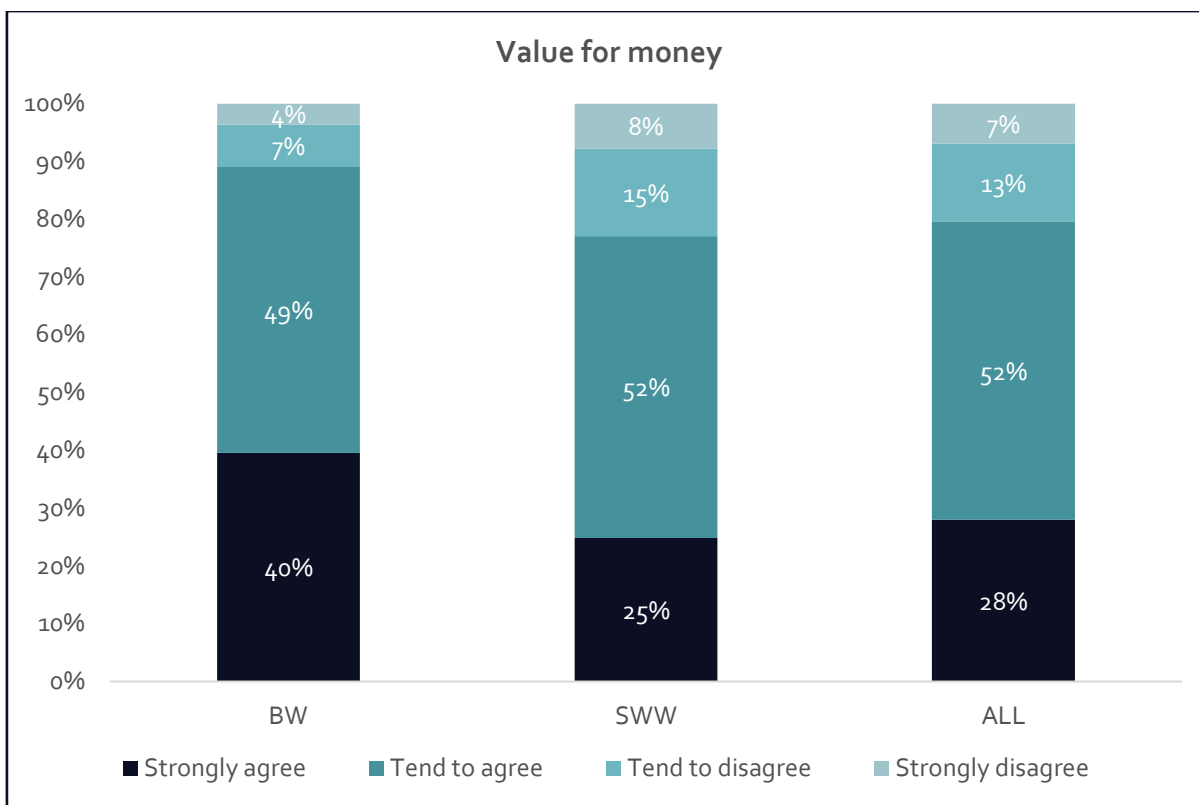


Figure 4-9: Value for money of water bills

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Excludes respondents that don't know their bill amount. Figures in graph are shown to the nearest whole percent.

(n=768 for ALL, n=192 for BW, n=576 for SWW)

#### 4.4 Awareness of financial assistance

Awareness of financial assistance is at similar levels compared to 2021/22. 50%<sup>11</sup> are familiar with at least one of the financial assistance options. This is similar to 48% in 2021/22 but a decrease compared to 65% in 2020/21.

This is more than the proportion of customers struggling to pay all their household bills (32%).

There is relatively high awareness of flexible payments and providing free or discounted water efficiency devices compared to the other options. Awareness is lowest for joint contributions to previous debt (7%), writing off previous debt (8%) and income maximisation (10%).

BW customers show lower levels of awareness for some measures. Those showing statistically significant differences are flexible payment plans, providing discounted or free low-cost water saving devices and income maximisation.

These differences could reflect that a lower proportion of BW customers struggle to pay their water bills, which may lead to fewer customers needing to find out about assistance available.

<sup>11</sup> This has been taken from the 50% that are not familiar with the financial assistance.

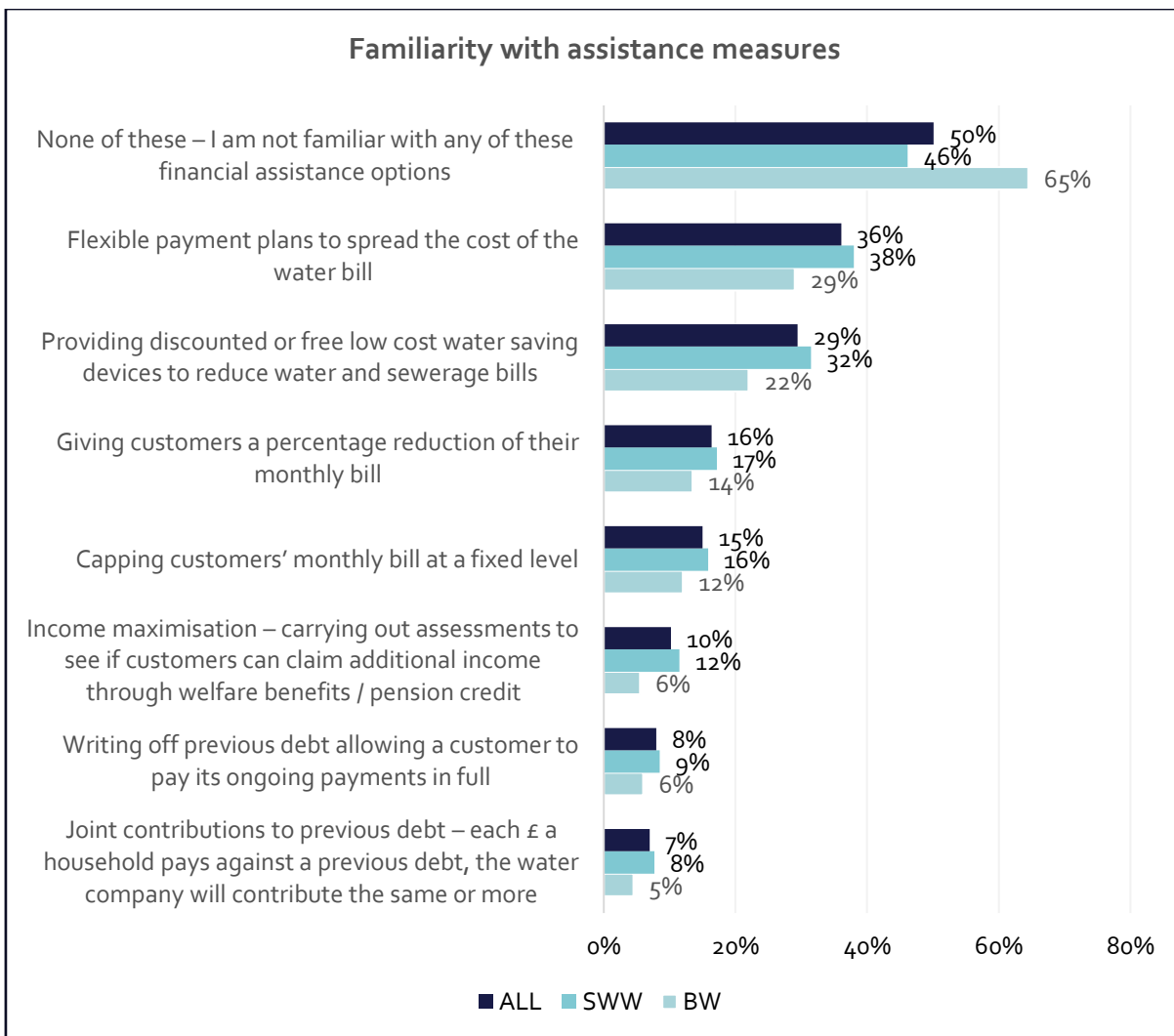


Figure 4-10: Awareness of financial support available

Results for ALL are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=800 for ALL, n=600 for SWW, n=200 for BW).

Contact centre and debt advice organisations remain the top routes for seeking financial assistance. Respondents have identified ringing the SWW contact centre (38%) or debt advice organisations (33%) and checking the SWW website (27%) as their top three sources. Other options stated by customers focused on internet searches and some customers would also look to friends and family for advice. In general, respondents do not consider SWW social media accounts or contacting their social housing provider.

Responses are similar for Bournemouth Water and South West Water respondents.

Compared to 2021/22 customers were less likely to state the SWW website as a source (-3%) and slightly more likely to contact a debt advice organisation (+3%) or conduct internet searches (+3%).

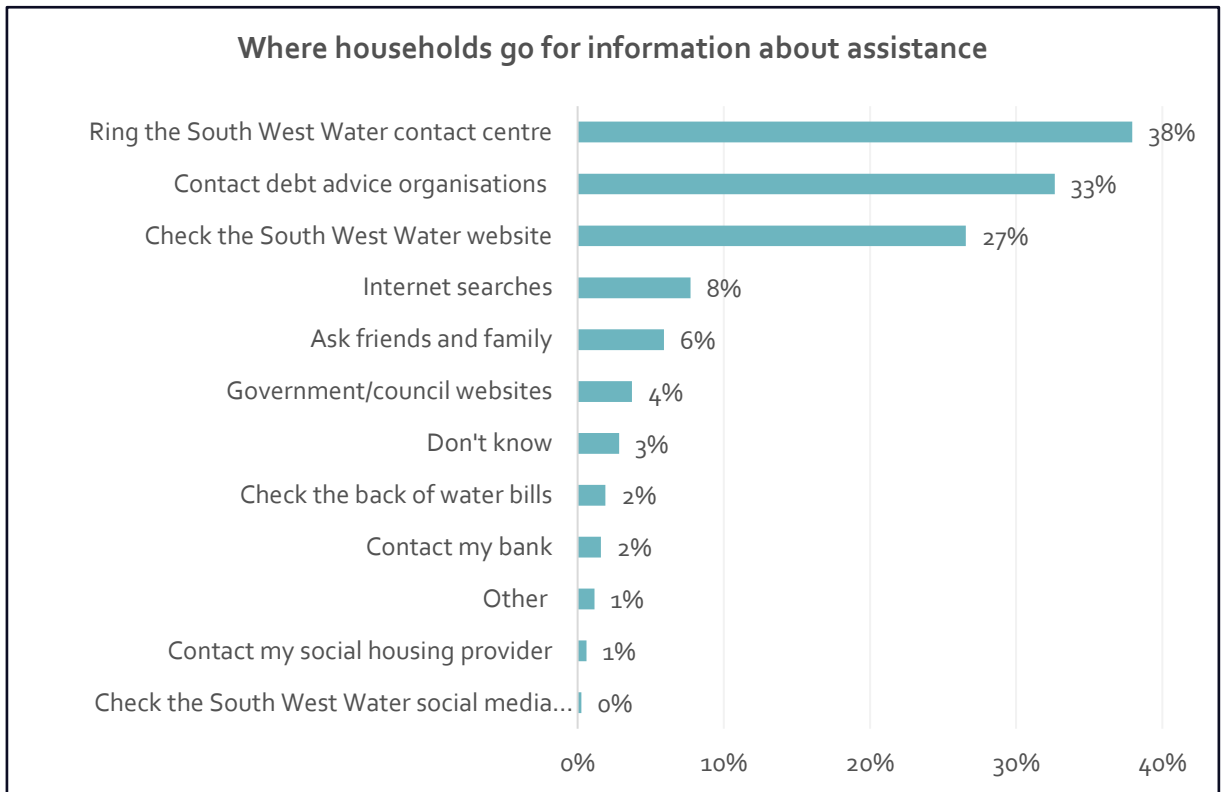


Figure 4-11: Where to find help with water bills

Results are weighted 78.5% SWW, 21.5% BW. Customers could select more than one option. Figures in graph are shown to the nearest whole percent.

(n=800 for ALL, n=600 for SWW, n=200 for BW).

## 4.5 Approach to assessing affordability

Considering how to measure affordability of water and sewerage bills (Figure 4-12), the most popular approach with customers is to use a survey to ask customers whether their bill is affordable (35%). They also feel that the number of customers who are sometimes or always in arrears is a good indicator (28%), followed by the percentage of bills that are paid late (18%). The total value of outstanding debt and the number of customers whose bills are high compared to their income are also cited (12%). Customers’ comments are explored in more detail below.

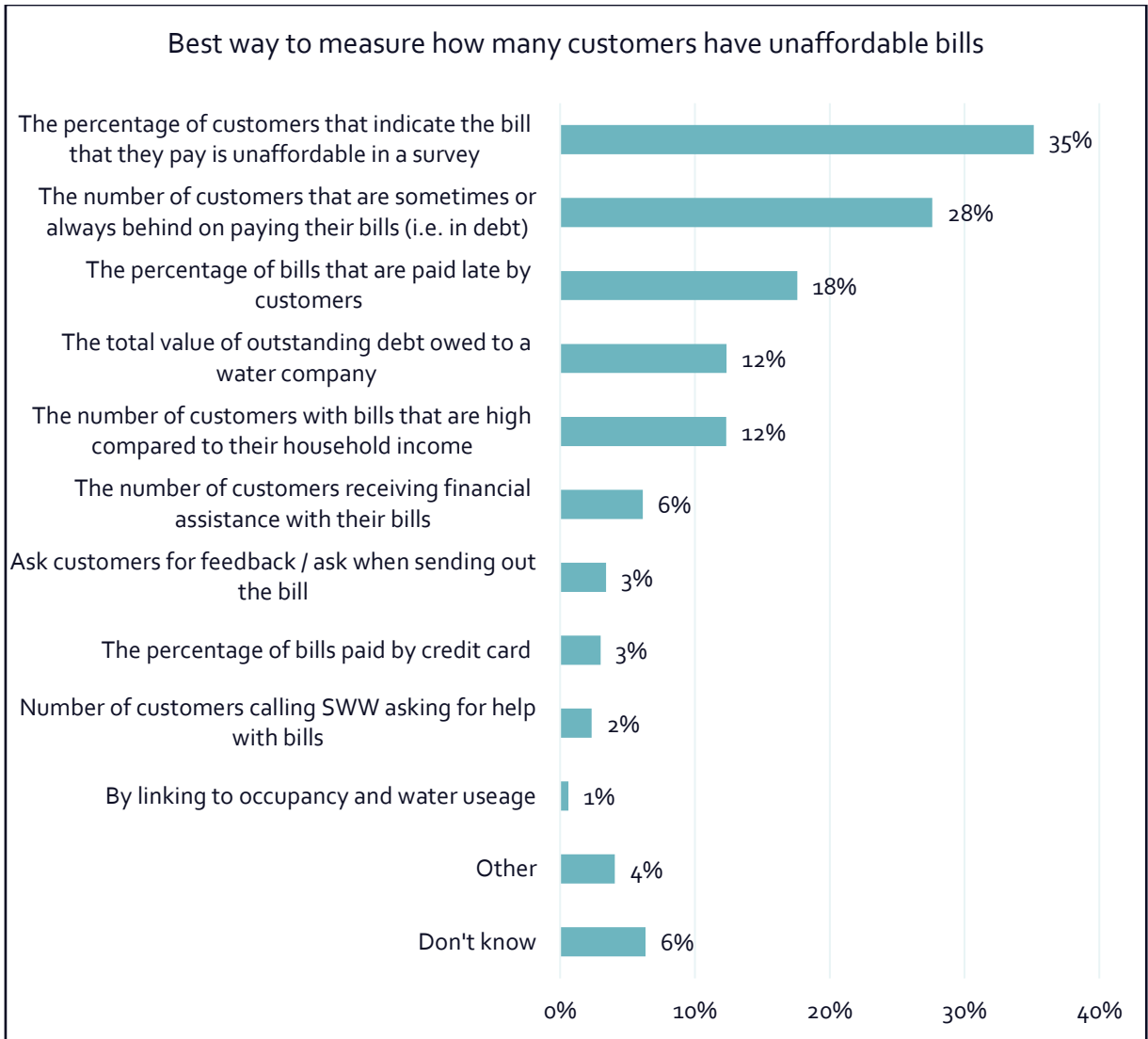


Figure 4-12: Measuring unaffordable bills

Results are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=800)

The question prompted some customers to query the percentage threshold for assessing affordability. Some customers suggest the threshold should be lowered or appears to be high.



*"It has to be on a percentage so as long as that's credible that's fine."*

Female, 45-59, SEG DE

*"I think affordability should be based on 2% or 3% of net income and housing costs."*

Male, 45-59, SEG AB

*"I think 5% for water could be quite high."*

Male, 30-44, SEG DE





Some customers suggest SWW use a comprehensive measure, that accounts for individual circumstances and the extent to which this could be further integrated in an affordability assessment. Key areas highlighted include actual costs to households, second home owners, people living within their means and the potential role of Smart meters.

“

*"Look at individual household circumstances of incomes and outgoings."*

Female, 18-29, SEG DE

*"Base it on the number of occupants in a household"*

Female, 30-44, SEG C1C2

*"I think some people may be paying a large rent or mortgage when they could get a cheaper property and afford their bills."*

Female, 45-59, SEG DE

*"They should look at each individual's circumstance and look at how to help them. I believe water is a basic human right and everyone should be able to afford."*

Male, 75+, SEG AB

*"Second home owners should have to take a bit more of a hit because, if they can afford a second home, then surely they can afford to pay a bit bigger water bill."*

Female, 30-44, SEG DE

*"They could have smart meters for water so they know how much water people are using to compare against what the household composition should be using."*

Female, 30-44, SEG C1C2

”

Some customers commented on how the approach could be extended to ensuring that the impact of the increase in the cost-of-living is accounted for in the assessment.

“

*"I think they should take into account the rising prices of other costs of living. For example, in this area you have to have a car to get anywhere, and the rising cost of fuel is making a massive difference to budgets."*

Female, 60-74, SEG AB

*"They could do a comparison of overall expenditure across all utility bills."*

Female, 45-59, SEG C1C2

*"They need to account for all the other utility bills you have to pay particularly now with them all going up so much."*

Female, 30-44, SEG C1C2

”

Some customers feel that South West Water should be proactive in approaching customers and/or use the information they have in relation to customer circumstances. Suggestions cover a range of approaches, including those contacting the company for assistance and making use of data on payment patterns. Other customers commented on how SWW could be proactive in engaging with customers through the SWW website or by other means.

“

*"Look at areas where they are using food banks and work with the Benefit System and contact those people on benefits."*

Male, 45-59, SEG C1C2

*"They could have an affordability calculator on their website so that people can work it out for themselves and then contact them if it's unaffordable."*

Female, 30-44, SEG DE

*"I think they need to receive a form to fill in with their water bill. There are too many scams to do it by phone."*

Female, 45-59, SEG AB

*"Send out a text message or email asking people to respond if they're struggling with the bill."*

Female, 30-44, SEG C1C2

*"Post out a survey to customers."*

Male, 60-74, SEG C1C2

*"Measure the people who ask SWW for help."*

Male, 75+, SEG C1C2

*"Ask people if they're struggling because someone could be using very little water just to keep their bill down."*

Female, 60-74, SEG DE

*"The number of customers who've always paid on time and then start getting behind"*

Male, 18-29, SEG DE

”

### Affordability self-certification

The majority (77%) of SWW customers report spending less than 5% of their disposable income on water bills and have an affordable bill. This figure is consistent with 2021/22 findings (79%).

As part of the survey customers who provided their bill amount had this converted into the equivalent household income that they would need to receive for the bill to be considered affordable. Other customers were shown an income threshold based on the average bill for with the SWW or BW region,

as appropriate. Customers were asked whether their income after tax, other deductions and housing costs is greater or less than this amount.

Figure 4-13 shows 85% of Bournemouth Water respondents and 75% of South West Water respondents self-certify that their water bills are affordable by this definition.

When the don't know responses are excluded, the percentage of respondents stating their bill is affordable increases to 91% for Bournemouth Water and 84% for South West Water.

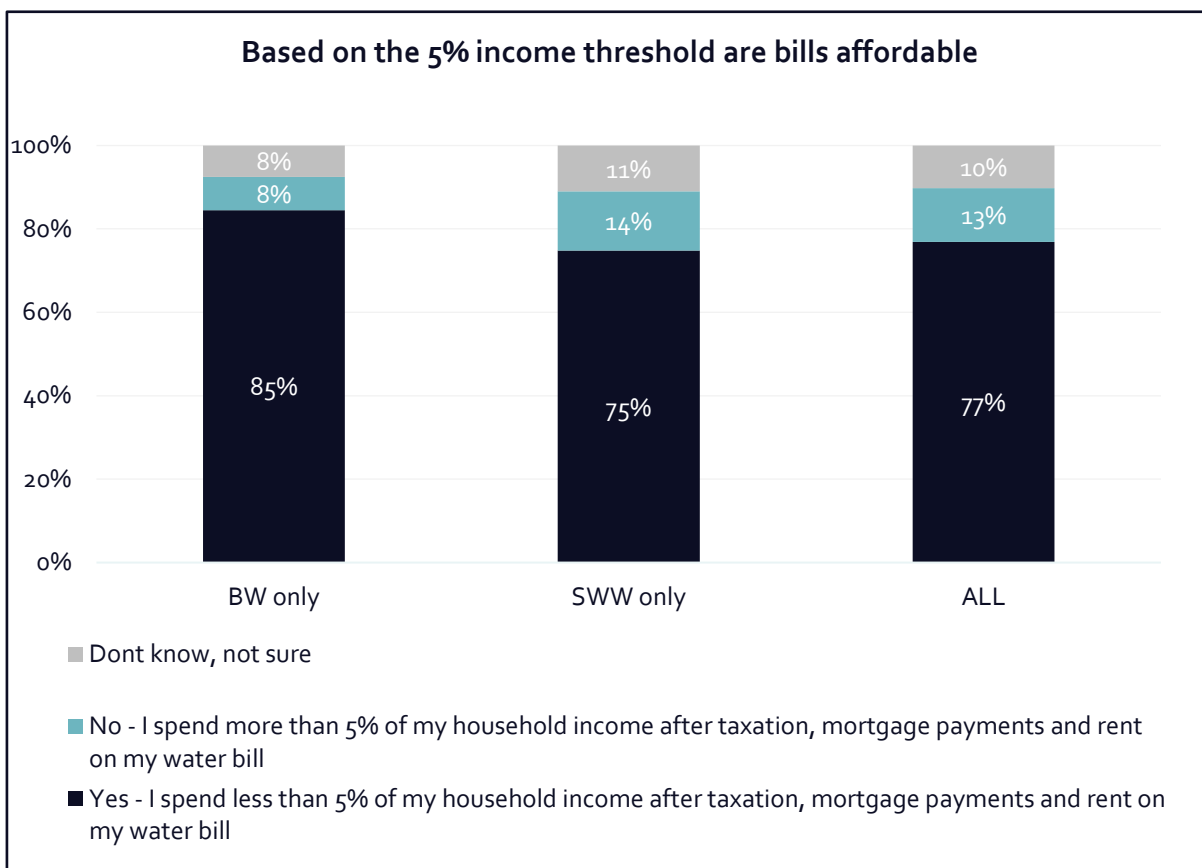


Figure 4-13: Respondents' assessment of affordability of combined bill for SWW and water only bill for BW using 5% threshold

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=800 for ALL, n=600 for SWW, n=200 for BW)

Customers were confident in their assessment of affordability based on the 5% threshold. Overall, 95% of customers providing a self-assessment response felt very or fairly certain they spent more or less than 5% their income after tax on their water bill.

This figure is 97% for Bournemouth Water respondents and 94% for South West Water.

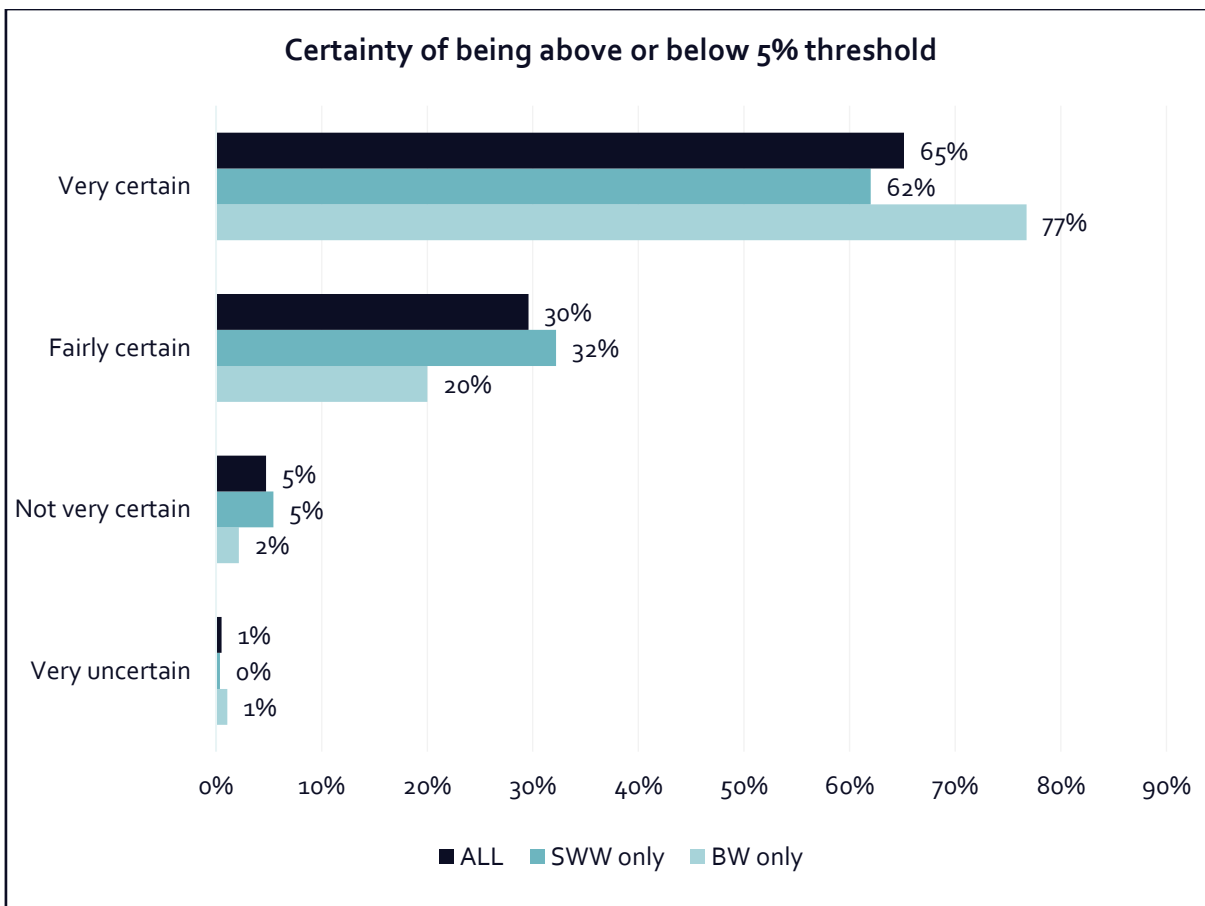


Figure 4-14: Confidence of response – affordability of water bills

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Excludes where respondent stated 'don't know' for whether their income is above the threshold. Figures in graph are shown to the nearest whole percent.

(n=719 for ALL, n=534 for SWW, n=185 for BW)

70% customers felt this was a useful way to measure affordability. This is similar to the 68% who agreed in 2021/22.

This figure is 77% for Bournemouth Water respondents and 69% for South West Water.

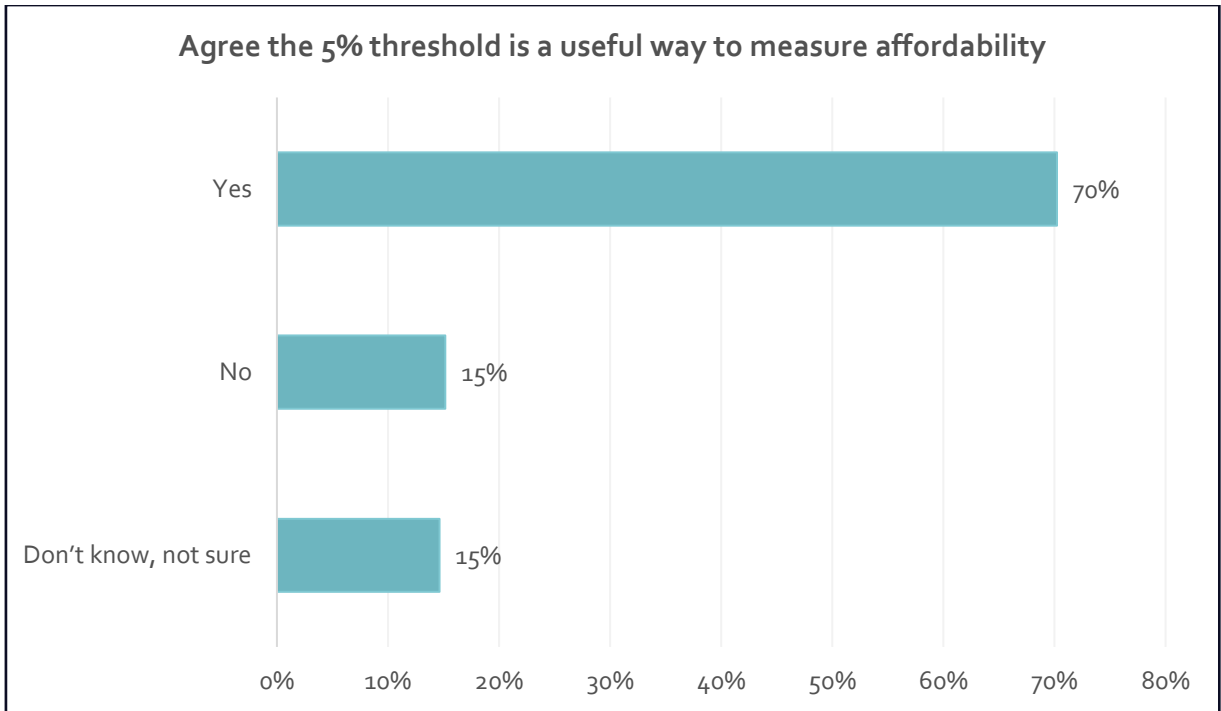


Figure 4-15: Support for using the 5% threshold

Note: Results for ALL are weighted 78.5% SWW, 21.5% BW. Figures in graph are shown to the nearest whole percent.

(n=800 for ALL, n=600 for SWW, n=200 for BW)

## 5 Assessed affordability findings

This section sets out the results of the analysis undertaken to determine the Performance Commitment outturn. The assessment methodology is outlined in section 2.

In this section we present the results of the analysis based on the full year sample for 2022-23.

### 5.1 Assessment of households with affordable bills.

Overall, the results show that 96.9% of respondents can be assessed as having an affordable bill where this is defined as less than 5% of their equivalised household income after housing costs.

For the individual company areas, the estimate is 96.1% for South West Water and 100.0% for Bournemouth Water (based on the water only bill). In the case of Bournemouth Water, affordability falls to 90.0% based on the estimated combined water & sewerage bill.

Table 5.1 presents the headline estimates of the proportion of households with affordable (and unaffordable bills) with the comparable figures for 2021-22 shown in brackets. These estimates are consistent with the methodology described above and represent the final figures after applying all the steps in the methodology.

Consistent with the definition of the PC we focus first on the overall combined (SWW and BW) picture. We then present further evidence at the individual company level.

**Table 5.1: Percentage of customers who find their water bill affordable**

Company Area	Percentage of customers with affordable bill <i>Paying &lt; 5% of equivalised household income after housing costs</i>	Percentage of customers with unaffordable bill <i>Paying &gt; 5% of equivalised household income after housing costs</i>
<b>Combined area</b>	<b>96.9% (93.3%)</b>	<b>3.1% (6.7%)</b>
<b>South West Water</b>	96.1% (91.4%)	3.9% (8.6 %)
<b>Bournemouth Water:</b>		
<b>Water only bill</b>	100.0% (100.0 %)	0.0% (0.0 %)
<i>Estimated Water &amp; Sewerage bill</i>	90.0% (92.3 %)	10.0% (7.7%)

Source: ICS Calculations. Figures in brackets are the comparable 2021-22 estimates.

Note: The % estimates are based on a final sample of 800 observations. No observations are excluded due to negative estimates of their income after housing costs.

As described in Section **Error! Reference source not found.**, the assessment of affordability for 2022-23 also includes indexations of the population incomes (2017-18) used in the re-calibration of the sample data on household incomes. When these income indexations are excluded from the assessment, the comparable estimate of affordability for the combined area reduces slightly to 95.5%. This estimate excluding the impact of the income indexations remains notably above the 2021-22 estimate of 93.3% and is higher than the Performance Commitment target of 95.2%.

#### BREAKDOWN BY SOURCE OF ASSESSMENT

Table 5.2 below provides a breakdown of the overall combined area findings of 96.9% affordable and 3.1% unaffordable by source of the assessment.

The methodology set out in Section 2.4 outlines that three sources are used for the assessment of affordability depending on the data provided by the respondents. These are:

1. Survey data on finances provided by the respondent.
2. Respondent self-certification based and validated by cross checks. This is used where the respondent has provided insufficient financial data to make an assessment under source 1 above.
3. Application of policy filters to bill and income data as further cross-checks on the data provided by the first two sources.

The results for these sources and the percentage of the utilised sample are shown in the table below. For the 2022-23 data there are no sample exclusions (see note above to Table 5.1).

Close to 99% of the overall assessment uses the first source - the survey responses for income and housing costs (equivalised and reweighted). This is an improvement of 1.3% when compared to 2021-22. 1.2% of the overall assessment (compared to 2.4% in 2021-22) is based on the self-certification findings which satisfied the cross-checks. The final adjustments for policy filters on bills and incomes applies to 1.9% of the utilised sample.

**Table 5.2: Breakdown by calculation step in the assessment methodology**

Company Area = Combined Area	% of households with affordable bill (< 5% of equivalised household income after housing costs)	% of households paying > 5% of equivalised household income after housing costs	Total %
Survey data incomes and housing costs (after re-weighting)	93.9%	4.9%	98.9%
Self-certification (after cross-checks applied)	1.2%	0.0%	1.2%
Impact of the policy filters (bill and income)	1.9%	-1.9%	0.0%
<b>Totals</b>	<b>96.9%</b>	<b>3.1%</b>	<b>100.0%</b>

Note: Total percentage column is rounded to 1 d.p. It does not sum to 100% due to rounding. Total percentage is sum of preceding columns and is rounded.

## AFFORDABILITY OVER TIME

Affordability continues to exceed the Performance Commitment each year and is showing an increase over time (Figure 5-1).

The results for 2022/23 (96.9%) are higher than 2021/22 (93.3%) and 2020/21 (89.4%). The change over the last year is driven by the South West Water region as the findings for Bournemouth Water are consistently at 100%.

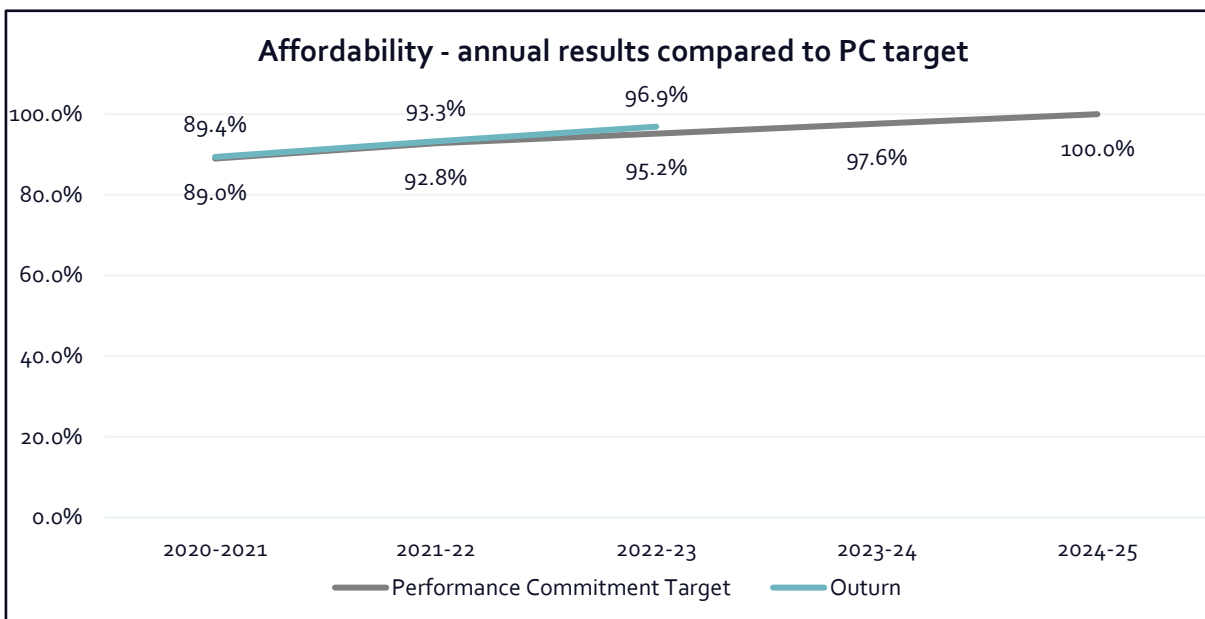


Figure 5-1: Affordability performance against targets

Note: Combined results are weighted proportional to the customer numbers in the region and for metered billing.

2022/23 results have been updated to ensure the mean value for the sample incomes are consistent with latest published "population" income estimates.

## 5.2 Segmentation analysis

We also present results from our segmentation analysis. The analysis is consistent with the Performance Commitment and is based on the combined South West Water and Bournemouth Water sample (overall n = 800). The analysis looks at whether there is evidence of any (statistically significant) differences in the assessed affordability for the categories within each customer segment.

The main findings are:

- *By socio-economic group* – the breakdown by SEG shows the expected pattern with affordability reducing at the lower SEG groups. Affordability is lowest for the DE group, with this difference strongly significant ( $p < 0.01$ ) when compared to the AB group. Likewise, affordability for the C1C2 group is lower than AB with this difference also statistically significant at  $p < 0.05$ . The segmented estimates are shown below in Figure 5-2.
- *By age group* – no significant differences were found between age below < 45 years (96.2%) and age 45 + (97.3%).
- *By metered / unmetered* – for the combined sample there is a significant difference ( $p < 0.01$ ) in affordability between metered (98.2%) and unmetered (90.5%). In the case of the South West Water area affordability for unmetered (85.4%) is notably lower than for metered (97.7%) as shown at Figure 5-3 below. This difference is significant at  $p = < 0.01$ .
- *By disability status* – No statistically significant difference ( $p = 0.12$ ) was found for this segmentation. Affordability for households with disabilities was 95.6% compared to 97.7% with no disabilities.
- *By household type* – Affordability for family households (95.0%) was notably lower than for either retired households (100%) or those households with working age adults with no children (97.9%). Both of these differences were strongly significant ( $p < 0.01$ ) – see Figure 5-4.



- *By housing tenure* – households who rent (94.8%) were found to have a significantly ( $p = 0.02$ ) lower assessed affordability compared to owner occupiers (98.2%) – see Figure 5-5. Private renting households (94.9%) had very similar affordability to public housing renters (94.6%).
- *By ease of payment* – this segmentation showed lower affordability for households who report some level of difficulty with paying their water bills compared to those households who have no problems paying their water bills. These differences are all statistically significant. As Figure 5-6 shows there is a notable reduction in affordability for the household segments who report payment difficulties, but affordability for these households has also improved compared to 2021-22.

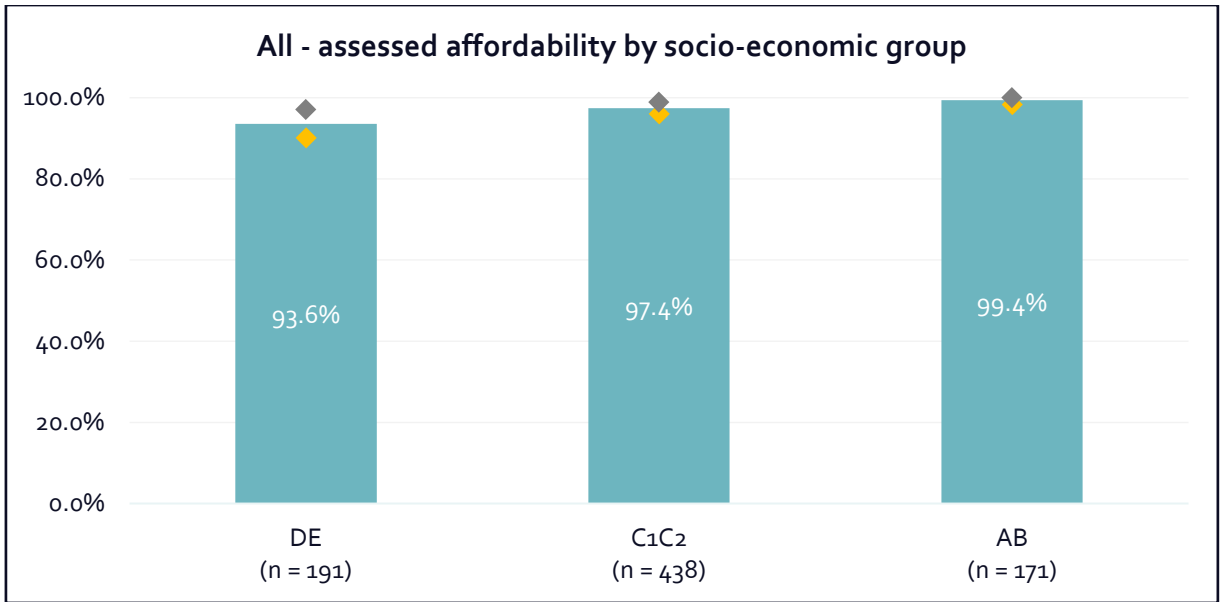


Figure 5-2: Percentage of respondents assessed as having an affordable bill segmented by SEG

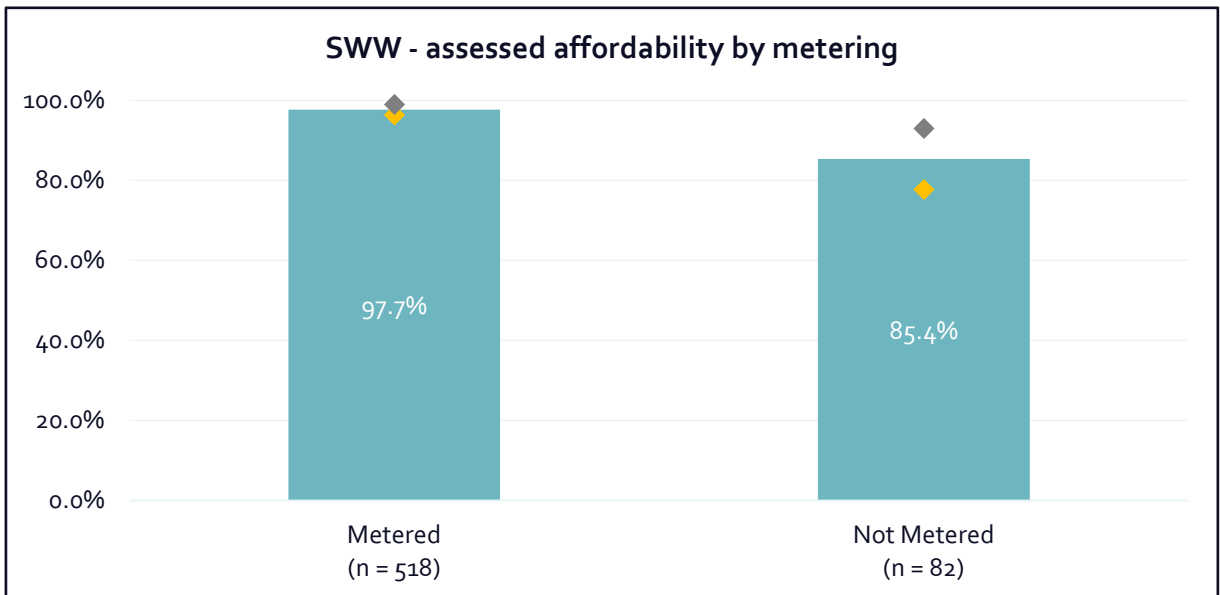


Figure 5-3: Percentage of respondents assessed as having an affordable bill segmented by Metered – South West Water

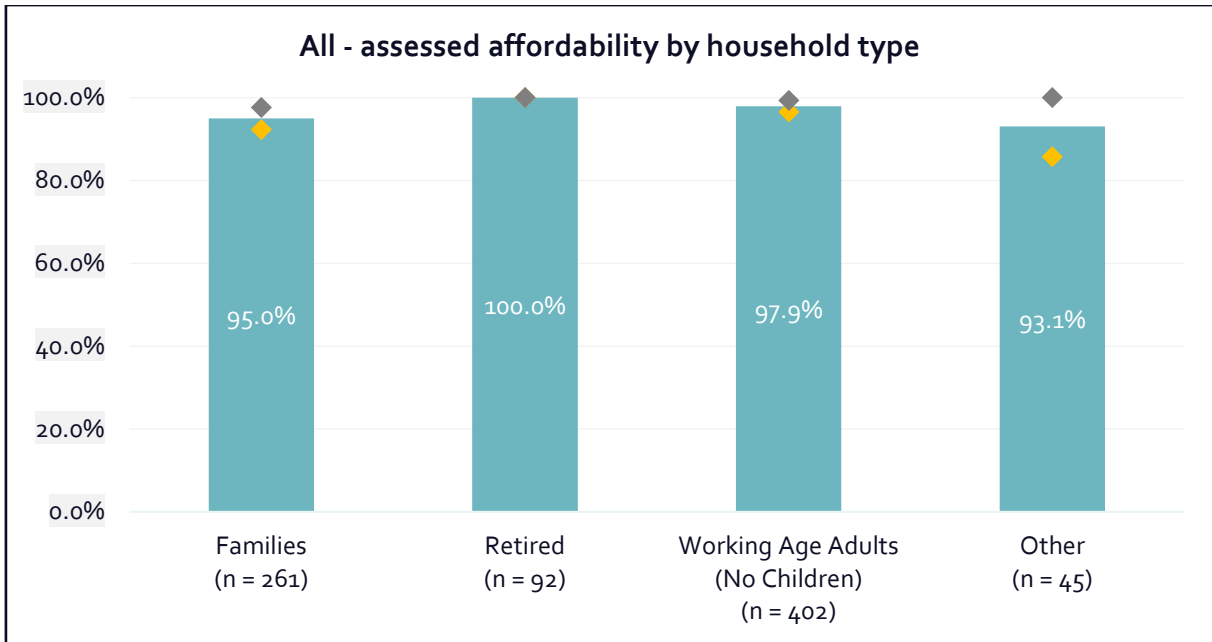


Figure 5-4: Percentage of respondents assessed as having an affordable bill segmented by household type



Figure 5-5: Percentage of respondents assessed as having an affordable bill segmented by tenure

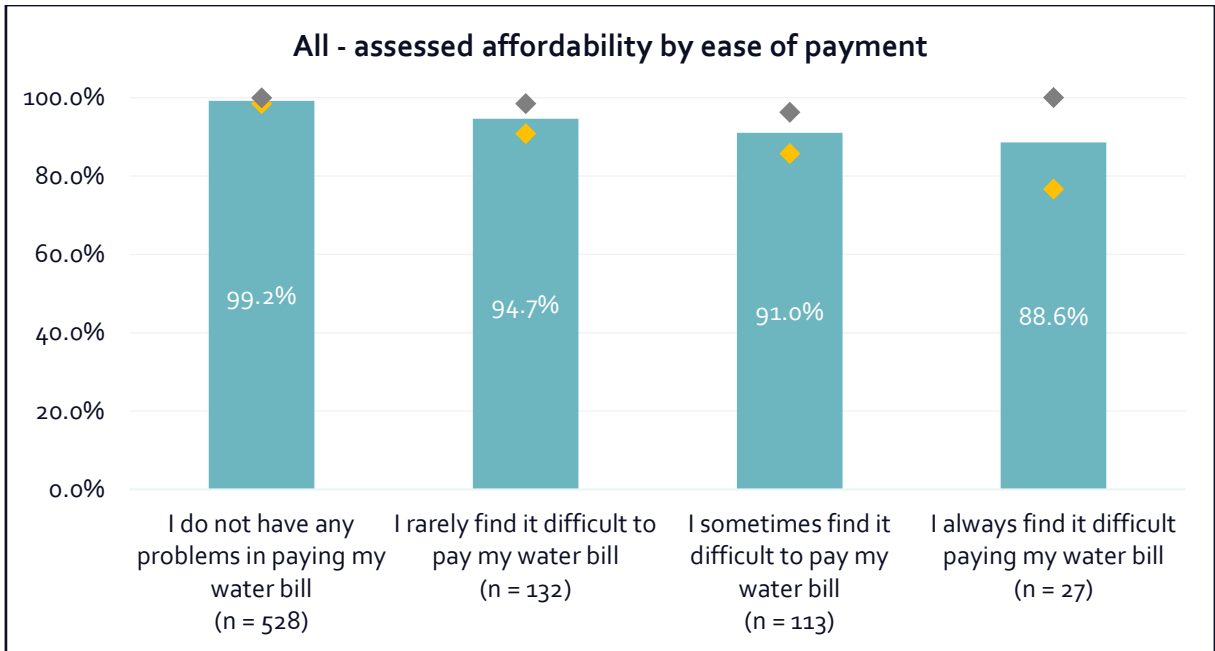


Figure 5-6: Percentage of respondents assessed as having an affordable bill segmented by ease of payment

### 5.3 Comparison to other measures of affordability

A comparison of affordability findings using the different approaches included in the survey shows that, for the combined regions, the assessed affordability PC is highest, followed by the self-certification findings and then the stated affordability findings (Figure 5-7).

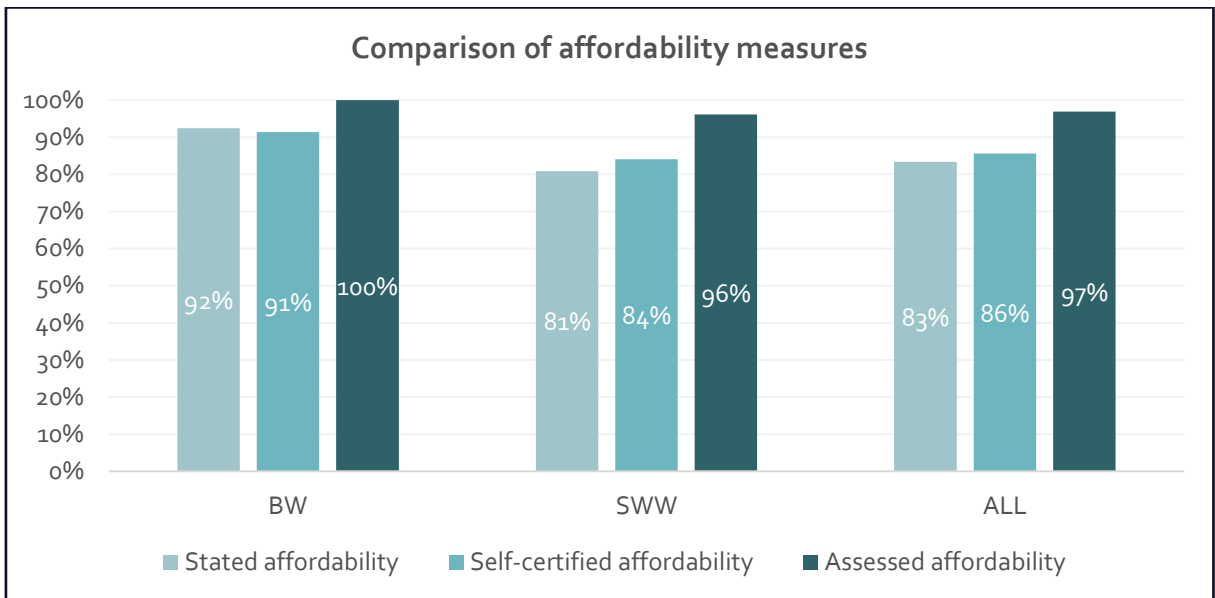


Figure 5-7: Comparison of affordability metric findings

Excludes don't know responses

The approaches can be summarised as:

1. **Stated affordability** - Customer perceptions of whether their bill is affordable prior to any information that may influence perceptions being presented (e.g., a reference point). See section 4.1.
2. Customer **self-certification of affordability** within the survey where the respondent states whether their household income after tax, other deductions and housing costs exceeds a threshold. The threshold is generated using the respondent stated bill amount at the time of the survey. The bill is 5% of the threshold value. See section 4.5.
3. **Assessed affordability** - uses financial information to calculate if customer bills are above 5% of income after housing costs. Where the income is adjusted for household composition to recognise the impact of household composition. This approach is supplemented with the findings of the self-certification approach above where data is not provided. See section 5.1.

Analysis of customers who find their bill to be unaffordable (approach 1) shows that 40% of these customers do not have or rarely have problems paying their bill. Together with the financial information provided this shows that stated affordability is not necessarily aligned with the other two measures (approaches 2 and 3). Despite this, the measure is useful to track sentiment and it may be an important lead indicator of assessed affordability, given the ongoing cost of living crisis.

The key difference between the self-certification and assessed affordability are:

- *Self-certification is based on the bill level customers report in the survey whereas the assessed affordability is based on South West Water billing system records.* Whilst some customers indicate that they are uncertain about their bill and/or household income levels the data shows that a large proportion of those self-certifying as unaffordable over report their bill (See Appendix D for further details). The data presented in Figure 5-7 also excludes don't know responses that are mostly assessed as affordable.
- *The assessed bill calculation is aligned to the actual final outturn bills, income levels and policy filters.* The assessment adjusts bills to include the rebates issued during the year. Many customers, particularly those completing the survey earlier in the year will not have been aware of the rebates when completing the survey. Further changes in the assessment also account for lower consumption volumes (approximately 5% lower than 2021/22) and an adjustment to align with the regional income profiles. The assessment also includes policy filters to account for customers whose bill or income levels imply their bill is affordable. See Section 2.4 and Appendix D for further details.

## 6 Conclusions and future planning

Understanding the affordability of households' water and sewerage bills and the extent of water poverty is important for South West Water. It is a key focus of ongoing research. It allows South West Water to understand the scale of difficulties faced by some bill payers which is important to target help and support.

This study presents the findings from the SWW affordability tracker survey for 2022/23. The affordability tracker survey was developed in 2019/20 to produce an approach suitable for tracking affordability over the long term and builds on research from PR19. The survey will be repeated quarterly in AMP7 with the results combined annually to track affordability.

Overall, the survey has been effective in providing detailed information around the views of customers relating to affordability. The survey has shown that high proportions of customers find their bills affordable.

For the combined SWW and BW region 96.9% of customers have an affordable bill, spending less than 5% of their equivalised household income after housing costs on their bill as defined by the Performance Commitment.

The findings at a regional level show that 100% of customers in the Bournemouth Water region find their water only bill affordable, whereas for the South West Water region 96.1% customers have an affordable bill.

These results demonstrate an improvement in affordability in the South West Water region compared to previous years and since measurement began in 2019/20. Overall, this has resulted in an improvement in the affordability performance commitment for 2022/23.

Stated affordability is lower than the Performance Commitment finding. Analysis shows that around 40% the customers who state their bill is unaffordable, do not or rarely have problems paying their bills. This shows that the two measures are capturing different aspects.

## Assurance

### 6.1 Document Assurance

Version	Author	Approval	Review
1.0	Martin Baker, Amanda Markwardt, Scott Reid	Melinda Acutt	Amanda Markwardt

### 6.2 Version History

Version	Date	Issued to
1.0	June 2023	Lisa Gahan, Sue Clarke, Hayley John

### 6.3 File Name

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