

## Summary of responses

# Company Social Tariffs: Consultation on guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010

June 2012

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## Contents

Introduction and Background .....	2
Summary of responses .....	2
Overview of Responses .....	2
Analysis by Question .....	3
Questions for water companies .....	7
Questions for organisations which represent water customers .....	8
The way forward .....	9
Annex A – List of Respondents in Alphabetical order .....	9

# Introduction and Background

- 1.1. The Government is committed to supporting households who face water affordability pressures. In October 2011 we published draft guidance for water companies and Ofwat on water company social tariffs. This is a summary of responses to that consultation.
- 1.2. The final guidance will enable water companies to offer more support to customers at risk of affordability problems by introducing their own social tariffs. The Water White Paper *Water for Life* was published in December 2011. Company social tariffs will enable water companies to design tariffs that help those customers most in need of support and fund them through cross-subsidy between customers. In *Water for Life* we committed to publishing the final guidance to companies early in 2012 to enable companies to bring forward social tariffs from the start of the 2013 charging year.

## Summary of responses

- 1.3. In total 24 responses were received. Seventeen responses were from water companies. Responses were received from Ofwat and the Consumer Council for Water. A full list of respondents is listed at Annex A.

## Overview of Responses

- 1.4. All respondents welcomed the guidance and many said it was clear and accessible. Some respondents commented that social tariffs would be a useful tool for addressing water affordability problems.
- 1.5. Some respondents welcomed the role for water companies to design schemes to address local needs in consultation with their customers. They approved of the broad approach taken. Others were concerned that the guidance was not prescriptive enough, with too much discretion for water companies. There was some concern that water companies were not required to bring forward a social tariff.
- 1.6. Some respondents said that affordability problems are the responsibility of Government and should be addressed via the benefits system. They felt that the people at risk of water affordability problems largely shared the same characteristics wherever they lived and that it was difficult to justify customers in same circumstances being treated differently according to their supplier.
- 1.7. Some respondents commented that there have always been cross-subsidies inherent in water charging but that the legislation has framed social tariffs in terms of receivers of a benefit and payers for a benefit in a way which will make it more difficult to persuade customers to accept paying for a social tariff.

- 1.8.** Most companies said they would work within the framework and would be developing proposals for a social tariff with their customers
- 1.9.** Other general comments on the guidance included requests that there be a stronger emphasis on the link with water efficiency and metering; requests for Government funding for social tariffs or pilot schemes and requests for data sharing schemes to enable companies to more proactively target social tariffs at low-income customers.

## Analysis by Question

**3.1** The consultation invited comment on a number of specific issues:

### **(i) Arrangements for bringing forward company social tariffs**

**3.2** Many respondents commented on the draft guidance's requirement to work with neighbouring companies to ensure consistency where possible. Some agreed that companies should work together but that it would be impractical to ensure consistency. There were requests to clarify that some degree of variation was inevitable. Respondents also requested the guidance clarify whether local circumstances or consistency should take priority. The preference was for local needs to take priority. Companies also requested more clarification on how companies which serve customers water-only or sewerage-only should work together. This should include whether, for example, one kind of company should take the lead and provide the basis for the application of the tariff across both companies.

**3.3** Some respondents were concerned that Ofwat and Consumer Council for Water would have the power to veto social tariff schemes. They said the guidance should include direction to Ofwat to not unreasonably withhold approval where a tariff has been accepted by customers. They encouraged Ofwat and Consumer Council for Water to take a pragmatic approach to approval. Some companies stated that unless the roles of Ofwat and Consumer Council for Water were clarified their potential opposition to schemes would be a considerable deterrent in developing proposals for a social tariff.

**3.4** Some companies questioned whether S44 of the Flood and Water Management Act is contradicted by Ofwat's current Principle issued in November 2011 in relation to the approval of companies' Scheme of Charges<sup>1</sup> and Licence Condition E which says that there must be no undue preference shown and no undue discrimination between customers.

**3.5** Ofwat commented that the guidance implies an intention for them to include social tariffs as part of the charges approval process but that this needs to be more explicit to support the legislation. They intend social tariffs to be incorporated as part of the existing charges scheme approval process which allows for prior scrutiny of high risk issues. This process requires evidence so Ofwat would find it useful if the guidance said proposals have to be

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<sup>1</sup> "Companies must not offer reduced charges (including concessionary charges and social tariffs) to customers unless these are either specified in legislation and guidance from government or are cost beneficial and not rebalanced to other customers"

“evidence based”. Ofwat said there would be merit in replacing Ofwat’s current duties to approve or reject charges schemes in their entirety with regulation based on compliance.

**3.6** Other comments included that Government should publish regular reviews of social tariffs; and that companies should recognise that “local” circumstances may be different across a company area.

## **(ii) How to ensure that customers’ views are taken account of**

**3.7** Several water companies commented that they were unclear on the requirements to consult, that the guidance could be interpreted in different ways and that this element of the guidance should be made clearer. Many water companies said that the guidance should be changed so that proposals were “broadly acceptable” to customers rather than “broadly supported by” customers. They felt that expecting positive support from most customers was unnecessary and too high a hurdle.

**3.8** Some companies commented that consultation on social tariffs should not be done in isolation of the Periodic Review process or would be best done via existing routes to avoid cost. Some companies agreed that they should have to consult the Consumer Council for Water but not other organisations which represent customers as this could become unduly arduous. Overly rigorous interpretation of requirement to consult would lead to unnecessary cost and delay.

**3.9** Consumer Council for Water welcomed the need to consult customers and proposed companies should undertake quantitative and qualitative research. They should investigate the views of eligible and non-eligible customers including non-eligible customers who are struggling with their bills. Revised proposals may need to follow up research.

**3.10** Ofwat welcomed the emphasis on customer engagement. They questioned whether Consumer Council for Water need to find proposals acceptable or simply form an opinion as to whether the conclusions drawn from research are correct. They would like Consumer Council for Water to advise and agree as to whether the approach to consultation is acceptable and consider whether the final proposal aligns with consumer views. Ofwat plan to align with their approvals with that of the rest of the charges scheme – a statement that each company has consulted with Consumer Council for Water. Ofwat will ensure that their approach is proportionate and that companies can ensure that the process is part of a wider process of understanding and communicating with customers which they can combine with business planning and the general approval of charges schemes. Ofwat stated that as part of consultation water companies should explain clearly the cross-subsidies which already exist in water charging.

## **(iii) Which households should benefit**

**3.11** Several respondents requested more clarity from this part of the guidance. Views of respondents were divided on the issue of eligibility. Some water companies and other organisations argued that people on means-tested benefits and/or tax credits had already been identified by Government as needing support so it was natural that any scheme would passport them to a social tariff. Consumer Council for Water said that means-tested benefits

are the best identifier of households most likely to struggle with water affordability and should usually form the basis of eligibility. Other water companies were concerned that non-eligible customers would not see those in receipt of benefits as being “deserving” of a discount.

**3.12** Other respondents argued that it was widely acknowledged that water affordability problems were not limited to people in receipt of benefits. Some called for this to be flagged in the guidance. There was concern that water companies may find it easier and cheaper to passport people in receipt of benefits on to a social tariff but that this might not be effective targeting. Some organisations felt that eligibility decisions would be best made on a case by case basis, for example, by an independent committee or a third party.

**3.13** Citizens Advice said that their statistics indicated that there is a consistent pattern across the country of those most likely to be in water debt and that they are single people, especially with children. They pointed out that there is low take-up of some benefits and tax credits. Consumer Council for Water stated that the indicative thresholds of 3% and 5% of a household’s income being spent on water are useful but only when overlaid with information about income levels.

**3.14** Ofwat said that metered and unmetered customers, plus customers on assessed charges and customers who receive bulk supplies through water re sale and bulk supply meters should all be potentially eligible for any social tariff. They suggested Government should provide extra information to the sector on the changes to the benefits system through Universal Credit.

**3.15** Some companies shared the eligibility criteria for their existing schemes. This included reference to passporting from being in receipt of benefits, assessment by third parties like Citizens Advice Bureaux and income assessment.

**3.16** Many companies stated that access to Government information on the recipients of benefits and tax credits would enable water companies to target their social tariffs more effectively.

**3.17** Some companies asked for clarification on whether social tariffs should only be available to those who did “engage” by paying their bill in response to a lower charge. Some respondents argued that it should be a condition of any scheme that the company first reviews whether a meter could lead to lower bills.

#### **(iv) What concession to offer**

**3.18** This question received a range of responses. Some respondents felt that a cap was best because it is simple, proportionate and gives the customer security. Other ideas included percentage discounts and rising block tariffs which would require customer information on occupancy. Some companies said that any discount should be conditional on payment being received.

**3.19** Some companies argued that there is “no point in applying a discount if it still results in the customer being presented with a bill they can’t afford”. Counteracting this requires a

bespoke tariff determined by an income and expenditure assessment or levels of discount based on ability to pay. Some companies explained that they did this with the help of third parties such as Citizens Advice Bureaux, but that this kind of more complex approach does cost more.

**3.20** Many respondents commented that support can be in forms other than a discount and include affordability and efficiency advice, metering, efficiency devices and retrofitting.

#### **(v) What level of cross-subsidy is acceptable**

**3.21** Some respondents commented that only social support from Government was equitable.

**3.22** Some companies responded to offer specific amounts or percentages that they were predicting their customers were willing to pay, or that they had gleaned from customer research. This was often 1.5% of an average water and sewerage bill or a “single figure sum”. Some companies commented that the inclusion of any guidelines on this would make it difficult to justify a higher cross-subsidy. Some respondents felt that cross-subsidies should be explicit in bills but others highlighted the need for the fact that there are many existing cross-subsidies to be made clear to customers in consultation.

**3.23** Companies that supply water only or sewerage services only to customers raised concerns that their customers could cross-subsidise social tariffs of both companies and pay more than they agreed to.

**3.24** Views on *who* should pay were mixed. Some companies welcomed the flexibility to decide whether or not to charge household and non-household customers but said that this needs to be consistent so if non household do contribute they should all do, not just those supplied by the same retailer as household customers. All customers should share costs to ensure there is a level playing field in the emerging competitive retail market. Others commented that non-household customers should fund tariffs because the amount contributed is a subsidy into the local community from which businesses’ staff and customers are drawn.

**3.25** Other respondents felt that non-household customers should not fund social tariffs because those customers have access to a competitive market and may choose to switch providers to avoid paying a cross-subsidy.

**3.26** Ofwat stated that cross-subsidy should be from metered and unmetered customers and that customers should only have to pay for a tariff they are potentially entitled to (for example, water and sewerage customers can fund tariffs for water and sewerage services).

## Questions for water companies

### (vi) Do you consider that it may be cost-beneficial to your company to include a tariff in your charges scheme?

**4.1** There were a range of responses to this question. Some companies said that they would have to analyse this and would not know until they had undertaken further work. Some companies commented that social tariffs are unlikely to be cost-neutral and that other measures have a net cost. Some companies said they would design tariffs to be cost-beneficial. Some companies considered that social tariffs would be cost-beneficial because of the increased revenue. Those with existing “win win” tariffs said that they were effective in collecting more revenue because some people would pay more of a discounted bill than the original amount they were billed for. They commented that this is more likely if eligibility criteria are simple, if undertakers have easy access to information and if discounts offered are meaningful. The ability to achieve the most cost-beneficial outcome under the proposed framework is limited by: the need to reflect customer views which tend towards more complex value judgements rather than passporting eligibility from receipt of benefits and being denied access to benefits data.

### (vii) Do you plan to include a social tariff in your charges scheme?

**4.2** Most water companies stated that they would investigate the feasibility of a scheme, develop proposals and consult customers. Some said that developing proposals would be contingent on the results of initial market research. Some companies said they would make their final decision when they saw the final guidance. Others stated they would only do so if they rolled out universal metering. Some water companies expressed concern about the ability of Ofwat and Consumer Council for Water to veto proposals so had decided they would not make plans until their roles were clarified.

**4.3** Some water companies stated that they had considered social tariffs but had already decided it was not the right solution for affordability problems in their region.

### (viii) Please outline the likely costs to your company of creating a social tariff. Please only indicate costs that you would not normally incur in the course of designing a charges scheme and that are only associated with bringing forward a social tariff.

**4.4** Between them, water companies identified the following costs of creating a social tariff:

- Research
- Obtaining customer information including possibly through data purchase
- Data sharing/data verification scheme
- Consultation
- Conducting and analysing customer research
- Tariff modelling
- Promotional activities/communication to eligible and non-eligible customers
- Administration of scheme – handling queries and applications
- Appeals

- Changes to billing and recovery IT systems
- Staff training and recruitment
- External service providers/third party providers like benefits advice
- Impact on SIM

**4.5** Some companies had already costed bringing forward a social tariff and provided those figures for the impact assessment. Some companies commented that costs would depend on the design of a tariff. For example, passporting customers in receipt of benefits to a social tariff would be cheaper than processing application forms.

#### **(ix) Please outline the likely benefits to your company of creating a social tariff**

**4.6** Between them, water companies identified the following benefits of creating a social tariff:

- Increased revenue collection – new cash into the business from previously non-paying and under-paying customers
- Better debt collection
- Reduced customer contact
- Reduction in cost to serve
- Better customer service/better SIM results/better relationship with customers
- Reputational benefits/external recognition
- Avoiding consequential rise in debt and increase customer contacts through universal metering/the ability to protect vulnerable customers from big bill increases caused by roll out of universal metering
- Social benefits such as less affordability problems or poverty
- Being able to offer a more flexible approach
- Keeping struggling customers engaged/keeping lines of communication open
- Ensuring water bills continue to be seen as legitimate by customers
- Providing the means for third parties like Citizens Advice Bureaux to participate
- Goodwill from customers and representatives

### **Questions for organisations which represent water customers**

#### **(x) Please outline any costs to your organisation imposed by the approach of this guidance**

**5.1** Consumer Council for Water stated that costs imposed would include reviewing proposals, reviewing the approach to customer engagement and monitoring the impact of tariffs. They explained they would seek to balance those costs with changes to the way they work. Ofwat requested that the guidance be made as clear as possible to reduce costs.

#### **(xi) Please outline any benefits to your organisation or other groups from the approach set out in this guidance**

**5.2** Consumer Council for Water commented that the benefit of the guidance for them was ensuring that they were involved in the development of tariffs, that customers' views were

central to the development of any tariff and in maximising the long terms benefits of social tariffs to customers.

## The way forward

- 1.10. The Government will take account of the responses received in issuing final guidance on company social tariffs, which is due to be published early in 2012. The costs and benefits indicated will be used to prepare an impact assessment of the guidance.

## Annex A – List of Respondents in Alphabetical order

Age UK	Severn Trent Water
Anglian Water	South East Water
Bristol Water	South West Water
Cambridge Water	Southern Water
Citizens Advice	Sutton and East Surrey Water
Consumer Council for Water	Thames Water
Greater London Authority	United Utilities
Dwr Cymru Welsh Water	Veolia Water
Nortumbrian Water	Water UK
Ofwat	Waterwise
Portsmouth Water	Wessex Water
Sembcorp Bournemouth Water	Yorkshire Water

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