Financial vulnerability in the Covid Pandemic
An Auriga Services Round Table

On 27th May 2021, Auriga Services hosted a roundtable with 27 leaders from water and energy companies, regulators, government and charities, to discuss financial vulnerability in the Covid pandemic, and how our understanding of the issues has changed since the last round table in the summer of 2020. This document outlines the key discussion points from that round table

Key conclusions:

Water companies and energy suppliers reported a decline in the number of customers voluntarily disclosing problems with ability to pay, which initially went up at the start of the pandemic

There was a strong feeling that problems are still building, but being masked by furlough or a return to over-use of consumer credit to pay routine household bills

Many customers facing problem debts may not have faced income shock before and are either over-confident of their ability to cope or don't know where to turn to find help

Both utility companies and third parties are making preparations to cope with the large increase in customers struggling to pay and coping with problem debts that they still anticipate is coming

Free-to-clients debt advice provision is still under-funded and under-resourced, and Government has a major part to play in finding a solution

Case study 1: Auriga's partnership with Thames Water

Laura Towler updated the round table on the work Auriga Services has been doing with Thames Water and other organisations on sharing Priority Services Register (PSR) data. **The work includes:**

- Thames Water using Auriga's bespoke portal to enable customers to sign on to their PSR, and also for that data to be shared with electricity network operators UKPN, and vice versa.
- A collaboration between Thames Water and the London Fire Brigade, which will replace a largely manual data sharing process with an automated solution.

“The vision is that these two pieces will put all come together, creating a network of organisations that benefit from sharing customer data,” Laura told participants at the round table. Companies will not have to use Auriga’s front-end portal to take part in the network, as the database is compatible with a range of different solutions.

“We are also working with organisations in the north west, and we hope other companies will want to be part of what we’re building.”

Case study 2: Consumer Council for Water’s affordability review

CCW’s Gemma Domican updated the round table on the council’s affordability review, conducted at the behest of the UK and Welsh governments between October 2020 and May 2021. Described as a ‘once in a decade’ event, the review looked at current arrangements for supporting water customers in financial hardship and made recommendations on what the future could look like, drawing on evidence from customers, other stakeholders, and international comparators from as far away as Australia.

Gemma explained that the review had 10 high-level recommendations supported by 40 individual actions, including:

- a single social tariff covering England and Wales
- holistic debt advice, tailored to individual needs
- simplified application processes

While the review focused particularly on customers in water poverty – those spending more than 5% of their household income paying for their water – it seeks to support all customers in financial hardship, and the wider customer base generally by promoting value for money, Gemma said. Innovation and collaboration would be key to the achievement of the report’s recommendations, and CCW would be disseminating best practice and working with water companies on a range of best practice pilots to encourage this.

Case study 3: Money Advice Trust’s ‘Cost of COVID’ report

The final presentation to the round table was from Money Advice Trust’s Grace Brownfield, who summarised MAT’s recent report on the Cost of COVID, and the wider work the trust has been doing to support people affected by the pandemic.

The Cost of COVID was based on insights from MAT’s debt counselling services, National Debtline and Business Debtline, together with original research into the impact of the pandemic on household finances generally. It found that support from government – in particular the furlough scheme – and from creditors and regulators had helped a lot of people to weather the initial impact of COVID, but despite this many households were facing increasing financial difficulty, and those who were struggling before the pandemic had not seen any improvement in their situation. Looking forward, MAT expected to see a significant growth in financial hardship when furlough ends.

Particular trends included:

- an increase in calls from unemployed people (up from 34% pre-COVID to 42% at the peak)
- an increase in callers who have suffered financial shocks due to reduced hours or job losses
- one in nine people behind with at least one household bill
- one in eight are using credit cards to pay for essentials, with more than a third of those using high-cost credit
- negative effects on people’s mental health and well-being as a result

“Co-ordinated action is needed by government, by regulators and by creditors to help get people out of debt

Key points from the discussion

Overall, there was a general agreement that we have not yet seen the big increase in financial hardship that everyone has been expecting – and still expect to see. Whether this is because the problem is there, but is being masked because of the way consumers are managing their debt, or whether it has not fully hit, was a major theme of the round table discussion. And a major point of agreement was that we need to preparing today to support customers who need help, working collaboratively across water, energy and advice agencies to build programmes that deliver holistic support for those at risk.

Attendees had major concerns about customers with no previous experience of problem debts, including those from occupations and industries hardest hit by the pandemic, such as hospitality, entertaining and the arts. These people may not realise the importance of disclosure and how quickly problem debt can get out of hand, using credit cards to manage their finances in the belief that things will turn around quickly for them when the pandemic is over. These customers were often used to being self-reliant and had no prior knowledge of where help and guidance might be available. They might also be "sleep-walking" into trouble because they assumed that with lockdown ending, everything would be back to 'normal' soon.

Others are facing ongoing uncertainty, including people on furlough who don't know whether they'll have a job when the scheme ends. This can make it difficult to commit to a long term debt repayment plan, even if they recognise that they need one, because they don't know what their income will look like in a couple of months. As a result, debt counsellors often find themselves giving temporary advice to clients and hoping they will come back again when they are clearer about their situation.

Another trend that emerged was a decrease in customer disclosure since the start of the pandemic, when people with financial difficulties seemed more comfortable in coming forward, recognising that circumstances were beyond their control and feeling they would not be judged for asking for help. A number of water and energy companies had seen signs of this fall-off in disclosure.

Participants were generally agreed that they hadn't seen the large increases in the number of people with problem debts they had been anticipating, or even, in some cases, a major upturn in contact from customers generally – although an increase in requests for additional credit had been seen, along with a rise in repeat contacts from the same customers.

Most were expecting a significant increase in problem debt and/or financial hardship – the question was when it would come and why it might be being masked at the moment. In the meantime, water and energy companies reported that they were using the time to build relationships with advice sector agencies, build schemes ready for when the problem begins to build, and trying to target help at those who were disclosing.

One hypothesis that was explored was whether the long-term trend from consumer debt (ie credit cards) to utility debt had gone into reverse in the pandemic

A concern that was expressed by the experts in debt advice in the room was that it could take a significant amount of time for the full scale of the problem to become evident – research has shown that it can take 18 months to three years for people with problem debt to seek help – by which time their problems are likely to be significantly worse than they would have been if they had sought help sooner.

One hypothesis that was explored was whether the long-term trend from consumer debt (ie credit cards) to utility debt had gone into reverse in the pandemic, with people prioritising paying for their gas, electricity and water and seeing credit cards as a way of putting off dealing with debts. Conversely, MAT's 'Cost of COVID' report found that Council Tax was the most common form of debt among survey respondents.

All parties to the conversation were urged to think about the communication channels they offer to customers who may be struggling: while phone-based and in-person advice is still essential for the needs of some customers (and digital exclusion remains a significant problem), there is increasing evidence that other customers are more likely to disclose online, and this could be particularly critical if there is a big increase in financial hardship in the autumn and winter, when energy firms traditionally experience peak demand on their phone lines.

The Wyman report into the availability of free debt advice has graphically illustrated the shortfall that exists today and the critical role digital solutions can play in making up the difference. It was noted, however, that accessibility is a key issue in designing digital journeys for at-risk customers. There was also a discussion about how free-to-the-user debt advice can be funded in a sustainable way, particularly with potentially fewer debtors successfully completing debt management plans and unlocking FairShare payments for debt advice agencies. One possible solution suggested was a levy, like the one that funds Citizens Advice.

Another advantage of digital self-disclosure that was noted was the tendency for some customers to share more information about their circumstances than will often be picked up by an agent, who may stop once they've completed the first PSR flag and regard their job as done.

CCW's proposal for a single social tariff could be a game-changer in this regard. If DWP holds data on everyone on means-tested benefits – a good proxy for low incomes – and the Digital Economy Act permits data sharing between government and essential service providers, couldn't the data be provided to water companies to identify most customers eligible for a social tariff, rather than putting the onus on companies to identify customers struggling financially, or customers themselves to disclose? This is something CCW has been looking at. This would then raise the question over whether energy companies could receive that information too as part of a future PSR data sharing arrangement, if financial vulnerability were to be adopted as a PSR flag.

It was pointed out that not all people in financial hardship claim benefits, so this would not be a catch-all solution – a point acknowledged by CCW, who plan to work with the water industry to 'co-create' detailed proposals. Income levels are another potentially difficult issue – wherever you cut off eligibility, there will always be people who lose out because they are just the wrong side of the line.

Finally, the discussion turned to Breathing Space, which recently became operational. This was broadly welcomed by participants as having the potential to reduce competition between creditors where "the one who can shout the loudest or push the harshest enforcement methods ends up being paid to the detriment of others". However, it needs to be part of a two-stage process, with statutory protection extending throughout the life of a debt prepayment plan, not just during its formation – and with debt repayment plans are linked with holistic advice and guidance aimed at addressing the root causes of financial hardship. This is something participants strongly supported and many will be feeding back to the Insolvency Service when they do their call for evidence on the subject.

Overall, there was a feeling that, as one participant said, "Breathing Space is a huge step forward. It's comprehensive in relation to the debts that are included, and really importantly, it includes government debts as well as private sector debts." But for all its benefits, it needs solutions at the end of it, and the risk is that a significant group of people will reach the end of the 60 day standard moratorium period, and they won't have a debt solution to move on to.

For Breathing Space to work, as with all the other issues discussed, will require collaboration, innovation and a commitment to find lasting solutions for customers at risk.