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Llywodraeth Cymru  
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Welsh Government

## Consultation Document

**Draft guidance to water and  
sewerage undertakers and the  
Water Services Regulation Authority  
(Ofwat), in relation to social tariffs**

Date of issue: **14 November 2011**

Responses by: **06 February 2012**

## Overview

This consultation seeks views on draft Welsh Government social tariff guidance to undertakers (water and sewerage companies and water only companies) which operate wholly or mainly in Wales and Ofwat (the Water Services Regulation Authority).

Section 44 of the Flood and Water Management Act 2010 enables undertakers to include social tariffs in their charges schemes. These enable charges to be reduced for individuals who would otherwise have difficulty paying their bill in full.

Section 44 of the Act requires the Welsh Ministers to issue guidance which must include factors to be taken into account in deciding whether one group of customers should subsidise another. It also requires Welsh Ministers, in issuing guidance, to 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.

The intention of this draft guidance is to meet these requirements and ensure the best outcome for customers in Wales. The draft guidance sets the framework within which an undertaker can bring forward a social tariff if it chooses to do so. It also sets the framework which Ofwat should consider when exercising its power to approve charges schemes.

## How to respond

Please complete the consultation response form at Annex D and send to:

[water@wales.gsi.gov.uk](mailto:water@wales.gsi.gov.uk)  
or

Water Policy Branch  
Social tariff guidance consultation  
Sustainable Places Division  
Welsh Government  
Cathays Park  
Cardiff  
CF10 3NQ

## Further information and related documents

Large print, Braille and alternative language versions of this document are available on request.

Further information on water affordability issues:

Walker Review consultation:  
[wales.gov.uk/consultations/environmentandcountryside/walkerreview/?lang=en](http://wales.gov.uk/consultations/environmentandcountryside/walkerreview/?lang=en)

Ofwat report – Affordable for all  
[www.ofwat.gov.uk/publications/focusreports/prs\\_web1005afford](http://www.ofwat.gov.uk/publications/focusreports/prs_web1005afford)

Help paying water bills  
[wales.gov.uk/topics/environmentcountryside/epq/waterflooding/waterrates/?lang=en](http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/waterrates/?lang=en)

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## Data Protection

How the views and information you give us will be used

Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.

The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

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## **1 Introduction**

- 1.1 This consultation seeks views on draft Welsh Government social tariff guidance to undertakers<sup>1</sup> (water and sewerage companies and water only companies) and Ofwat (the Water Services Regulation Authority).
- 1.2 The draft guidance applies to undertakers operating wholly or mainly in Wales and Ofwat. The Secretary of State has identical powers to issue guidance to undertakers which operate wholly or mainly in England and to Ofwat.
- 1.3 Section 44 of the Flood and Water Management Act 2010 enables undertakers to include social tariffs in their charges schemes. These enable charges to be reduced for individuals who would otherwise have difficulty paying their bill in full.
- 1.4 Section 44 of the Act requires the Welsh Ministers to issue guidance which must include factors to be taken into account in deciding whether one group of customers should subsidise another. It also requires Welsh Ministers, in issuing guidance, to 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.
- 1.5 The intention of this draft guidance is to meet these requirements and ensure the best outcome for customers who are served by undertakers operating wholly or mainly in Wales. The draft guidance sets the framework within which an undertaker can bring forward a social tariff if it chooses to do so. It also sets the framework which Ofwat should consider when exercising its power to approve charges schemes. It should be read in conjunction with the guidance that Ofwat issues to undertakers on charges schemes.

## **2 Current situation**

- 2.1 Undertakers can currently provide assistance to customers who struggle to pay their bills, in a number of ways. They can implement tariffs mandated by Regulations, which can be paid for by cross-subsidies from other customers, or by proposing targeted tariffs, which are cost-neutral or are beneficial to the customer base as a whole (for example, where these can help to tackle the problem of 'bad debt'), to Ofwat for consideration.
- 2.2 There is no mandated tariff for undertakers operating wholly or mainly in Wales, however in England, there is a 'WaterSure' tariff mandated by Regulations. WaterSure caps the bills of metered households in

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<sup>1</sup> Throughout this document 'undertakers' means 'water and sewerage companies and water only companies'.

receipt of a qualifying means-tested benefit or tax credit<sup>2</sup> at the average bill for their company's operating area 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.

- 2.3 Dee Valley Water, which is a water only company operating in Wales, offers the WaterSure tariff on a voluntary basis.
- 2.4 Dŵr Cymru Welsh Water, which is a water and sewerage company operating in Wales, offers a 'Welsh Water Assist' tariff on a voluntary basis. It is the same as WaterSure, except it sets a lower cap on bills and is applicable to unmetered customers as well as metered customers.
- 2.5 The Welsh Ministers have powers to mandate social tariffs in Wales, through Regulations. This consultation does not propose any mandatory social tariffs. This will be dealt with separately to this consultation.

### 3 The need for change

- 3.1 Wales has particular affordability problems, with lower than average household income and higher than average water and sewerage bills. Household income in Wales was 87.9% of the UK average in 2008. For 2011-12, average combined water and sewerage household bills for Dŵr Cymru Welsh Water (which provides water and sewerage services for most of Wales) are the third highest in England and Wales at £411, after South West Water (£517) and Wessex Water (£428).

Average household water and sewerage bills:

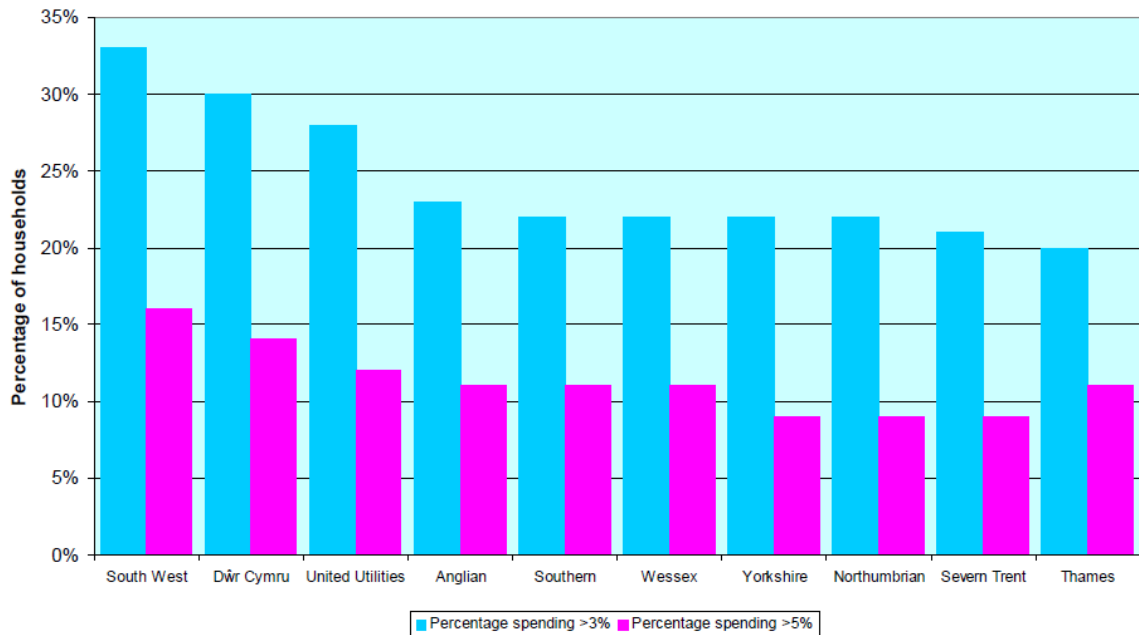
<u>Bill</u>	<u>Dŵr Cymru</u>	<u>Dee Valley</u>	<u>England and Wales</u>
<u>Average bill</u>	<u>£411</u>	<u>£377</u>	<u>£356</u>
<u>Average metered bill</u>	<u>£301</u>	<u>£293</u>	<u>£325</u>
<u>Average unmetered bill</u>	<u>£471</u>	<u>£435</u>	<u>£379</u>

Note – Dee Valley Water customers receive sewerage services from Dŵr Cymru Welsh Water.

- 3.2 In Wales, 30% of households spend more than 3% of their income on water and sewerage bills; and 14% of households spend more than 5%. This compares to 23% and 11% in England.

<sup>2</sup> Income Support, Income Related Employment and Support Allowance, Income-based Job Seeker's Allowance, Pension Credit (guaranteed element), Working Tax Credit (with an income of less than £16,040), Housing Benefit, Council Tax Benefit (not single person discount), Child Tax Credit (other than just the family element).

Percentage of households spending more than 3% and more than 5% of income on water and sewerage bills:



- 3.3 The Welsh Government is responsible for setting the policy and legislative framework for social issues, including water affordability. It is committed to helping households and vulnerable groups who genuinely struggle to pay their water and sewerage bills. At the same time, it is of the view that undertakers are best placed and have a responsibility to proactively address the particular needs of their customers.
- 3.4 The Welsh Government wants customers to have a choice of charging options that will drive up the efficient use of water, reduce debt issues and deliver benefits for all customers while protecting vulnerable groups. We are supportive of innovative tariffs including those not directly linked to a metered supply to ensure that there are affordable tariff options available to those who can switch to a meter to save money because of low consumption and to those who cannot reduce their bill by switching to a meter. As a result, our intention is to enable social tariffs to be proposed that can be applied to metered or unmetered households, or both.
- 3.5 Social tariff guidance is needed to allow undertakers to develop fit for purpose social tariffs which provide support to vulnerable customers. Without such guidance, Ofwat can not approve undertakers' social tariff proposals which involve cross-subsidies. The proposed draft social tariff guidance at Annex A, sets out criteria which undertakers should take into account when developing social tariffs. It also sets out Ofwat's role in approving social tariffs as part of an undertaker's charges scheme.

## 4 Views from stakeholders

- 4.1 We asked a number of questions about social tariff guidance in the Consultation on the Walker Review of charging for household water and sewerage services and in a workshop we held on 13 June to supplement the consultation. A copy of the consultation document and a summary of responses can be found at:  
(<http://wales.gov.uk/consultations/environmentandcountryside/walkerreview/?lang=en>)
- 4.2 We have taken these comments into account in the drafting of the social tariff guidance, as well as more detailed comments and input from the Consumer Council for Water (which represents water customers in England and Wales), the two undertakers operating wholly or mainly in Wales (Dee Valley Water and Dŵr Cymru Welsh Water) and Ofwat (the Water Services Regulation Authority).
- 4.3 A summary of the comments we have received from stakeholders is included below:

Broad support for Ministerial guidance to undertakers and Ofwat, providing a clear framework and setting criteria for the development of social tariffs.

Support for guidance to allow social tariffs for metered and unmetered customers, although concern raised that this would remove incentive for reducing water use.

Guidance should be clear that support should be available to all, based on need, while allowing flexibility for water companies to develop different types of tariffs.

Some felt that the guidance should set out who should be eligible for social tariffs but some felt that it should be flexible to allow undertakers to decide.

Tariffs should balance benefits of number of people supported and level of support against customer acceptability of cross-subsidies.

This can be reached by testing customer acceptability and assessing the impact of different tariff options.

Mixed views about whether the guidance should set the levels of cross-subsidy allowed, or there should be flexibility for water companies to decide.

Broad agreement that undertakers should work with the Consumer Council for Water and other stakeholders in the design of tariffs.

Mixed views about the level of customer support required for a tariff to be approved. Some thought that broad customer support would be needed while others thought that support from the Consumer Council for Water would be sufficient.

Broad agreement that Ofwat should have an approval role for social tariffs. Some felt that if a social tariff met the criteria set out in ministerial guidance then Ofwat should not be able to reject it.

Respondents raised a number of views about criteria for approval of social tariffs, including:

- simplicity of tariffs and application process;
- customer acceptability;
- impact on target groups;
- cost and value for money; and
- impact on water conservation.

## **5 Content of the draft social tariff guidance**

- 5.1 The draft guidance at Annex A sets out key principles and criteria that undertakers should take into account when developing social tariffs:

### Overarching principles for social tariffs:

Social tariffs should be cost-effective and deliver meaningful benefits to customers most in need of assistance, with minimal costs to other customers. The development and targeting of social tariffs should involve good customer engagement and be demonstrably evidence-based.

### Criteria for developing social tariffs:

Customer acceptability – social tariffs should have support from customers, the Consumer Council for Water Wales Committee, or other consumer representative bodies. They should be understandable to customers and easy to apply for.

Impact – social tariffs should reduce affordability problems and risks for a significant number of vulnerable customers, without adversely affecting other customers.

Efficiency – social tariffs should be developed and targeted based on evidence of which customers are most in need of assistance and which types of concessions deliver the most benefits.

Cost – the benefits should outweigh the costs of administration and costs to non-eligible customers should be justified by meaningful benefits to vulnerable customers.

### Level of cross-subsidy:

- 5.2 Comments we have received from stakeholders have been mixed on whether the guidance should set a maximum level of cross-subsidy. We propose in the draft guidance that undertakers should have the flexibility to determine the level of cross-subsidy for social tariffs, to ensure that those that need help in Wales are given the right level of support. Therefore, the Welsh Government does not intend to limit the level of cross-subsidy in the draft guidance. We welcome views on this proposed approach.
- 5.3 Stakeholders have highlighted two pieces of research undertaken by the Consumer Council for Water. This has shown that customers might



be willing to make some contribution through water bills to address affordability issues, providing the total amount was manageable. Research from 2007<sup>3</sup> showed that 39% of customers were prepared to pay a cross-subsidy of up to £2, while 19% said that they would pay up to £5. In research from 2010<sup>4</sup>, more than half of participants were prepared to pay up to about £2 to help low income households from a total of no more than around £5 to help a range of customer groups. However, some participants were prepared to pay more than £5.

Customer engagement:

- 5.4 We propose in the draft guidance that undertakers should be able to demonstrate broad customer support for social tariffs and that the Consumer Council for Water Wales Committee is best placed to advise Ofwat on whether the social tariff proposal is acceptable to customers rather than that acceptability being demonstrated through a wider survey of customers or a similar mechanism to establish customers' views. This is based on comments we have received from stakeholders, with some suggesting a need for broad customer support and some suggesting that support from the Consumer Council for Water would be sufficient. The final decision on approving a charges scheme remains a matter for Ofwat. We would welcome views on the proposed approach to customer support as set out in the draft guidance.
- 5.5 We welcome comments on the specific questions set out in the consultation response form at Annex D.

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<sup>3</sup> Consumer Council for Water Charging research 2007.

[http://www.ccwater.org.uk/upload/pdf/Charging\\_Final\\_Report.pdf](http://www.ccwater.org.uk/upload/pdf/Charging_Final_Report.pdf)

<sup>4</sup> Consumer Council for Water Research 2010 "Cross-subsidies and Social Tariffs – the consumer perspective" A report by Creative Research.

[http://www.ccwater.org.uk/upload/doc/Cross\\_subsidies\\_and\\_Social\\_tariffs\\_FINAL\\_8\\_June\\_2010.doc](http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc)

## Annex A

### **WELSH GOVERNMENT DRAFT GUIDANCE TO UNDERTAKERS (WATER AND SEWERAGE COMPANIES AND WATER ONLY COMPANIES) AND THE WATER SERVICES REGULATION AUTHORITY (OFWAT) IN RELATION TO SOCIAL TARIFFS UNDER SECTION 44 OF THE FLOOD AND WATER MANAGEMENT ACT 2010 AND SECTION 143(7) OF THE WATER INDUSTRY ACT 1991**

#### **1 Introduction**

- 1.1. Section 44 of the Flood and Water Management Act 2010 enables 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 individuals.
- 1.2. Section 44 requires the Welsh Ministers to issue guidance to undertakers which operate wholly or mainly in Wales and to the Water Services Regulation Authority (Ofwat). Both undertakers and Ofwat are required to have regard to this guidance. The Secretary of State has identical powers to issue guidance to undertakers which operate wholly or mainly in England and to Ofwat.
- 1.3. Section 44 states that this guidance must, in particular, include factors to be taken into account in deciding whether one group of customers should subsidise another. It also requires the Welsh Ministers 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.
- 1.4. This guidance meets this requirement and both undertakers and Ofwat are required to have regard to this guidance. Its purpose is to set the framework within which an undertaker can bring forward a social tariff if it chooses to do so. It also sets the framework which Ofwat should have regard to when exercising its power to approve charges schemes under Section 143 of the Water Industry Act 1991.
- 1.5. The Welsh Government is mindful that the evidence base for identifying those groups who have affordability issues is still being developed and that the dynamics of affordability can change over time. The picture around water affordability is extremely complex and varies, amongst other things, within household types and across different parts of Wales. As a result the Welsh Government will review this guidance if necessary, to take account of new evidence and best practice.
- 1.6. The Welsh Government has set out its key aims and priorities for the water industry in Wales through publication of its Strategic Policy Position Statement on Water:

<http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/publications/statement2011/?jsessionid=ICwyTpyDh7PQ6B1nvqzm1yhqVQMqML9nlkTN4MZ2GsndMbG1h!-630957411?lang=en>) and Social and Environmental Guidance to Ofwat: <http://wales.gov.uk/topics/environmentcountryside/epq/waterflooding/pr09/segofwat/?lang=en>).

- 1.7. The Welsh Government expects to publish a more detailed statement of policy on water matters in 2012.

## **2 Bringing forward company social tariffs**

- 2.1 The Welsh Government is responsible for setting the policy and legislative framework for social issues, including water affordability. It is committed to helping households and vulnerable groups who genuinely struggle to pay their water and sewerage bills. At the same time, it is of the view that undertakers are best placed and have a responsibility to proactively address the particular needs of their customers.
- 2.2 The Welsh Government wants customers to have a choice of charging options that will drive up the efficient use of water, reduce debt issues and deliver benefits for all customers while protecting vulnerable groups. We are supportive of innovative tariffs including those not directly linked to a metered supply to ensure that there are affordable tariff options available to those who can switch to a meter to save money because of low consumption and to those who cannot reduce their bill by switching to a meter. As a result, it is our intention that social tariffs can be proposed that apply to metered or unmetered households, or both.
- 2.3 The Welsh 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:
  - effective promotion of metering to households who will benefit;
  - a range of payment methods;
  - debt and benefits advice;
  - water efficiency devices and advice;
  - increasing take-up of help available for customers through further promotion and awareness raising; and
  - use of behaviour change techniques to assist in the design and effective communication of services which can help lower bills.
- 2.4 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;  
tailoring support to address local affordability problems and local affordability risks; and  
reputational and financial benefits by delivering good customer service and by placing a greater focus on the needs and views of customers.

- 2.5 It will be for the undertaker to design any new social tariffs, but the Welsh Government expects any new social tariffs to be reflective of the following principles and criteria:

Overarching principles for social tariffs:

Social tariffs should be cost-effective and deliver meaningful benefits to customers most in need of assistance, with minimal costs to other customers. The development and targeting of social tariffs should involve good customer engagement and be demonstrably evidence-based.

Criteria for developing social tariffs

**a. Customer acceptability**

Customer support - The undertaker should be able to demonstrate broad customer support (funders and beneficiaries) compared with alternative options. This can be demonstrated by support from the Consumer Council for Water Wales Committee and other consumer representative bodies such as Citizens Advice, money advice agencies, and Registered Social Landlords.

Simplicity – Tariffs must be easy for customers to understand and apply for. This will help to ensure that any new tariff is easy to communicate leading to greater levels of uptake and to minimise the administrative costs for the undertaker.

Transparency - the tariff should provide identifiable benefits to eligible customers and preferably also help them plan and budget. The undertaker should be clear about who is funding the tariff.

**b. Impact on customers' bills**

Any proposed social tariff should provide meaningful benefits to a significant number of customers in need of assistance. Benefits should be sufficient to encourage customers to apply for the appropriate tariff.

A social tariff should improve affordability for the target group. The likelihood of the tariff increasing affordability risk for non-eligible customers should be very low and preferably mitigated by the availability of other assistance.

Social tariffs should preferably support the undertaker's water efficiency promotion and not undermine attempts to improve water efficiency.

Social tariffs should complement other measures that can tackle water affordability problems (such as payment plans to help

households budget, offering or arranging debt advice for households who are struggling with their bills, advising households on whether a meter could reduce their bills and offering water efficiency support to low income metered households).

Undertakers should use evidence to demonstrate that the concession offered in a social tariff provides the best outcome for customers.

To ensure the greatest impact, the undertaker should demonstrate how it will check eligibility and promote take-up of a social tariff.

### **c. Efficiency**

Efficient targeting – undertakers should use available evidence to ensure social tariffs are targeted effectively at those most in need of assistance.

At least two thirds of the target group for a social tariff should be assessed as being in need of assistance.

Undertakers should use the most efficient methods for determining eligibility for social tariffs, e.g. receipt of means-tested benefits or individual affordability assessments.

Social tariffs should be efficient and cost-effective to administer in terms of financial costs and resources.

### **d. Cost**

The benefits of the scheme should outweigh costs of administration. Undertakers should assess the benefits to eligible customers against the costs to other customers of proposed social tariffs. They should clearly identify which customers will pay and how much they will pay.

The undertaker should consider if alternative approaches are possible, such as “win-win” tariffs designed to tackle bad debt, which do not require a new cross-subsidy between customers, before proposing social tariffs which involve cross-subsidies.

2.6 The Welsh Government expects all undertakers operating wholly or mainly in Wales to have regard to this guidance. Undertakers should consider the potential benefits of bringing forward and effectively promoting company social tariffs as part of their overall strategies for addressing affordability, enabling customers to pay their bills and improving their bad debt performance.

2.7 Undertakers will need to demonstrate to Ofwat that they have complied with this guidance.

## **3 Reviewing social tariffs**

3.1 The Welsh Government expects undertakers to keep any social tariff under periodic review, particularly in relation to its effectiveness in tackling water affordability problems. Undertakers should only continue schemes that can demonstrate they have had a positive impact.

- 3.2 It may be difficult to establish the effectiveness of a social tariff over a year (the period of the approved charges scheme), therefore undertakers wishing to continue a tariff in its current form would be required to demonstrate that initial findings of the effectiveness of the tariff did not indicate a need for review. Undertakers should carry out a comprehensive review of the effectiveness of a social tariff every three years (or more frequently if necessary) to decide whether to continue the tariff in its current form; make changes to it; or withdraw it. Any changes to a social tariff will need to be reflective of the views of customers and organisations that represent consumers. Information on the performance of social tariffs may be used to update or revise this guidance.
- 3.3 As part of its customer engagement practices and to maintain support for the tariff, companies may wish to consider publishing their evaluations of the tariff on their website.
- 3.4 As part of the design of a company social tariff, undertakers should also take account of what neighbouring undertakers are considering or proposing around company social tariffs. This is particularly important to avoid confusing customers in areas of overlap between water only companies and water and sewerage companies, including in relation to taking account of customer views, the criteria for eligibility between water and sewerage customers and how the costs and benefits of a company social tariff are apportioned between water and sewerage customers.

## **4 Customer engagement**

- 4.1 Ensuring customers are at the heart of the delivery of water and sewerage services in Wales reflects the Welsh Government's approach to citizen centred delivery.
- 4.2 An important consideration in the development of an undertaker's social tariff proposal will be to obtain, and have regard to, the views of its customers and consumer representative bodies. This engagement also provides an opportunity for the undertaker to obtain further evidence and understanding of the nature and scale of affordability risks in their customer base to inform the development and design of a social tariff.
- 4.3 The Welsh Government expects an undertaker's proposals for a company social tariff to have broad support amongst its customers. This includes broad support from households (and other customers) that will benefit from the social tariff and households (and other customers) that will not benefit.
- 4.4 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 Wales Committee, which represents water and sewerage customers as a whole. An

undertaker's approach to obtaining the views of their customers and its proposals should be broadly acceptable to these organisations.

- 4.5 The Welsh Government does not propose to specify thresholds of acceptability or other criteria for customer acceptance of a social tariff proposal. These will need to be considered by undertakers in the design of individual company social tariffs and proposals for engaging customers and organisations that represent customers.
- 4.6 The Welsh Government expects undertakers to work closely with the Consumer Council for Water Wales Committee at the early stages in the design of social tariffs. The Welsh Government considers that the Consumer Council for Water Wales Committee is best placed to advise on whether the social tariff proposal is acceptable to customers, drawing on the evidence provided to them by the undertaker. The final decision on whether to approve the charges scheme is a matter for Ofwat.
- 4.7 Engagement with customers, either directly or through the Consumer Council for Water Wales Committee will need to continue as the social tariff is implemented. This engagement will enable the gathering of evidence on the impact of the tariff to inform revisions and submissions for continuation of the tariff under subsequent charges rounds.

## **5 Role of Ofwat**

- 5.1 Ofwat has powers to approve or reject a charges scheme in its entirety. The Welsh Government expects Ofwat to approve schemes that are compliant with this guidance and, where appropriate, to seek and consider further evidence, before deciding whether to reject schemes that it considers are not compliant.
- 5.2 The Welsh Government expects Ofwat to co-operate with undertakers that seek advice and guidance on the development of social tariffs to ensure compliance with the guidance before submission as part of a charges scheme.

## **6 Which households should benefit**

- 6.1 The Welsh Government sees company social tariffs as an opportunity for undertakers to help address local water affordability problems in light of local circumstances, needs and customer views. Where there are alternative tariff schemes available to eligible households the Welsh Government would expect an undertaker to apply the scheme which best meets the criteria set out in paragraph 2.5.
- 6.2 Households with the most severe affordability problems or most at risk of affordability problems should benefit from social tariffs. Undertakers should consider these factors:

the affordability risks of different types of households in an undertaker's operating area;  
the number of household customers that may be eligible for support relative to the total 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 and unmetered;  
actual water consumption;  
average bills ; and  
the views of non-eligible households on subsidising eligible households.

- 6.3 The Welsh Government expects undertakers to work with Ofwat, the Consumer Council for Water Wales Committee and other consumer representative bodies to develop evidence on these factors. They should take account of this in designing social tariffs to target households most in need of help as part of their charges schemes. Undertakers need to consider these factors as a package rather than deciding in isolation which households should benefit.
- 6.4 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. This could provide a means of targeting assistance more closely on specific groups or affordability risks but it may be more costly to implement. Alternatively an undertaker may choose to use a more easily observable attribute of customers such as being in receipt of means-tested benefits as a passport to a company social tariff. The Welsh Government's view is that this is a decision for undertakers and that the approach taken should reflect the criteria set out at paragraph 2.5.
- 6.5 Where appropriate, the Welsh Government proposes that undertakers should be able to make acceptance of retro-fitting of water efficiency devices a condition of eligibility for a company social tariff. The cost of this should be met by the generality of customers through the undertaker's charges scheme and not by individual households that benefit from the social tariff. Undertakers should also be able to require customers taking up a social tariff to commit to appropriate payment methods, as long as this does not adversely affect customers.

## **7 What concession to offer**

- 7.1 The Welsh Government considers that undertakers should consider the criteria identified in paragraph 2.5 in deciding what level or type of concession to offer in any social tariff (e.g. capped bills, discounted rates, free blocks of water, rising block tariffs). They should also consider the availability of water in their operating areas and therefore the need to encourage and incentivise water efficiency.



- 7.2 The Welsh Government expects undertakers 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 bills.
- 7.3 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.

## **8 Cross-subsidy**

- 8.1 In responses to the consultation on the Walker Review, which ran from March to July 2011, the Welsh Government received mixed views about cross-subsidies. Some felt that the guidance should set an acceptable level of cross-subsidy for social tariffs whereas others thought that no level should be set and undertakers should have the flexibility to decide.
- 8.2 The Welsh 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. Undertakers should also consider potential improvements to the cost-reflectivity of their charges (i.e. ensuring customers are on the most appropriate tariffs for their circumstances) as a means of reducing charges to customers they want to support prior to a social tariff proposal. This approach can help avoid unnecessary cross-subsidies being introduced while still delivering support to customers with affordability risks.
- 8.3 Undertakers will need to consider the level of cross-subsidy necessary to deliver meaningful benefits to eligible customers, the views of its customers and the type of, and number of, households that will provide the cross-subsidy. Undertakers will need to decide whether non-household customers (business customers) should subsidise social tariffs as well as household customers. Undertakers will also need to decide whether the cost of the cross-subsidy is met by metered or unmetered customers or both (which will be influenced by which customers are eligible for any social tariff). These are all decisions for undertakers to take in the design of their charges schemes. Again, the views of customers and organisations that represent customers will need to be taken account of.
- 8.4 The Welsh Government proposes that undertakers should have the flexibility to determine the level of cross-subsidy for social tariffs, to

ensure that those that need help in Wales are given the right level of support. The Welsh Government does not intend to set a limit for the level of cross-subsidy. In determining the level of cross-subsidy for a social tariff, undertakers should ensure that the principles and criteria in paragraph 2.5 are met and should take account of the considerations set out in paragraphs 8.1 – 8.4. We welcome views on this proposed approach.

## **Annex B: 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.

## **Annex C – Consultee list**

Age Concern  
Albion Water  
All Wales Ethnic Minority Association  
Action on Smoking and Health in Wales (ASH in Wales)  
Asthma UK Cymru  
Black Environment Network (UK)  
Black Voluntary Sector Network in Wales  
British Heart Foundation  
British Lung Foundation  
British Medical Association  
Cardiff University  
Chartered Institute of Environmental Health  
Chartered Institution of Water and Environmental Management  
Citizens Advice  
Civic Trust for Wales  
Commission for Racial Equality Wales Office  
Confederation of British Industry Wales  
Constructing Excellence Wales  
Consumer Council for Water  
Consumer Focus  
Countryside Council for Wales  
Cwm Taf  
Dee Valley Water  
Drinking Water Inspectorate  
Dŵr Cymru Welsh Water  
Energy Saving Trust Wales  
Environment Agency Wales  
Equality & Human Rights Commission  
Federation of Master Builders for Wales  
Federation of Small Businesses (FSB)  
Friends of the Earth  
Health and Safety Executive (HSE)  
Institute of Directors Wales  
Institute of Welsh Affairs  
Keep Wales Tidy  
Minority Ethnic Women's Network (MEWN) Cymru  
National Public Health Service  
North Wales Economic Forum  
Ofwat  
Older People's Commission for Wales  
One Voice Wales  
RICS Wales  
Royal Pharmaceutical Society  
RSPB Cymru  
Severn Trent Water  
Stonewall Cymru

The Association of British Pharmaceutical Industry Wales  
Wales Social Partners Unit Ltd  
Wales Women's National Coalition  
Water UK  
Welsh Local Authorities  
Welsh Local Government Association (WLGA)  
WWF Cymru