

Company Social Tariffs:

Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010

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Contents

1. Introduction	1
2. Bringing forward company social tariffs	1
3. Which households should benefit	5
4. What concession to offer	7
5. Who Pays?	8
6. An acceptable level of cross-subsidy	8
Annex A: Legal basis	10

1. Introduction

1.1 Section 44 of the Flood and Water Management Act 2010 enables water and sewerage undertakers in England and Wales to include social tariffs in their charges schemes. It enables undertakers to reduce charges for individuals who would otherwise have difficulty paying their bill in full. It explicitly allows undertakers to introduce cross-subsidy between customers.

1.2 Section 44 requires the Secretary of State to issue guidance to undertakers which operate wholly or mainly in England and to the Water Services Regulation Authority (Ofwat). Welsh Ministers have identical powers to issue guidance to undertakers which operate wholly or mainly in Wales and to Ofwat. Section 44 states that this guidance must include factors to be taken into account in deciding whether one group of customers should subsidise another. It also requires the Secretary of State to have regard to the need to balance the desirability of helping individuals who would have difficulty in paying in full with the interests of other customers.

1.3 This guidance meets the requirements of Section 44. Both undertakers and Ofwat are required to have regard to this guidance, which sets the framework within which an undertaker can bring forward a social tariff if it chooses to do so. The guidance also sets out the factors that Ofwat should consider when regulating undertakers' charges. It should be read in conjunction with Ofwat's guidance to undertakers on charges schemes and the Government's guidance to Ofwat on charges schemes¹.

1.4 It is important to recognise that cross-subsidies are a long-standing feature of water and sewerage charges. For example, there are cross subsidies between urban and rural customers and as a result of charging according to rateable value. Historically, charges reflecting rateable value tended to reduce the bills of those on lower incomes through the implicit cross-subsidy from small households in larger properties to large households in smaller properties.

1.5 Over time, however, the effectiveness of these cross-subsidies has decreased, partly as a result of the number of customers opting to be charged via a meter for the volume of water they use. The purpose of this guidance is to ensure that the new cross-subsidies created by social tariffs within water and sewerage companies charging schemes are explicitly designed to target those customers most likely to experience affordability problems.

2. Bringing forward company social tariffs

2.1 The Government has responsibility for setting the policy and legislative framework for addressing social issues, including water affordability. The Government wants to see

¹ Current guidance is set out in: Water Industry Act 1999 – Delivering the Government's Objectives, DETR, 2000 (Product Code: 99EP0883).

water and sewerage undertakers take a more proactive role in responding to the needs of their customers including by developing and implementing local solutions to local problems. The Government is clear that undertakers are best placed to take decisions around the design of company social tariffs as part of their charges schemes so that they can take account of local circumstances, needs and the views of their customers.

2.2 Section 44 of the Flood and Water Management Act is an enabling provision and the Government is clear that it is for undertakers to decide whether or not to bring forward a company social tariff. The Government's view is that social tariffs can form part of a coherent package of effectively targeted support to enable customers to pay their bills, encompassing help with metering, payment methods, debt advice and water efficiency.

2.3 Social tariffs have the potential to deliver a wide range of benefits to undertakers and their customers, including:

- assisting low income households who would otherwise struggle to pay their bills in full;
- helping to prevent new cases of bad debt arising as a consequence of non-payment of water bills that may be unaffordable, and helping to resolve the existing problem of bad debt;
- enabling undertakers to design support schemes that are explicitly tailored to address local affordability problems and local affordability risks;
- protecting unmetered low income households from unaffordable bills that may arise in areas with high levels of optant metering;
- protecting low income households from unaffordable bills where an undertaker that has been designated an area of serious water stress has chosen to bring forward universal metering to help ensure a supply-demand balance; and
- providing reputational and financial benefits to the undertaker through improved customer service and by placing a greater focus on the needs and views of customers.

2.4 The Government expects each undertaker to consider the potential benefits of bringing forward an effective social tariff as part of its overall strategy for addressing water affordability. Where an undertaker chooses to include a social tariff in its charges scheme, they are obliged to have regard to this guidance. Ofwat is to have regard to this guidance as part of its regulation of charges. Where an undertaker brings forward a social tariff that complies with this guidance, there is a clear presumption in favour of approval by Ofwat.

2.5 The terms of companies' licences require them not to exercise undue discrimination between customers (Licence Condition E). In the past this has been perceived as a barrier to the implementation of social tariffs. In their evidence to the Walker Review² Ofwat stated they would support the development of social tariffs, when cross-subsidies to fund them were enabled through legislation. Section 44 of the Flood and Water Management Act 2010 and this guidance now enables companies to use this

² http://www.ofwat.gov.uk/consumerissues/chargesbills/household/res_ofwat_walkerreview.pdf

kind of cross-subsidy. The inclusion of cross subsidies in a social tariff which complies with this guidance does not in itself constitute undue discrimination or preference in relation to Licence Condition E. Ofwat will work with undertakers that seek advice on the development of social tariffs to ensure compliance with this guidance.

2.6 Where an undertaker chooses to bring forward a company social tariff, it will need to consult its customers on its proposals and have regard to the responses it receives. The Government expects an undertaker's proposals for a company social tariff to be acceptable to their customer base. This includes broad acceptance from households that will benefit from the social tariff and from those household customers that will be asked to contribute to the cost. In communicating their proposals for a social tariff to their customers, undertakers should consider how to illustrate the existing levels of cross-subsidy inherent in their water and sewerage charges and to show how their proposals will improve the targeting of support to help those most in need.

2.7 An undertaker may choose how best to engage with their customers on proposals for a social tariff. Proposals put forward for consultation with customers and consumer stakeholders should be transparent and easy to understand and be written in plain English. A combination of qualitative and quantitative research is likely to provide undertakers with a good basis for decisions on social tariffs. This will enable undertakers to communicate proposals effectively, understand customers' views and measure the prevalence of those views in the wider population. Customers consulted should include customers who are unlikely to benefit from the social tariff who are likely to be funding it, customers likely to be eligible for the proposed tariff, and customers who may be struggling to afford their charges but who are likely to be ineligible for the social tariff.

2.8 Undertakers must also consult organisations that represent customers on proposals for a company social tariff and have regard to their views. This must include the Consumer Council for Water (CCWater) which represents water and sewerage customers as a whole. Both the approach to consultation and the proposals themselves should be broadly acceptable to organisations representing customers. The Government expects all undertakers that choose to bring forward company social tariffs to work closely with CCWater to ensure that their proposals align with customers' views of what is acceptable. Undertakers will need to be able to demonstrate that they have had appropriate regard to all of the representations received from customers and organisations representing customers.

2.9 The Government does not propose to specify thresholds of acceptability or other criteria for customer acceptance. These will need to be considered by undertakers working with customer representative organisations in the design of individual company social tariffs.

2.10 Undertakers' plans for company social tariffs will need to be demonstrably evidence-based. Proposals should also be transparent and easy to understand, both for undertakers and their customers. Proposals will need to be underpinned by an assessment of the impacts of any social tariff which will need to:

- identify which customers will benefit, the justification for assisting these customers, the concession that will be provided;
- demonstrate how the tariff will deliver a meaningful reduction in the bills of qualifying households;
- identify which customers will fund the social tariff and the magnitude of this cross-subsidy based on take-up forecasts;
- explain why an undertaker is opting for a social tariff rather than, or in addition to other approaches (such as reviewing the cost-reflectivity of its charges, a campaign to promote optional metering targeted at single occupants, “win-win” tariffs funded from debt cost savings and other tools for tackling affordability issues);
- outline how the social tariff complements other measures that can tackle water affordability problems (such as payment plans to help households budget and offering or arranging debt and benefits advice for households who are struggling with their bills);
- outline how the social tariff complements advice on water efficiency and how it makes the link between water efficiency and lower bills for example: advising households on whether a meter could reduce their bills and offering water efficiency support to low income metered households;
- note how the social tariff will interact with WaterSure;
- show how the undertaker proposes to communicate and promote its social tariff and to achieve its take-up by eligible households and how eligibility will be established;
- show that the bulk of the revenues raised from this cross-subsidy are being used to lower the bills of qualifying households rather than on administering the tariff and how much the tariff will cost customers as a proportion of the average water and sewerage bill for England; and
- set out clearly the views of customers and their representative groups on the proposal and demonstrate that the proposed social tariff is broadly acceptable across the generality of customers and consumer representatives.

2.12 The Government expects undertakers that choose to bring forward a company social tariff to liaise with customer representatives at an early stage in its design. Undertakers will need to demonstrate to Ofwat that they have had regard to this guidance. Engagement with customers will need to continue as the social tariff is implemented.

2.13 Water and sewerage companies are best placed to design schemes which meet the needs of their own customers and the Government’s view is that national consistency is neither feasible nor necessarily desirable. As a matter of good practice, companies considering a tariff should communicate their plans to neighbouring companies. In particular, consideration should be given to how different tariffs interact where customers receive water and sewerage services from different companies. We expect water only and water and sewerage companies to share plans and decide how best to communicate them to customers. We encourage companies to work in partnership with each other and the Consumer Council for Water early in the process to ensure there is a broad understanding of local affordability issues and the best ways of tackling them.

2.14 The Government expects undertakers to keep any social tariff under review, particularly in relation to its effectiveness in tackling local water affordability problems. It is for undertakers, in agreement with Ofwat, to decide how best to keep social tariffs under review. The Government does not propose to require annual reporting on the performance of a social tariff although the Government would encourage undertakers to summarise and make publicly available information about the impact of any social tariff. Any changes to a social tariff will need to be broadly acceptable to customers and organisations that represent consumers. The Government will also keep this guidance under review.

3. Which households should benefit

3.1 The Government sees company social tariffs as an opportunity for undertakers to address local water affordability problems in light of local circumstances, needs and customer views. Social tariffs enable companies to go further than the national WaterSure tariff³. Where a household is eligible for both WaterSure and a company social tariff, the Government would want to see undertakers apply the most generous reduction in bills under either scheme. Undertakers which provide the same or a more generous reduction in bills through their social tariff for all households eligible for WaterSure will no longer be required to make the WaterSure tariff available to those customers as a separate scheme⁴.

3.2 The WaterSure tariff caps the bills of households that are metered, in receipt of qualifying means-tested benefits or tax credits and where the household either has three or more children living at home under the age of 19 or somebody in the household has a medical condition which necessitates a high essential use of water. It provides a basic safety net for qualifying households across England and Wales. Its aim is to ensure that vulnerable and low income households do not cut back on their essential use of water just because they are metered.

3.3 The Government recognises that WaterSure is tightly drawn in terms of which households benefit and that non-qualifying households can face water affordability problems. This can include unmetered households and other households who do not meet the eligibility criteria for WaterSure. Company social tariffs enable undertakers to go further and tackle local water affordability problems in light of local circumstances, particularly in relation to which households have water affordability problems in their area.

3.4 The design of a social tariff will depend on a range of factors. These include the number of household customers that may be eligible for support relative to the total

³ As prescribed through the Water Industry (Charges) (Vulnerable Groups) Regulations 1999, as amended.

⁴ The Government will amend the Water Industry (Charges) (Vulnerable Groups) Regulations 1999 to provide for this.

number of households in the undertaker's operating area, the structure and size of households in the undertaker's operating area, the proportion of households that are metered, actual water consumption, bill size and the willingness of non-qualifying households to subsidise qualifying households.

3.5 The Government's view is that these factors can only be taken account of in the design of an actual social tariff as part of an undertakers' charges scheme and that they will need to be considered as part of the required impact assessment. Because charges and circumstances are different from region to region, this guidance does not propose which households should benefit under a company social tariff. Metered and unmetered customers, as well as those on assessed charges, should be considered as being potentially eligible.

3.6 An undertaker may wish to undertake individual assessments of affordability where it believes that certain households may struggle with their bill now or in the future. It could do this with the support of third parties like advice agencies which are also able to provide holistic advice to customers. This could provide a means of targeting assistance more closely on specific groups or households at risk of water affordability problems. However, it may be more costly to implement.

3.7 Alternatively an undertaker may choose to use a proxy for affordability problems as a passport to a company social tariff. Variables that undertakers may want to consider include income level and eligibility for income-related means-tested benefits or tax credits. Undertakers may want to consider other variables when designing schemes such as household size and whether or not a household is metered. The driving consideration should be whether the eligibility criteria is best targeted to capture households at risk of affordability problems.

3.8 The Government's view is that any undertaker that chooses to introduce a universal metering programme across all or part of its operating area, or where metering reaches very high levels, should seriously consider including a company social tariff in its charges scheme⁵. This would address long-term affordability issues that may arise from the unwinding of the cross-subsidy inherent in charging for water according to the rateable value of a property.

3.9 The Government strongly encourages undertakers to look at opportunities for promoting greater water efficiency as an integral part of addressing water affordability problems. The promotion of optional water meters to single occupiers together with water efficiency advice and the retrofitting of water efficiency devices for metered customers can help both affordability and demand management. The cost of providing water efficiency

⁵ This is in addition to any transitional tariff or support that an undertaker brings forward as part of an area-wide roll-out of metering.

advice or devices should be met by the generality of customers and not by individual households that benefit from the social tariff.

4. What concession to offer

4.1 The Government considers that undertakers should decide what concession to offer in any social tariff in light of local considerations and local circumstances. In deciding what concession to offer, an undertaker will need to consider a range of factors. These include the factors identified in paragraph 3.4 together with the ease of understanding and uptake for eligible customers, the level of water stress in the undertaker's operating area and the need to encourage and incentivise water efficiency. Again the proposal will need to be broadly acceptable to an undertaker's customers and groups that represent its customers.

4.2 Undertakers will also need to consider whether a concession under a company social tariff is the best means of tackling water affordability problems in their operating area. The Government recognises that the picture around water affordability is extremely complex. Factors include household types and regional differences and the scope for some households to benefit from opting for a water meter. The Government therefore expects companies to consider any proposals for a company social tariff as part of a broader strategy and package of measures to improve water affordability such as offering water efficiency advice, measures to improve the management and payment of bills and advice to households on opting for a meter to lower their bill.

4.3 The Government would expect any concession offered as part of a company social tariff to be easy to understand, both in terms of how it would work and the savings it would deliver to eligible households. The Government would also expect any concession to provide a meaningful reduction in the bills of eligible households when compared to the overall costs of administering a social tariff.

4.4 Possible concessions that undertakers might choose to offer could include a percentage discount on bills for low income households, a free or discounted block of water for low income metered households, a free or discounted block of water per child for low income metered households with children, a flat rebate, or a cap on bills (although the Government would prefer not to see a cap on bills as the preferred concession for large numbers of qualifying metered households in areas of serious water stress). This is not meant to be a comprehensive list; the expectation is that companies will be able to develop new and innovative approaches to charging through the introduction of a social tariff.

4.5 Undertakers will need to consider what concession to offer as an integral part of the design of a social tariff and its wider charges scheme. As part of this process, undertakers will need to decide whether a concession should apply to water charges only, to water and sewerage charges or across the full range of charges that an undertaker levies.

5. Who Pays?

5.1 Undertakers will need to decide, in consultation with their customers and organisations representing customers, which household customers will fund social tariffs. As the Government has announced its intention to offer all non household customers the opportunity to switch suppliers in extending the retail market for water and sewerage services, we think it would be inappropriate for non-households to contribute to the funding of social tariffs in the longer term. We think it would normally be fairest for both metered and unmetered customers to fund a social tariff. We think it would normally be fairest for a social tariff for water customers to be funded by water customers, and for a social tariff for sewerage customers to be funded by sewerage customers, to avoid customers funding a social tariff they are not potentially eligible for.

6. An acceptable level of cross-subsidy

6.1 The Government is clear that there is a balance to be struck between the desirability of helping households with water affordability problems and the interests of other customers who would be required to provide the cross-subsidy. This will need to be carefully considered in an undertaker's assessment of the impacts of any proposed social tariff.

6.2 The Government's view is that this balance can only be struck in the design of an actual social tariff and charges scheme, where an undertaker will need to consider a proposed level of cross-subsidy and its acceptability to customers alongside the type of, and number of, households that it proposes to assist with their bills and expected uptake.

6.3 As part of an undertaker's consultation with its customers and organisations that represent customers on the design of a social tariff, an undertaker will need to be clear what level of cross-subsidy is proposed, who will pay and what effect this will have on the bills of households that receive assistance under the social tariff.

6.4 Research undertaken by the Consumer Council for Water⁶ (CCWater) has found that customers may be willing to make some contribution through water bills to address affordability issues, providing the total amount is manageable. The Government's view is that a charge of up to 1.5 per cent of the average annual household water and sewerage bill across England would be a reasonable amount of cross-subsidy to expect non-qualifying households to provide under a company social tariff⁷. This amount applies solely to the cross-subsidies of the social tariff and it excludes the costs of Watersure. This figure is offered as a broad indicator rather than a cap. The key test is that the proposed level of cross-subsidy should have broad customer acceptability. It will need to be kept under

⁶www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc

⁷ This is not a fixed monetary amount but, for illustrative purposes, would be around £5 based on the average bill level for 2011/12.

review in the light of the new evidence that emerges from the work companies undertake with their customers and with Consumer Council for Water as part of the implementation of social tariffs schemes. Undertakers need to justify their specific proposals to ensure tariffs are set at a level best suited to local needs and in light of evidence of their acceptability to customers.

Annex A: Legal basis

Section 44 – Flood and Water Management Act 2010 – Social tariffs

- (1) An undertaker's charges scheme under section 143 of the Water Industry Act 1991 may include provision designed to reduce charges for individuals who would have difficulty paying in full.
- (2) Subsection (1) includes schemes which have the effect of subsidisation by other persons.
- (3) The Water Services Regulation Authority's powers in connection with the approval of schemes (and its other powers under the 1991 Act) are subject to subsections (1) and (2).
- (4) The Minister must issue guidance in respect of subsections (1) and (2) which must, in particular, include factors to be taken into account in deciding whether one group of customers should subsidise another; for which purpose the Minister shall have regard to the need to balance the desirability of helping individuals who would have difficulty paying in full with the interests of other customers.
- (5) Undertakers and the Authority shall have regard to any guidance issued by the Minister under subsection (4).
- (6) “The Minister” means—
 - (a) in the case of an undertaker whose area is wholly or mainly in England, the Secretary of State, and
 - (b) in the case of an undertaker whose area is wholly or mainly in Wales, the Welsh Ministers.