

The Consumer Council for Water Briefing on Social Tariffs

Key Points

- Some water customers are struggling to pay. One in eight households tell us their bills are unaffordable.¹
- Customers generally favoured an industry wide assistance scheme so help is available for those in need wherever they live.² The current arrangements mean help varies across England and Wales.
- Customers feel there is benefit in social tariffs being funded through Government to allow costs to be spread widely and more progressively.
- Customers are generally only prepared to pay around an additional £2 each year through bills to fund social tariffs, releasing around £40 million, but estimates suggest a comprehensive solution could be in the region of £400 million. Government funding is needed to close the gap.

The Water Affordability Problem

The scale of the affordability problem is significant. During the last two decades water and sewerage customers in England and Wales have funded investment of around £100bn to maintain and improve infrastructure and to meet higher environmental and drinking water quality standards. Although efficiency improvements have offset some of the costs associated with this investment, bills are more than 40% higher in real terms than they were in 1989.

Household budgets are increasingly stretched and many customers now struggle to afford their water charges along with other utility bills. Around a quarter of all households, and 64% of the poorest 30% of households, now spend more than 3% of their disposable income on water.³ In addition one in eight households tell us their bills are unaffordable.⁴ Affordability problems contribute to levels of customer debt in the Industry, and this currently adds an average of around £15 to all customer bills.

Furthermore The Consumer Council for Water's (CCWater) 2009 'Living with Water Poverty' research confirmed that many customers continue to pay their water bill, even when they can't afford to⁵. They are able to do so only by cutting back on other essentials such as food and heating. To be comprehensive any assistance measures need to help those who are still paying, but struggling to do so, as well as those who have already fallen behind with their charges.

Customer Funded Social Tariffs

Following the 2010 Floods and Water Management Act, water companies now have the option, subject to customer agreement, of introducing customer funded 'social tariffs'. South West Water, Wessex Water and Bristol Water implemented tariffs at the earliest opportunity in April 2013. We expect three more companies to introduce schemes in 2014, and several other companies are also working with CCWater to develop and test customer support for schemes to be introduced at a later date.

¹ CCWater - ["CCWater Annual Tracker Survey 2012/13" 2013](#)

² CCWater Research 2010 ["Cross Subsidies and Social Tariffs - the consumer perspective" A report by Creative Research.](#)

³ Ofwat - ["Affordability and Debt 2009-10 Current Evidence" 2011](#)

⁴ CCWater - ["CCWater Annual Tracker Survey 2012/13" 2013](#)

⁵ CCWater Research ["Living With Water Poverty" A report by Creative Research.](#) 2009

Social tariffs provide companies with an opportunity to help address the problem of water affordability. However companies themselves decide whether to bring forward tariff proposals and, subject to consultation, what form these should take. This could therefore lead to significant disparities in the help available to customers depending on where they live.

There is also a question of whether social tariffs funded solely through the transfer of costs between customers can fully address the scale of the problem facing low income households. CCWater research on general attitudes to social tariffs found that customers might be prepared to contribute up to around £2 extra from their annual bills to help others.⁶ The three company proposals which have been implemented to date all involve a subsidy at or below this level, based on what their customers told them would be acceptable.

Customer funding at the level of £2 per contributing customer might release up to around £40 million across the industry. However estimates from different sources suggest the cost of a comprehensive affordability solution could be in the region of £400m.⁷

In view of the above it seems likely that the Government's objective for everybody to have access to an affordable water supply will not be fulfilled by customer-funded social tariffs alone.

Closing the Gap

CCWater's 2010 social tariff research found customer support for action to address water affordability for those struggling to pay. Customers indicated they would favour an industry wide scheme, so that help would be available for those in need wherever they live. They also felt there would be benefit in any scheme being funded through Government, allowing costs to be spread widely and more progressively.

This public funding approach, favoured by customers, has now been put into practice to address a related water and sewerage charging issue. The Water Industry (Financial Assistance) Act 2012 enabled public funding to be made available to give an annual bill reduction of £50 to South West Water's household customers. Due to legacy issues bills were significantly higher than elsewhere and widely viewed as unfair by customers in the region.

The same legislation could be used to provide funding for a national water social tariff scheme in England (but not Wales). This would be in keeping with the views of customers and could play a key role in helping address the 'cost of living' faced by many households. This could also help maintain and improve perceptions of value for money and the fairness of water charges, ensuring a solid foundation for the future sustainability of the Industry.

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⁶ CCWater Research 2010 ["Cross Subsidies and Social Tariffs - the consumer perspective" A report by Creative Research.](#)

⁷ [The Independent Review of charging for Household Water and Sewerage Services \(Walker Review\) 2009](#)
CCWater Research 2009 ["Water Affordability in England and Wales" A report by the University of York Department of Social Policy.](#)