



Llywodraeth Cymru
Welsh Government

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Welsh Government

**Guidance to water and sewerage
companies and the Water Services
Regulation Authority (Ofwat), in relation
to social tariffs under section 44 of the
Flood and Water Management Act 2010**

For further information about this publication please contact:

Welsh Government
Water Branch
Cathays Park
Cardiff CF10 3NQ
Tel: 029 2080 1199
Email: water@wales.gsi.gov.uk

1. Introduction

The Welsh Government is committed to social justice and equality of opportunity. This makes it essential in the current climate that we continue to drive forward tackling poverty by prioritising the needs of the poorest and protecting those most at risk of poverty and exclusion.

In June 2012 we published our Tackling Poverty Action Plan for 2012 – 2016. The overall aim of the plan is to achieve better outcomes for everyone in Wales. This plan sets out how we are balancing the need to tackle the impacts of poverty now, with the need to tackle the issues which will cause people to be in poverty in the future.

The plan includes water affordability matters and highlights our commitment to keeping water bills at an affordable level and for customers to have a choice of charging options that will reduce debt and protect vulnerable groups.

The Welsh Government is committed to helping households who genuinely struggle to pay their water and sewerage bills. At the same time, we are of the view that undertakers have a responsibility, and are best placed, to proactively address the particular needs of their customers.

On 14 November 2011 the Welsh Government, published a consultation on the implementation of the Flood and Water Management Act 2010 (Section 44). 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.

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), who are both required to consider this guidance in developing and agreeing water undertakers' final charges schemes. The Secretary of State has identical powers to issue guidance in relation to social tariffs to undertakers which operate wholly or mainly in England.

This guidance will include factors to be taken into account when deciding whether one group of customers should subsidise another. Section 44 also requires Welsh Ministers to balance the desirability of helping individuals who would have difficulty paying in full, with the interests of other customers when developing the guidance.

The purpose of this guidance 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.

However, in setting this guidance the Welsh Government has received current evidence that identifies vulnerable customer groups as well as results of studies collating customer views on a cross subsidy. 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 in light of the Water Strategy which will be published in 2013 to take account of new evidence and best practice.

2. Bringing forward company social tariffs

The Welsh Government is responsible for setting the policy and legislative framework for social issues, including water affordability. It is committed to helping households who genuinely struggle to pay their water and sewerage bills. At the same time, it is of the view that undertakers have a responsibility, and are best placed, to proactively address the particular needs of their customers.

The Welsh Government wants customers to have a choice of charging options that will help more households pay their bills. We want to see water undertakers put in place charging options that will drive the efficient use of water, reduce debt issues and deliver benefits for all customers while protecting vulnerable customers. The Welsh Government is supportive of innovative social tariffs and wishes to ensure that these are available to both metered and unmetered households. However, before social tariffs are offered to unmeasured low occupancy households, we want to see undertakers encouraging low occupancy households to save money by switching to a meter or an assessed charge if metering is impracticable.

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 all 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.
- use of behaviour change techniques to assist in the design and effective communication of services which can help lower bills.

Social tariffs have the potential to deliver a wide range of benefits for 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.
- tailoring support to address local affordability problems and local affordability risks.
- reputational and financial benefits by delivering good customer service and by placing a greater focus on the needs and views of customers.
- protecting unmetered low income households from unaffordable bills.

- 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.

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.

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.

Undertakers must consult with and have regard to the views of customers and organisations that represent customers when developing a social tariff and when finalising any proposals. This discussion must include the Consumer Council for Water, the main consumer body that represents water and sewerage customers. The Welsh Government considers that the Consumer Council for Water is best placed to review the findings from customer engagement. Undertakers should consult the Consumer Council for Water early in the process and formally seek their input as part of their annual consultation on their charges schemes.

The final decision on whether to permit a company's charges scheme is a matter for Ofwat. Undertakers must provide evidence demonstrating that they have considered this guidance and that their approach reflects the results of their engagement with their customers and the Consumer Council for Water.

An undertaker's approach to designing social tariffs should show a commitment to making their proposals acceptable to as many of their customers as possible based on robust evidence and customer focused research.

The consultation approach would need to be appropriate and proportionate to the tariff proposed. If a higher cross subsidy was put forward the Welsh Government would expect a tariff to be exposed to greater scrutiny than if a smaller cross-subsidy was proposed.

The Welsh Government expects undertakers to report annually on the performance of a social tariff and make this information publicly available. Undertakers should provide information which should include the performance of the social tariff under review, in terms of uptake, customer feedback, impact on bill payment, and customers' affordability and debt.

The Welsh Government does not propose to specify thresholds of acceptability or other criteria for customer acceptance of a social tariff proposal. However, we expect consultation and engagement on social tariffs to be proportionate, fair and well targeted. Ofwat should consider customer support for social tariffs on a case by case basis.

3. Principles for social tariffs

The Welsh Government expects the undertakers operating wholly or mainly in Wales to design new social tariffs, and in doing so ensure they are 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

- An undertaker must demonstrate that they have sought the views of their customers to ensure any proposals are broadly acceptable to their wider customer base (funders and beneficiaries) for a tariff offering affordability assistance to vulnerable customers.
- Undertakers must also consult organisations that represent customers on proposals for a social tariff and have regard to their views. This must include the Consumer Council for Water who represents water and sewerage customers across Wales and England. Both the approach to consultation and the proposals themselves should be broadly acceptable to organisations representing customers.
- Any tariff must be easy for customers to understand and to apply for. The tariff should be easy to communicate to ensure the highest uptake and minimise the administrative costs.
- The tariff should provide identifiable benefits to eligible customers and preferably also help them with financial planning and budgeting. The undertaker should be clear about who is funding the tariff and how the money is collected.

b. Impact on customers

- 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 tariff.
- The likelihood of the tariff increasing affordability risk for non-eligible customers should be very low. Social tariffs should seek to support water efficiency and complement other measures that can tackle water affordability problems (such as payment plans to help households budget, offering or arranging free debt and benefits 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 and win-win tariffs).
- 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.

c. Efficiency

- Undertakers should use 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 at risk of not being able to afford to pay their water and sewerage bill.

d. Cost

- Undertakers should demonstrate how much the tariff will cost customers as a proportion of the undertaker's average water and sewerage bill. 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.
- Undertakers should be able to show that the bulk of the revenues raised from the cross-subsidy are being used to lower the bills of qualifying households rather than on administering the tariff.

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.

Undertakers will need to demonstrate to Ofwat that they have complied with this guidance. We expect Ofwat to have regard to this guidance when regulating undertakers' charges

4. Which households should benefit

The Welsh Government expects social tariffs to target households most in need of help as part of a water undertakers' charges scheme. 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 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 in section three.

The Welsh Government encourages undertakers to offer the retro-fitting of water efficiency devices to metered and unmetered customers as part of the package of support that comes with the offer of 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.

Where appropriate, undertakers should encourage customers taking up a social tariff to agree to a suitable payment method.

The affordability options offered by an undertaker links in with the Welsh Government's Tackling Poverty Agenda and are a part of the Tackling Poverty Action Plan. The Welsh Government will look at reviewing this guidance in the context of the Water Strategy for Wales and the wider affordability agenda.

5. What concession to offer

Undertakers should consider the criteria identified in section three when deciding what level or type of concession to offer in any social tariff. They should also consider the availability of water in their operating areas and therefore the need to encourage and incentivise water efficiency.

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.

Undertakers will need to consider what concession(s) 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.

6. Cross-subsidy

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 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. It is our view that tariffs should be developed in the best interest of those customers who are eligible and this should not focus wholly on the level of cross subsidy.

We are not setting an upper limit for the level of cross-subsidy so we do not limit the proposals an undertaker can put forward on their social tariffs. However, our view is a reasonable level of cross subsidy should be up to 2.5% of a company's average water and sewerage bill, as this will bring meaningful benefits to vulnerable customers.

We expect any tariff proposals above this level to receive greater scrutiny. This generally means that we would expect the undertaker to consult on their tariffs with a wider customer base and gain acceptance from a higher proportion of customers.

All cross-subsidy proposals in a social tariff must be evidenced by customer acceptability as specified in this guidance.

The cost of an undertaker providing services to retro fit water efficiency measures and offer benefit and debt advice should be met by the generality of customers. These services should not be included in social tariff proposals.

Undertakers should ensure that customers are on the most appropriate tariffs for their circumstances. This will avoid unnecessary cross-subsidies for the generality of customers.

The Welsh Government expects that 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. This will avoid customers funding a social tariff they are not potentially eligible for.

These are all decisions for undertakers to take in the design of their charges schemes or social tariffs. Undertakers will need to take account of the views of customers and organisations that represent customers in relation to these decisions that inform the design of a proposed social tariff.

7. Reviewing social tariffs

The Welsh Government expects undertakers to keep any social tariff under 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 and continue to meet the criteria set out in section three.

It may be difficult to establish the effectiveness of a social tariff over just one 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 revision.

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.

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.

The Welsh Government intends to publish its Water Strategy for Wales in 2013, which will inform the strategic direction for future water policy in Wales and it will consider how, as a Government, we can support the economic, environmental and social needs of Wales. The Strategy will cover affordability, metering and water efficiency. The Welsh Government will review this guidance in light of the Strategy and make any changes to bring it in line with the future policy direction of the Welsh Government.

8. Timescales and transitional arrangements for existing social tariffs

This guidance has been published to allow water undertakers to consider proposals for social tariffs as part of their charges scheme starting from 2014/15 and annually thereafter. This will allow undertakers time to consider how a social tariff would work and assess the benefit to all their customers.

Undertakers currently offer tariffs to help vulnerable customers to afford to pay their water bills. These include Welsh Water Assist (sometimes referred to as Watersure for metered customers) which caps the bills of households that have a person on a qualifying benefit and either has a medical condition which necessitates a high essential use of water or where the household has three or more children under the age of 19 whether or not they are on a meter.

The Welsh Government recognises that these tariffs are intended to help a large number of vulnerable households afford their water bills. However, this guidance will allow water undertakers to review their approach and develop social tariffs that will more effectively assist households struggling to afford their bills.

In recognition of this issue, we propose that existing affordability tariffs which have not been assessed against this guidance are permitted to continue as part of 2013/14 charges. This is on the understanding that tariffs are brought into line with this guidance in subsequent years. The undertakers are required to consult on and set out their transitional plans in their 2014/15 submissions to Ofwat.

Undertakers will be expected to actively manage this transition, communicating it to customers and customer representatives. This transition will allow water undertakers to successfully target those households most in need of help. They will also be able to offer assistance to those who need it whilst minimising the impact on customers who will see a difference in the support they receive. We would expect undertakers to take forward this transitional phase in close consultation with Ofwat.

The Welsh Government wants to see undertakers apply the most beneficial tariff to the householder. The Welsh Government intends for this guidance to

ensure that any customers who become ineligible for support as result of changes to affordability tariff do not experience any sudden or unexpected bill shocks. Any bill increases should be phased in and treated with sensitivity.