

# Cross Subsidies and Social Tariffs

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The Consumer Perspective



A report commissioned by the Consumer Council for Water



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# 1 Executive Summary

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## 1.1 Aim of the Study

- 1.1.1 The overall aim of the research was to *‘explore, in depth, consumer views on previously unaddressed issues relating to affordability, cross subsidies and social tariffs by asking consumers who should receive help and how this help should be paid for’*.
- 1.1.2 In light of the Walker Review of charging and the Floods and Water Management Bill, the research sought to gain reactions to two new possible cross subsidies (concessionary charging for community groups in relation to site area charging and tackling the South West legacy) as well as the introduction of new social tariffs for water customers in low income households.

## 1.2 Research Method

- 1.2.1 Given the complexity of the issues, a deliberative approach was adopted based on reconvened workshops. This is a qualitative method which provides rich insights into how people feel about the issues although it does not provide any degree of measurement. We cannot extrapolate from our findings in terms of how many people feel a certain way about the issues. This means that considerable care needs to be taken in generalising the results to the wider population. This is particularly true when trying to decide what level of additional payment water customers may be prepared to make to help meet the cost of the new cross subsidies and social tariffs.
- 1.2.2 The subject matter proved to be a considerable challenge for many participants. This was the case even after spending more than six hours thinking about and discussing the issues. This is another reason why care is needed in interpreting the findings as most members of the public will be starting from a position of very limited understanding:
- the value of the research lies in the fact it identifies a wide range of views and opinions. It also highlights areas where consumers’ knowledge is at best patchy and, in some cases, misinformed
  - CCWater should use the findings not only to help it develop its position with regard to the issues but also to help it explain the reasons for its position.



### 1.3 Key Themes

- 1.3.1 There was support for all three issues to be tackled and the main reason underpinning this was a sense of **fairness**.
- 1.3.2 This also accounts for why many participants felt that whatever solutions were adopted to address the issues, they should be **national solutions**. They wanted to see the same criteria being used the length and breadth of England and Wales in terms of deciding who should receive help and who should be making a contribution towards the cost. For this reason, **Government funded solutions which take account of ability to pay appealed to many participants**.
- 1.3.3 **Most participants were prepared to make some contribution themselves** via their water bills to help resolve the issues, however they also want to see **contributions being made by other parties**, in particular, the water companies and Governments. They are also very aware that it is one thing to agree to support issues on an individual basis, but **account has to be taken of the cumulative effect** of all the different cross subsidies and social tariffs they are being asked to support – not just in relation to water but in terms of all their bills.
- 1.3.4 This, in turn, throws up questions about **transparency** both in relation to knowing exactly what it is one is being asked to contribute to, and in terms of schemes designed to help certain customers being adequately publicised.

### 1.4 Helping those on Low Incomes

- 1.4.1 This was considered to be the most important of the three issues. Despite the concerns of many that it is too easy for people to take advantage of the benefits system, **there was almost universal agreement this issue needs addressing**.
- 1.4.2 **Increasing benefit rates was seen to tick many of the right boxes**. However, unless it was possible for the extra payments to go directly to the water companies, this method did not address the main concern, namely that there was no guarantee that any extra money would be used for the intended purpose. Given how many people felt about the benefits system, this was perceived to be a major disadvantage of this approach.
- 1.4.3 For this reason, social tariffs were preferred to benefit payments as the best **mechanism for delivering** this help but not necessarily via a customer cross subsidy.

Participants felt that **other methods of meeting the cost should be used** either instead of, or in addition to, any customer cross subsidy (see 1.7).

1.4.4 Participants found it very difficult to decide on the relative merits of the different social tariff options. A key issue here is **how to provide assistance to unmetered customers**.

1.4.5 This issue is reported in detail in Section 4.

## 1.5 Concessionary Charging

1.5.1 This was considered to be the second most important issue. **Almost no one felt that community groups should not be helped** in this way. The key reason for supporting the idea of a cross subsidy was **to ensure that essential elements of the local community are not put under undue financial stress**.

1.5.2 The main criteria in terms of which organisations to help and how to help them were:

- **charities, not for profit and volunteer organisations** that provide a clear **benefit to the local community**
- either on an **equal basis** (easiest) or **in proportion to their financial circumstances** (harder)
- potentially on a **permanent basis** (subject to regular review).

1.5.3 Participants felt that concessions should be directly linked to measures to encourage community groups to reduce their hard standing footprint by **adopting environmentally friendly initiatives**.

1.5.4 See Section 5 for details.

## 1.6 The South West Legacy

1.6.1 Although not surprisingly a key issue for customers of South West Water, it was the least important of the three issues for customers in other parts of the country. Nevertheless, **most do believe the issue needs to be addressed**.

1.6.2 The main argument in favour was again about **fairness** but this can be offset against perceptions that the problem stems from a lack of due diligence at the time of privatisation.

1.6.3 There was **no clear consensus in terms of how best to tackle the problem** although a one off cross subsidy from Government ticks most of the right boxes.

1.6.4 See Section 6 for details.

## 1.7 Meeting the Cost of the New Measures

### **Customer cross subsidy**

1.7.1 Most participants were willing to make some contribution via their water bills providing the total amount was affordable – for most people, this was less than £5 pa. However, in our view, the most appropriate interpretation of the findings is not to read customers willingness to pay up to £5 a year on top of their current water bills too literally. Instead, what the research shows is that when they understand the arguments for and against the three initiatives, there is a willingness among most customers to make a contribution towards meeting the cost. For most customers, this is limited to paying, at most, a few pounds extra per year. Moreover, this willingness is likely to vary depending on the prevailing economic conditions; if bills in general are increasing while incomes are largely static or even falling, then the size of any contribution people would be prepared to make is likely to fall. Participants were also very aware that it is one thing to agree to support issues on an individual basis, but account has to be taken of the cumulative effect of all the different cross subsidies and social tariffs they are being asked to support – not just in relation to water but in terms of all their bills.

1.7.2 Customers are more likely to consider a cross subsidy to be fair if they can see that other parties, especially the water companies, are also making their contribution.

### **Government funding**

1.7.3 Effectively this means tax payers; nevertheless this method does offer some clear advantages especially in relation to **fairness**:

- the burden is shared more widely and takes into account ability to pay
- it operates at a national level rather than having different criteria being applied in different regions.

### **Self financing through reduced debt costs to water companies**

1.7.4 This was seen as potentially offering a ‘win - win’ outcome but it may not be sufficient by itself in terms of the amount of money it gives rise to and it will probably require other methods to be introduced alongside it.

## **Water Company profits**

- 1.7.5 This would definitely strike a chord with most customers, and might help make any customer cross subsidy more palatable.
- 1.7.6 The issue of water company profits – and the implications of using these to fund affordability schemes– is clearly one that needs explaining. However, there is a strong and enduring perception that water companies are making excessive profits out of their customers and it will be a challenge to change this view.
- 1.7.7 See Section 7.

## **1.8 Differences between England and Wales**

- 1.8.1 There was nothing to suggest that water customers in Wales were in any way different to those in England. We found the same range of views and opinions amongst the Cardiff participants as we found in all other locations (See 8.7).

## 2 Introduction

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### 2.1 Background

2.1.1 The Consumer Council for Water (CCWater) represents the interests of water consumers. One of the key issues for consumers is to have fair, affordable charges. Charges for water and sewerage services in England and Wales are complex. For example:

- There are over 20 companies supplying water including water only companies and combined water and sewerage companies and charges vary between companies.
- Prices are regulated by Ofwat, the water services regulation authority. Every five years they set limits on the prices that water companies can charge their customers. They aim to ensure that these charges represent the best value for consumers and allow efficient companies to provide a sustainable service. There are two ways that customers can be charged for their water supply: metered or un-metered.
  - Customers with a water meter only pay for the units of water they use together with a standing charge to cover fixed costs such as meter reading and billing services.
  - Un-metered customers typically pay a set rate for their water based on the rateable value of their home. These rates also include a standing charge which ensures a fairer balance in the way costs are shared.
- Where a company supplies both water and sewerage services, there can also be a charge to cover the cost of removing and treating the used water from sinks, toilets, plumbed appliances, and surface water and highway drainage i.e. rainfall which drains from the land associated with all buildings and also the roads.

2.1.2 The situation is made even more complicated because the tariffs charged by water companies already include a number of inherent **cross subsidies**, that is, where a proportion of the bill goes to meet the cost of providing other services, or are averaged across the customer base, for example, the costs of debt recovery and write off and the application of uniform prices for rural and urban customers. Bill payers in England also

subsidise a **social tariff** which was introduced by legislation in 2000. The WaterSure scheme is highly targeted aiming to protect certain low income customers from high metered bills. Charges for low income metered households who also have a large family or a medical condition requiring extra water usage can have bills capped at an average level. Companies operating in Wales provide similar help (and in the case of Welsh Water have extended the scheme on a trial self financing basis) although this is not required by legislation.

2.1.3 Finding a solution to the problem of the affordability of water and sewerage charges is an ongoing challenge. The Government has so far resisted calls for additional help to be provided using the existing tax and benefits systems. In December 2009 The Walker review of charging put forward a range of possible solutions<sup>1</sup>. It noted strong arguments for Government to fund these but also that this could be achieved through bill cross subsidies i.e. requiring customers to pay an extra amount to provide relief to more vulnerable customers. Government is now expected to consult on its proposals to respond to the recommendations to the review. In January 2010, the Government also introduced an amendment to the Floods and Water Management Bill to enable companies to introduce new social tariffs which can offer lower charges to certain customers at the cost of others. The Bill, including the provisions for social tariffs received Royal Assent in April 2010.

2.1.4 The Walker Review also looked at what is sometimes known as the South West legacy. South West Water bills are, on average, 43% higher than other regions. The Walker Review came to the conclusion that, as such, South West Water bills are disproportionately high and suggested two methods for addressing the problem. These were either for a one off subsidy from Government of £650m, effectively paid for by tax payers, or a cross subsidy of £1.50 a year being added indefinitely to the bills of all other water company customers. Developments in an altogether different area, site area charging, may also give rise to an additional cross subsidy which customers will be expected to meet. Surface water and highway drainage charges are levied to recover the costs of removing rainwater run off from customers' properties and from roads within their sewerage company area. Ofwat has indicated that it expects water and sewerage

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<sup>1</sup> The final report of the Walker Review can be found at:  
<http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/final-report.htm>.

companies to move to charging non-household customers on a site area basis which links charges to the size of the area drained. Changing to site area based charging creates both winners and losers, with out of town premises with large car parks or other large hard standing areas tending to pay more and small town centre businesses or organisations paying less . CCWater has confirmed their support for this method of charging as it better relates the use of the service to the size of the bill and encourages decisions about drainage to be more sustainable. However, the Government also added an amendment to the Floods and Water Management Bill enabling companies to provide charging concessions for 'not for profit' community groups which may include faith buildings, amateur sports clubs, youth organisations (such as scout groups) and community centres. Under this legislation companies will be able to pass the costs of helping these groups onto all other customers. Subject to Government guidance, companies will need to decide if they wish to introduce these concessions, the extent of any cross subsidy and which groups will benefit.

- 2.1.5 Previous quantitative research commissioned by CCWater<sup>2</sup> found that 48% of customers agreed that in principle household bills should be increased to subsidise the WaterSure social tariff. There was also majority support (69%) among domestic water and sewerage customers to continue to pay about an extra £1 a year on their bills to help vulnerable customers under the WaterSure scheme. However customers were less comfortable with the idea of extending this subsidy – 39% said they would support increasing this to £2 a year, 19% up to £5 a year and just 3% would support an increase of more than £10 a year.
- 2.1.6 In terms of funding help with high water bills for households on low incomes – the highest proportions thought that it would be better if it came from water company profits (30%) or government help via benefits (29%).
- 2.1.7 CCWater lacks a complete picture of the consumers' perspective as the research projects conducted to date have focussed on customers' relatively uninformed views on the principle of cross subsidies and the WaterSure scheme. The earlier research did not explore with customers all of the different options in a way that would allow them to come to a reasonably well informed view, both in relation to the arguments for and

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<sup>2</sup> CCWater Charging Research 2007, [http://www.cwater.org.uk/upload/pdf/Charging\\_Final\\_Report.pdf](http://www.cwater.org.uk/upload/pdf/Charging_Final_Report.pdf)

against cross subsidies and social tariffs and the fairest way of paying for these. Against this background, CCWater commissioned Creative Research to conduct a further research study to build on previous work and enhance their understanding of customers' views on the issues. It also provided an opportunity to get views on specific proposals arising from the Walker review and Floods and Water Management Bill.

## 2.2 Aims and Objectives

- 2.2.1 The overall aim of the research was to *'explore, in depth, consumer views on previously unaddressed issues relating to affordability, cross subsidies and social tariffs by asking consumers who should receive help and how this help should be paid for'*.
- 2.2.2 The brief set out a number of research objectives. These were adapted slightly as the research was developed. The research explored customer views in relation to four key issues which we have summarised below.

### 1. Awareness and views on existing cross subsidies and social tariffs

- to gauge general levels of awareness and reactions to cross subsidies and social tariffs
- in relation to water: to explore awareness and views on WaterSure, and company schemes funded through debt cost savings, such as Wessex Water Assist
- in relation to other utilities – to explore awareness and views on social tariffs and universal service measures i.e. the commitment from companies (mainly utilities) to provide essential services to all customers irrespective of financial circumstances, location etc. Examples of these include:
  - the provision of BT phone boxes
  - the recently launched BT Basic tariff
  - electricity supply to remote locations
  - flat rate postal services.
- are customers aware of these subsidies, do they support them? Should they be funded through bills to others? If not who/how should they be funded?



- is cross subsidy more or less acceptable for water compared to other utilities – although water companies cannot cut off the supply, customers are tied to a supplier and their charges?

## 2. Social Tariffs

- to establish the level of support for helping people on low incomes
- to explore views on how this can best be achieved, in particular, by means of the benefits system or via social tariffs
- to gauge reactions towards different forms of social tariffs, such as
  - giving low income metered customers a discounted bill
  - providing a free allocation of water in respect of all children who live in low income metered households
  - modifying the WaterSure tariff such that a customer's bill is capped at either the regional or national average, whichever is lowest
  - capping the bills of low income customers to 3% of income
  - schemes that are limited to metered customers compared to schemes that are open to all customers on low incomes
- to assess reactions towards different methods of meeting the cost of social tariffs, including
  - through a customer cross subsidy
  - from Government
  - from water company profits
  - self funding schemes
- to consider how much, if anything, participants would be willing to pay towards the cost of such social tariffs.

### **3. Site area charging concessions for community groups**

- to establish the level of support for offering concessions to community groups and to explore which groups, if any, should receive this help and how the cross subsidy should be shared among them
- to investigate whether such subsidies should be provided on a permanent or transitional basis. If transitional, over what period of time
- to consider how much, if anything, participants would be willing to pay towards the cost of concessionary charges.

### **4. The South West Legacy**

- to gauge levels of support for taking action to address the issue
- to establish which of the methods for addressing the problem outlined in the Walker Review are supported by customers
- to consider how much, if anything, participants would be willing to pay towards the cost of concessionary charges.

## **2.3 Research Methodology**

2.3.1 A deliberative method based on reconvened workshops was adopted. The choice of method was driven by a number of considerations. We needed to:

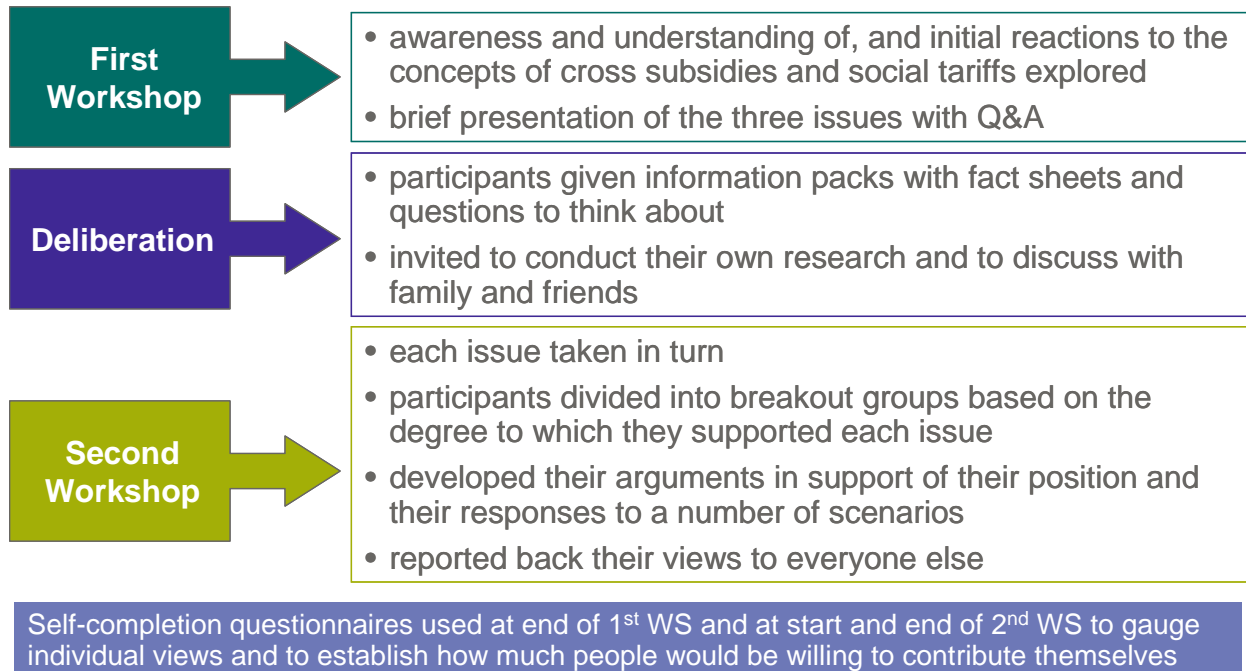
- cover a number of different and complex issues about which the public were unlikely to have a great deal of prior knowledge or understanding
- spend time informing and educating participants on the different issues
- share with them different potential solutions in order to gauge their responses to these as well as inviting them to put forward their own ideas
- give participants sufficient time to digest the information and respond to it.

2.3.2 Participants took part in two workshops each lasting three hours. The workshops were scheduled one week apart. This was to allow participants time to read a number of fact sheets summarising the key issues and possible approaches to addressing them, to

conduct their own research if they so chose, for example, using the internet, and to discuss the issues with family and friends.

2.3.3 A summary of the research method is set out in Figure 1 below.

**Figure 1: Summary of Research Method**



2.3.4 Copies of the discussions guides and the stimulus materials used during the course of the workshops can be found in the appendices (Section 9).

## 2.4 Sample

2.4.1 Four sets of reconvened workshops were held, each involving 16 to 18 people. Participants were selected to be broadly representative of the demographics of domestic water customers in England and in Wales. In each workshop, we recruited a mix of:

- men and women
- lifestages: pre-family, family, post-family and retired
- ages
- socio-economic grades (SEGs): AB (professional/middle classes), C1C2 (junior managerial/skilled manual) and DE (semi- and un-skilled manual and those who are entirely dependent on the state)

- those with above and below average water bills for their region
- metered and unmetered customers.

2.4.2 The workshops were conducted in different water company regions:

- Anglian Water: the workshops were held in Lincoln with participants being recruited from both the city and surrounding, largely rural, area
- Dŵr Cymru Welsh Water: the workshops were held in Cardiff
- South West Water: the workshops were held in Kingsteigton, a small rural community near Newton Abbot
- United Utilities: the workshops were held in Stockport.

2.4.3 The workshops were held between 11<sup>th</sup> February and 4<sup>th</sup> March. The first pair of workshops was held in Stockport in advance to allow us to pilot the approach. Some minor changes were incorporated into the materials before the remaining sessions were carried out. One or two representatives from CCWater attended each session to provide expertise either during Q&A sessions (during the first workshop) or to respond to queries while participants carried out their various tasks in breakout groups (during the second workshop).

2.4.4 A copy of the recruitment questionnaire and the recruiter guidelines can be found in the appendices (see Section 9).

## 2.5 Interpreting the Findings

2.5.1 The findings are qualitative; as such, they provide rich insights into the way people think about the issues, the range of attitudes and opinions that are held and the reasons why people adopt and hold such views. The findings do not provide any indication of the number of people in the population at large who might hold particular opinions. Where appropriate, we have indicated the strength of feeling expressed by the participants in the workshops but this does not necessarily mirror the number of people in the wider population that hold such views.

2.5.2 During the course of the workshops, we collected participants' individual views on the key issues along with how much more, if anything, they were prepared to pay towards meeting the cost via their water bills. We have reported the results in terms of the

number of participants choosing each option; we have deliberately not expressed these as percentages as this can convey a degree of robustness that is not warranted by the data. A total of 67 people took part in the research which means that the base size is very small. We have also reported on the average extra amount respondents were prepared to pay towards the cost of the various initiatives. Again, these values must be treated with caution. They are best viewed as indicative figures. The relative amounts that participants were prepared to pay provides an indication of the importance they attached to the different issues. It should also be kept in mind that the findings reflect participants' views **after spending 6 hours or more thinking about and discussing the issues**. Most members of the public if asked the same questions would base their responses on a top of mind and uninformed perspective. Participants' responses can perhaps be thought of as representing a best case scenario; in other words, it probably represents how people would respond to the issues if all the information and all the arguments were available to them but this may not be the same as how someone would respond without having the benefit of all this deliberation.

## 3 Cross Subsidies and Social Tariffs

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### 3.1 Key Findings

- Cross subsidies and social tariffs are largely unknown concepts.
- Concrete examples help clarify what they are but many participants continued to struggle to understand them.
- Participants were surprised and, in some cases angry, to discover that they are already paying cross subsidies across a range of household bills; they felt there should be much greater transparency.
- Many argued that social tariffs should be more widely promoted in order to encourage take-up although they did not necessarily appreciate the effect of this would be to increase the amount that other customers paid towards them.
- There was considerable variation between participants in terms of which cross subsidies and social tariffs they deemed acceptable. Perceptions of what is and what is not acceptable were underpinned by a number of factors; fairness was the main driver.
- There was near universal agreement that pensioners and people with disabilities should qualify for social tariffs; while it was also acknowledged that people on limited incomes may also need help, there was less agreement about the criteria that should be used. Limiting help to those already in receipt of benefits may mean that others on low incomes but who are not eligible for benefits would miss out.
- The idea of helping people in receipt of benefits resulted in a sharp polarisation of views. Some felt it was important to help the more vulnerable members of society while others resented the fact that 'many people on benefits take advantage'.
- There is a case to be made for why cross subsidies and social tariffs may be more appropriate and more acceptable in the water industry. Not only is water considered essential, customers have no choice of supplier.

## 3.2 Introduction

- 3.2.1 During the first workshop, participants were divided into two smaller breakout groups. In the first of these groups, they discussed their awareness and understanding of cross subsidies. The discussion started by considering cross subsidies in general before focusing more specifically on utilities and, within this, water. This was followed by a short presentation and Q&A session involving all participants that explained that two possible new cross subsidies – concessionary charges for community groups in relation to site area charging and tackling the South West Legacy – were being considered.
- 3.2.2 Following this, participants returned to their breakout groups and a similar discussion was held on social tariffs. Participants again came back together for a presentation and Q&A session on ways of helping make water bills more affordable for people on low incomes, including the possible introduction of a new social tariff.
- 3.2.3 At the end of the first workshop, participants completed a short self-completion questionnaire and were given an information pack to take home.
- 3.2.4 In this section of our report we summarise the key findings in relation to cross subsidies and social tariffs. Reactions to each of the three initiatives are covered in subsequent sections of our report.

## 3.3 Awareness and Understanding: Cross Subsidies

- 3.3.1 Cross subsidy was a largely unknown concept. As the following exchange demonstrates, most respondents had either never come across the term before or, if they had, did not know what it refers to.

*“I’ve not seen it before, not heard of it at all...”*

**...Anyone here feels that they have come across this?...**

*...I’ve come across it before but no idea what it means.” (Cardiff; Workshop 1)*

- 3.3.2 There was some understanding of the idea of a subsidy.

*“Well, I’ve come across that term before but I don’t really understand what it means, but I can only assume it’s subsidising and it’s subsidising one or the other.” (Lincoln; Workshop 1)*

**“So again if I was to say to you in a nutshell what is a subsidy, how would you try and sum it up?...”**

*...Like a supplement of an amount, additional kind of like a helping...*

*...It’s a grant like subsidising...*

...A hand out...

...Subsidising, cheaper, making it cheaper, like a subsidised canteen or whatever.” (Cardiff; Workshop 1)

3.3.3 One or two participants were familiar with the term. Interestingly, it was often defined in relation to social tariffs.

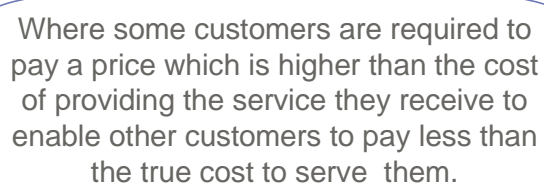
“In some cases it’s necessary to actually charge a little bit more to a number of people to slightly subsidise other areas where they might be losing money, and therefore you need to just make sure that certain groups in society are actually supported in some way or other.” (Stockport; Workshop 1)

“Does it mean charging people on higher incomes to subsidise the lower incomes?...

...Different subsidisation like you either get a discount or a reduction on one bill or the other so, depending on your income or depending on what you do, you get certain subsidisation to different people. Basically what you need rather than a standard subsidisation.” (Cardiff; Workshop 1)

3.3.4 Even after seeing a definition, many still struggled to really understand the concept.

“I keep having to read the paragraph ‘cause it’s trying to get it in my head.” (Stockport; Workshop 1)



Where some customers are required to pay a price which is higher than the cost of providing the service they receive to enable other customers to pay less than the true cost to serve them.

3.3.5 A number of examples of cross subsidies were presented to participants (see Table 1) and these helped make the concept clearer but even then, many were still struggling; for example, when asked to suggest further examples, most were either unable to do so or suggested things that were not cross subsidies. This included own label goods being subsidised by branded goods, the cost of car insurance (the idea that different customers are charged different premiums even though they are buying the same product, overlooking the fact that insurance premiums reflect the degree of risk assumed by the underwriter), or, as the following quote illustrates, the profit margin associate with goods.

“If you’re buying a meal, you might pay £10 for a main course where it costs them £3 actually to make.” (Stockport; Workshop 1)



**Table 1: Examples of Cross Subsidies**

<p><b>BT Phone boxes</b></p> <p>Fixed call charges irrespective of the installation/maintenance costs e.g. city centre vs. isolated rural location</p>	<p><b>Royal Mail</b></p> <p>Flat rate universal postal service irrespective of the distance involved</p>
<p><b>Energy and Water Rural/Urban</b></p> <p>Customers in rural locations pay the same charges as those in towns even though it is often more expensive to provide services to them</p>	<p><b>Broadband Levy<sup>3</sup></b></p> <p>The plan is for all landline customers to pay an extra £6 a year to extend broadband access to all parts of the country</p>
<p><b>Free cash payments</b></p> <p>Water companies allow people to make regular cash payments free of charge even though this is more expensive. Costs are absorbed by other customers</p>	<p><b>Energy Company Social Tariffs</b></p> <p>All companies are required to offer a reduced tariff to customers on very low incomes. It is estimated that this adds around £6 a year to other customers' bills</p>
<p><b>Debt Costs</b></p> <p>For example, customer debt and the costs of trying to recover this currently adds around £12 to water customers' annual bills</p>	<p><b>BT Basic</b></p> <p>A scheme that offers a lower telephone standing charge for people in receipt of benefits. Likely to involve a degree of cross-subsidy</p>
<p><b>WaterSure</b></p> <p>A scheme for limiting the water bills of people on low incomes with medical conditions and/or 3+ children. Typically It adds less than £1 to other customers' bills</p>	<p><b>Non-metered Water Customers</b></p> <p>Water bills of non-metered customers are based on the rateable value of their property. A single person living in a large house is likely to have a larger bill compared to a large family living in a small house</p>

3.3.6 In contrast, a small number of participants seemed to have a better understanding of the concept. For example, when discussing reduced entry prices for certain customer groups (such as to leisure facilities), one or two participants recognised that these may not take the form of a cross subsidy and that organisations may opt to work on reduced margins to increase sales. Nevertheless, this level of insight was rare.

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<sup>3</sup> The proposal for a Broadband Levy which was used as an example for discussion in the research was subsequently dropped by the Government.

*“Is that an option that the company makes or is it, I mean are they doing that on purpose or is it just a consequence of them having to offer a cheaper ticket to some sectors of the population because they want to have more people come into the cinema?” (Cardiff; Workshop 1)*

3.3.7 Across the four workshops, a number of further examples were suggested by participants and these included:

- taxation including both central (e.g. income tax) and local government (e.g. council tax) taxes
- reduced entry prices for certain customers, in particular, pensioners

*“It’s similar to gym memberships where if you’re a certain age you get a cheaper rate, if you go certain times of the day Monday to Friday rather than any time, there’s different rates, different tariffs [ ]...”*

*...Entrance fees to theatres etc, they get subsidised, old age pensioners get a reduced rate.” (Stockport; Workshop 1)*

- free or reduced items for those on benefits, such as prescriptions

*“You get it in the NHS, like with dentist if you’re on benefits you don’t have to pay for certain things, you get them free instead of spending the £15, whatever.” (Stockport; Workshop 1)*

- scholarships/bursaries from private schools for students from poorer families

*“Well, I don’t really know if this counts or not, but I was thinking of private schools where most people would pay. The Government will offer bursaries or scholarships to those who can’t afford to go there, so they get their fees paid.” (Stockport; Workshop 1)*

- the cost of theft from stores being passed on in the form of higher prices to customers

*“Yeah, theft in stores, that’s got to be subsidised. So everybody buying in the normal way has got a bit tagged on to cover for that.” (Stockport; Workshop 1)*

- the cost of meeting claims involving uninsured drivers resulting in higher premiums

*“Some people unfortunately aren’t insured so we have to cover for the eventuality if they’re in accidents and so forth.” (Stockport; Workshop 1)*

- business vs. economy class rail and air fares (on the grounds that the margins achieved on business fares enables the organisations to offer cheaper economy fares)

*"It could be like rail fares, you know sometimes you pay a really high price for a ticket and a...*

*...Business class and economy...*

***...Okay. I'm not sure that the difference between economy and business class is necessarily a cross subsidy because presumably if you pay for business class you expect a different type of service...***

*...But I think airlines say don't they, that you wouldn't be able to pay the low rate that you are in economy class if it wasn't for the price that they charge business class? So probably what they are charging is far more than the value of the extra services they provide." (Cardiff; Workshop 1)*

- free/concessionary public transport

*"Bus journeys. Bus passes subsidise older people...*

*...Yeah, that's good, and then younger people have got it, cheaper for younger people...*

*...Students." (Stockport; Workshop 1)*

- peak and off peak fares whereby the higher prices charged during peak periods enables lower fares to be charged during off peak periods

*"Not travelling at peak times. It's always a bit dearer, isn't it, if you travel first thing in the morning when people going to work will pay more and then, throughout the day, it's cheaper. It makes up for it, I suppose." (Stockport; Workshop 1)*

- government grants for certain groups, for example, grants to insulate loft spaces

*"People who get grants probably because they are over 60 and that is subsidised by the council tax, isn't it? [ ] You know, for wall insulation and things like that and double glazing, boilers." (Lincoln; Workshop 1)*

- subsidised care for the elderly on low incomes

3.3.8 Most participants were surprised to discover that many of the things they pay for involve a degree of cross subsidy. The fact that most of them were completely unaware of this gave rise to questions about transparency.

*"It sounds like it is something that companies might do without telling the customer, you are not aware that it's happening." (Cardiff; Workshop 1)*

*"It depends how much information we are given on it as well, whether we are privy to them doing it and whether we've got the choice and whether we can opt in or opt out. You might be, your hand is forced and you might be totally ignorant of it being done anyway." (Stockport; Workshop 1)*

*“Do we actually know it’s happening to us because you read out quite a few examples there of ones that are happening and I’m thinking well I’m not very happy about that and when would I be made aware of it?” (Cardiff; Workshop 1)*

3.3.9 Some participants also expressed a degree of anger and resentment at finding they are paying more in order that others may benefit.

*“I don’t see why some people pay more for something that others don’t, if the same service is provided, everybody is getting the same thing.” (Lincoln; Workshop 1)*

**“What about you, what’s your reaction to this idea of subsidies?…”**

*…I really don’t know. I don’t think it’s fair…*

**…What would be some of your concerns?…**

*…I really don’t know but I just don’t think it’s fair…*

**…Fair enough. S how about you?…**

*…I think it’s something that you wouldn’t necessarily be aware of, so you can’t, you are not going to know if it’s fair or not because you don’t know it’s happening, that’s the way I see it. I don’t see why some people should pay more or less than others if it’s a service that is being provided.” (Cardiff; Workshop 1)*

### 3.4 Awareness and Understanding: Social Tariffs

3.4.1 This was also an unknown term to just about everyone however, coming after a discussion about cross subsidies which had included some examples of social tariffs, participants were more familiar with the concept (if not the term) and more comfortable discussing it.

A discount offered to help make a service or product more affordable for vulnerable customers and those on low incomes. The cost is typically spread across the bills of other customers.

*“I’ve never heard of it…*

*…New to me.” (Stockport; Workshop 1)*

*“Based around what you use, like a pay as you go basis. Or am I way off the mark?…”*

**…It’s a bit more than that…**

*…A tariff based on your social circumstances…*

**…Yeah, that’s closer to it.” (Stockport; Workshop 1)**

3.4.2 Although many were aware that people on low incomes or in receipt of State funded benefits often had access to cheaper/discounted services, many were unaware that social tariffs existed in the first place and questioned whether such schemes were being

adequately promoted. They were also unaware that they were contributing to the cost of social tariffs through their bills. Once this had become clear, the response was similar to the way participants reacted to cross subsidies:

- annoyance at the lack of transparency

*“When you get your water rate bills it doesn’t actually tell you what the extras are you are paying does it? It’s just a bill for your total used water. So will it be a breakdown of what you’re paying out for the extras then?” (Lincoln; Workshop 1)*

*“So this is already happening now?...”*

*...Which we don’t know about...*

*...No, that is what I was just about to say, it’s worse seeing it in black and white because you just take your bill and just pay it, you don’t realise where it’s going. It’s something that we don’t know about but we sort of know it goes on but seeing it now.” (Cardiff; Workshop 1)*

- a sense of unfairness especially for those people who are low earners themselves but who do not qualify for benefits

*“How are they working that out then? Because I fall in between the earner and the people that sit there doing nothing, so I get none of it. So I don’t get help and the people that are paying extra, so how do they work that out as to who’s eligible for that then?...”*

*...It will vary from example to example...*

*...So as long as you’re on Jobseekers Allowance, Income Support then you get everything and because I don’t claim either of those and I actually work to make my money up I get nothing. So how does that work? I might be better off sitting on my backside and signing on every fortnight.” (Lincoln; Workshop 1)*

- 3.4.3 Some participants argued that for a social tariff to be fair to both those who benefit from it and those who help meet the cost, it should be the same throughout the country: the same eligibility criteria should apply, the same discount should be offered and the same amount recovered from the bills of other customers.

*“No I strongly disagree with it. I believe Ofgem, or whoever we’re talking about in this case, there’s several ‘Of’ people, should insist that all companies put a standard explanation out to everybody. So why should EDF and npower and British Gas all have different tariffs?” (Cardiff; Workshop 1)*

- 3.4.4 The fact that most of them were unaware such tariffs were available led many participants to argue that social tariffs should be promoted much more widely and that, in particular, those in receipt of benefit should have such tariffs brought to their

attention. At the same time, most failed to make the connection between better promoted schemes with higher take up and increased costs to other bill payers.

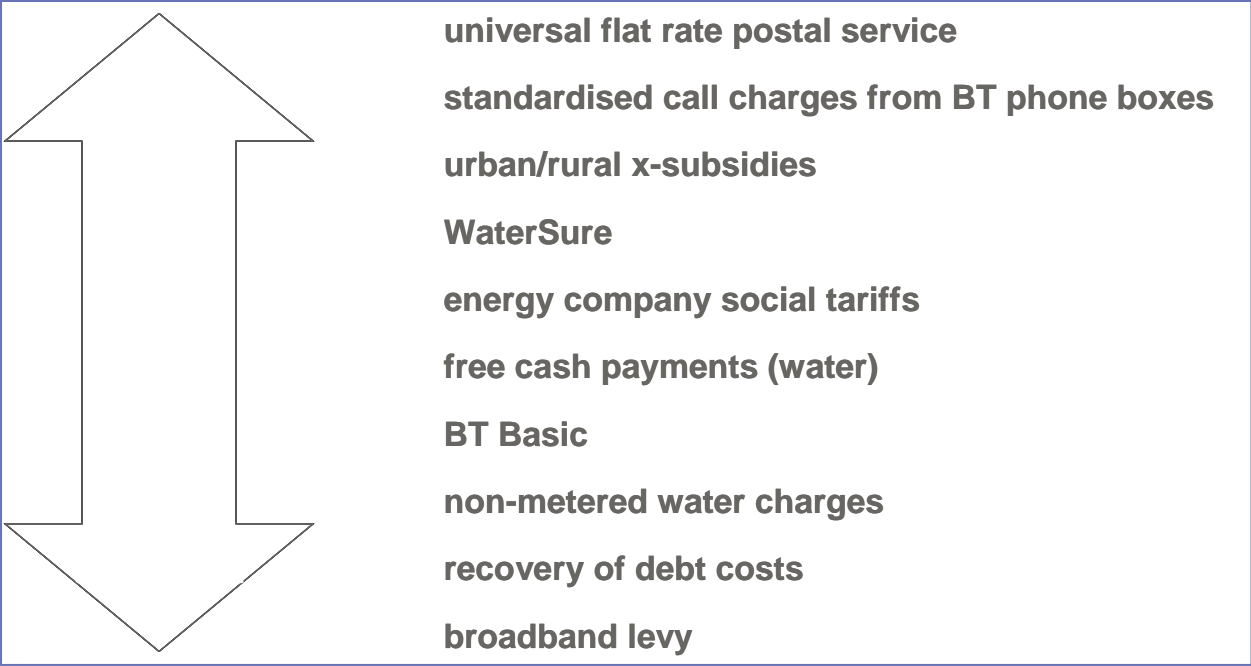
*“Tell people this is available. This is what I said, you’ve got to know what to apply for and how and where to apply for. It’s not just given to you as a discount, it’s not advertised that that is there, is it?” (Lincoln; Workshop 1)*

*“I wouldn’t mind betting that at least 50% of the people who are entitled to these social tariffs don’t even know about it and don’t claim them.” (Stockport; Workshop 1)*

### 3.5 Acceptability of Cross Subsidies and Social Tariffs

3.5.1 Participants were given a number of brief descriptions of examples of cross subsidies and social tariffs (see Table 1) together with any examples they had come up with themselves and invited to sort them into those they agreed with and those they disagreed with. It was notable that there were very few occasions when there was universal agreement although it is possible to position each of the ten examples<sup>4</sup> on a spectrum as illustrated in Figure 2.

**Figure 2: Acceptability of Some Cross Subsidies and Social Tariffs**



<sup>4</sup> We have not included participant’s own examples in the figure because different examples were suggested in different breakout groups.

3.5.2 A number of factors were used to decide whether or not a particular example was acceptable or unacceptable. The most important of these was whether or not it was considered **fair**.

*“Well there’s two factors really, aren’t there, the fairness factor and the what am I getting out of it factor!” (Kingsteighton; Workshop 1)*

3.5.3 Perceptions of fairness varied such that the same example might be considered fair by some but unfair by others. Some examples include:

- helping the vulnerable and the less well off; some participants linked this to a sense of morality, social justice or a desire for greater equality whereas others felt it was unfair to expect some customers to help others in this way

*“I mean people who aren’t very well off they must be supported, you can’t have a society where people are destitute and dying of starvation I mean that would be most unfair.” (Lincoln; Workshop 1)*

- linking the cost to the customer to their ability to pay was felt to be fairer than a flat rate cost applied to everyone; various forms of taxation were seen by everyone as being a fair form of cross subsidy for this reason – income tax is income related as is council tax (the banding system being seen as largely a measure of ability to pay)

*“But it’s very similar to tax is it not in that respect where you’d have the higher earners paying more for the same products as, well the same services as everybody else.” (Lincoln; Workshop 1)*

- in contrast, debt recovery costs passed on in the form of a cross subsidy was felt to be unfair by just about everyone; they tended not to make the connection between debt and the need to help the vulnerable and less well off

*“This man had said that £16 something of the actual council tax that he paid goes towards people that don’t pay, and he wasn’t happy about that, and he says ‘I will pay my council tax but I’m not paying council tax for somebody that doesn’t.’” (Stockport; Workshop 1)*

- similarly, costs that arise from other people behaving illegally, for example, shop lifters or uninsured drivers, were universally resented.

3.5.4 Another key factor was whether or not a service was considered to be **essential**. Participants were more likely to accept a cross subsidy or a social tariff if the aim was to ensure everyone has access to an essential service. Energy and water tended to be



seen as the prime examples whereas a telephone was sometimes considered non-essential

*"I haven't got a home phone for that reason [respondent cannot afford it], so why should someone who is sitting on their backside get it?..."*

*...It's not like healthcare is it? It's not...*

*...It's not a necessity." (Lincoln; Workshop 1)*

3.5.5 **Who benefits** from a cross subsidy or social tariff was also taken into account. Perhaps not surprisingly, participants were more likely to consider something acceptable if they themselves benefitted from it.

*"Most people are like that – they wouldn't mind paying it if they're getting something out of it..."*

*...Our attitude to it is quite selfish really." (Kingsteighton; Workshop 1)*

3.5.6 Some also recognised that there may be wider benefits to society beyond those who benefited directly; thus, some participants who lived in urban areas felt that they benefit indirectly from a rural cross subsidy as they like to visit and take advantage of rural areas.

*"Yes I think it's a case of, because although you live in a town, you still go to the country, you either travel to the country for sight-seeing or visiting, whatever, hotels, functions, whatever so you are benefitting in that way, aren't you?" (Lincoln; Workshop 1)*

3.5.7 In contrast, if a cross subsidy is felt to primarily benefit the service provider, this was considered unacceptable. This was one of the main reasons why the proposed broadband levy was unacceptable to many people.

*"I don't see why the broadband companies can't do that themselves..."*

*...Yeah, I agree with that...*

*...Yeah, I don't think we should pay for that...*

*...Especially the elderly have to pay as well. They're not going to benefit as well. My grandparents wouldn't." (Stockport; Workshop 1)*

3.5.8 Some examples were considered '**win - win**' situations, such as flat rate postal charges, and these were acceptable, while others were considered '**lose - lose**', such as higher insurance premiums due to uninsured drivers, which were unacceptable.

3.5.9 Some cross subsidies were felt to involve a **degree of choice**, that is, someone can choose whether or not to pay a higher cost, for example, by opting to travel in business



class or during peak hours or by choosing to live in a larger property with a higher rateable value. This was considered to be fairer than situations where one has no control over whether or not one pays a cross subsidy.

- 3.5.10 The **cost** of the cross subsidy was also a factor; the smaller the cost, the more likely participants were to consider it acceptable. Thus, WaterSure which costs other customers less than £1 a year was more likely to be considered acceptable than the £6 a year cost of energy company social tariffs.

*“And it adds less than £1 to other customers’ bills...”*

*...It’s not a lot, is it?...*

*...No, it’s not...*

*...Yeah, I agree with that one.” (Stockport; Workshop 1)*

- 3.5.11 However, as some participants pointed out, when it comes down to whether someone can afford to be contributing to cross subsidies and social tariffs, it is the cumulative effect that needs to be considered.

*“I think a snapshot, you kind of think £6.00, it’s not a big deal. It’s supporting a lot of other people, but as you say, I think it’s the accumulative affect of all these things around you.” (Lincoln; Workshop 1)*

### 3.6 Who Should Benefit?

- 3.6.1 There was universal agreement that people with disabilities and those with long term chronic illnesses or medical conditions should benefit from cross subsidies and social tariffs.

*“It’s not their fault if they’ve got a medical condition.” (Stockport; Workshop 1)*

- 3.6.2 There was also a high level of support for the elderly to also benefit although there was some debate about whether this support should be available for all elderly people or whether it should be means tested.

*“I mean, I have this argument with my parents. They are over 65 now, why should they? Just because they are 65, they are not poor. You sort of touched on that with the bus travel, they have free bus travel, they’ve had their loft insulated at a reduced price...”*

*...On the other hand there’s the general view that you are going to treat over 65s as vulnerable people who are more likely to develop illness, who are more likely to develop monetary problems and also some of them, most of them, they have worked all their lives and they’ve contributed to society, so it’s a moment in which you get things back, even though you might not need them.” (Cardiff; Workshop 1)*

*“The more you think about it this winter heating allowance is a bone of contention because you could have Lord Brackett or something in his country estate and he gets heating allowance if he’s over 60. And the same thing could apply really with somebody with a medical condition, if he’s loaded and he’s got gout or something then he claims that...”*

*... Yeah, it should be means tested...*

*...It’s got to be means tested really all these things I would think, to be fair.”  
(Stockport; Workshop 1)*

3.6.3 It was also widely accepted that help should be provided for people on low incomes although there was far less consensus in terms of where the line should be drawn. Most participants accepted that it would not be appropriate to offer such support to ‘people on a below average income’ as this was too large a group.

*“We should all be on it then.” (Lincoln; Workshop 1)*

3.6.4 In this context, some liked the sound of the EDF Energy Assist scheme which offers a 15% discount to anyone spending 10% of their income on their energy bill or the npower Spreading Warmth scheme which is open to anyone earning less than £13,500 a year irrespective of whether they were in receipt of benefits.

*“I think it’s better when they include low income, like the BT one it’s if you’re out of work or on income support, it’s not including people that are earning less than £24 grand or whatever which is unfair, I feel. Whereas that’s a bit of a fairer system...”*

***...Which is the fairer system?...***

*...Sorry, the energy company where it’s if you’re earning less than £13½, which a lot of people do.” (Stockport; Workshop 1)*

3.6.5 Some felt that if such help is restricted to those on means tested benefits, this will mean that people who are in poorly paid jobs and are just above the threshold, and those who are eligible but choose not to claim benefits, would miss out.

*“But that wouldn’t catch the people who are on low income but not on benefits. There are a lot of people who are on low income but not on benefits and that is one of the problems with the system it’s not worth your while working.” (Cardiff; Workshop 1)*

3.6.6 Indeed, the idea of helping people in receipt of benefits resulted in a sharp division of opinion in every breakout group with some fairly heated discussions.

3.6.7 Those who supported the idea felt it was important to help the vulnerable and less well off members of society and, although the benefits system may not be perfect, it

represents the easiest way of identifying the individuals who are most likely to need help.

*“Well, if they’re being means tested and that they must be in need of the extra support, so they probably should get it as well.” (Lincoln; Workshop 1)*

- 3.6.8 They accepted that some people who receive benefits take advantage of the system and this may mean that some of them do not deserve or do not need such help, however, they did not consider this is a reason for not trying to help the majority of benefit recipients who are deserving and in need to assistance.

*“I agree with any form of subsidy where there’s vast differences in incomes because it’s the only get out that the low income person has, there’s no other outlet for him, there’s no other get out.” (Stockport; Workshop 1)*

*“These things have become more necessary in the last few years because people’s incomes have widened over the last ten or fifteen years, so these type of things that we’re looking at are more necessary now than they were probably ten or fifteen years ago even.” (Stockport; Workshop 1)*

- 3.6.9 One or two more knowledgeable participants pointed out that the economic climate in the last two or three years has made it much harder for people on very low incomes to pay all their bills and that the size of the reduction offered by a social tariff was a relatively small amount.

*“Well, I mean obviously everything has turned around since the recession hit us so obviously I think that’s got to be taken into consideration because times are different now. A lot of people are losing their jobs and you know it’s something to be looked at, I suppose.” (Cardiff; Workshop 1)*

*“I’ve had a look at the figures and the differences are not that great. Nobody’s going to be paying 50% off what somebody else is going to be paying, it’s not those sort of figures, they’re only going to be paying a marginally smaller amount. So you can hardly nick-pick about it really, there’s no great differences.” (Stockport; Workshop 1)*

- 3.6.10 In contrast, there were those who resented that fact that there are people who ‘don’t deserve help and who take advantage of the system’. They tended to characterise the majority of benefit recipients in this way.

*“I think it depends on the individual, you know, you are generalising because you do assume that people who aren’t - I don’t know. There are people who are genuine that can’t work as G said, there are certain circumstances but there are also people that take the mick and I wouldn’t be happy to support them, no. I’ve got to go out and work, I don’t want to do it, but I’ve got to do it.” (Cardiff; Workshop 1)*

*“This is the problem you see I’m quite cynical now because of my job. And, you know, every one has got a 50 inch plasma screen in the corner and the electric*

*running all day and, you know I don't want to generalise, but there are needy and there are people who haven't had the education to budget and know how to plan because everything is given to them and it's free and they get benefits. They don't have to worry about electric supply or water." (Cardiff; Workshop 1)*

*"Well, it's the subsidising people on benefits because it's people who earn all the time, all the time who are subsidising people on benefits, people on benefits, people on benefits, and yes there are genuine people on benefits and there are a lot especially that I know that aren't genuine on benefits and they are the ones who get everything free and they abuse it." (Cardiff; Workshop 1)*

3.6.11 When challenged, they may reluctantly accept that it is unfair to penalise all benefit recipients because some people are taking advantage, nevertheless they still felt angry and resentful.

*"I was going to say the key word is genuine. I don't know how you measure it, I don't know how you investigate it, but certainly you can't just say people on benefits should have this because just amongst that group of people all their circumstances are different and the Government has got it wrong at the moment. I don't know how that would change, but obviously, yeah generally there is genuine poverty. Wales is one of the - a couple of the housing areas are the poorest in the country, nationally and that's real, those are real statistics, but I wouldn't know how to police it if you like, I don't know how to check. People fiddle....*

*...We don't want scroungers." (Cardiff; Workshop 1)*

3.6.12 While these attitudes were expressed by a wide range of individuals, it was clear that some of them were likely to themselves be on low incomes albeit above the benefit threshold.

*"I'm a very low income, I only work 16 hours a week, and one thing I'm really annoyed about is suffering from other people who can't be bothered in getting work. I struggled a long time to get work, so yeah, I think people like myself, and that covers also the working tax credit and it also covers the very low income, yes I agree with that. But then you get other side of the coin that people will swing the lead, and I know this, so this is what I'm saying." (Stockport; Workshop 1)*

## 3.7 Utilities

3.7.1 We explored with participants whether they felt that cross subsidies and social tariffs were any more or less acceptable in relation to utilities compared to other sectors. Energy, and especially water, were considered essential services and therefore cross subsidies and social tariffs were more likely to be seen as acceptable especially given the sharp increase in bills over the last couple of years.

*"I think that water is different because it's absolutely essential to life. So no one should go without water for whatever reason." (Cardiff; Workshop 1)*

*"I think I would be in favour because they are very basic services that you can't do without and if you don't use the general community to subsidise the ones that aren't going to be able to afford it, you are going to have difficult situations."*  
(Cardiff; Workshop 1)

*"Because those particular things that you've mentioned represent a larger portion of a low person's income than somebody - a much greater proportion of their income is given over to water, gas and electric than somebody earning more."*  
(Stockport; Workshop 1)

3.7.2 There was far less of a consensus regarding telephony. While some would also see having access to a telephone as essential, especially for an elderly single person, others disagreed.

*"It's your choice to have, you can live without a telephone but you need water, you need gas or electric..."*

*...But you could go one step further and say well someone who lives out in the sticks does need a telephone...*

*...Well then get a 'pay as you go' mobile. Why should someone else pay? I don't have a phone."* (Lincoln; Workshop 1)

3.7.3 We also explored what difference, if any, knowing that a customer's water supply cannot be cut off made to participants' opinions. Not everyone was aware that customers could not be disconnected. For some, this information simply served to reinforce their view that water is essential however others would prefer to see the threat of disconnection being used as the ultimate sanction for persistent non-payers.

*"That is the one thing they cannot cut off is your water which is why I feel it is the main necessity to live is the water and that's why they are not allowed to take it off us."* (Lincoln; Workshop 1)

3.7.4 We also explored whether water might be considered a special case because of the absence of competition and choice of supplier. It was clear this was not something people had necessarily thought about. Moreover, not everyone was aware that different water companies have different charging structures. Both of these points were considered unfair and some used them as arguments in favour of re-nationalising the water industry.

*"I'm kind of slightly old fashioned in that I don't think they should be making profit out of these things anyway. I'm old enough to remember before they were privatised."* (Cardiff; Workshop 1)

*"Some water companies charge more. If you look on the tables depending where they are in the country some people are paying - I think it's per unit or whatever - they're paying considerably more than other companies, and I think that in fairness it should be standard throughout the country. It shouldn't be that*

*if you're with Southern Water you're going to pay 20p and somebody in the north's going to pay 50p, that, to me, doesn't seem fair. I think it should be regulated if you don't have a choice. We couldn't get our water, say, from Rutland, could we, because it would be physically impossible to actually get it?" (Stockport; Workshop 1)*

*"Yeah, well here [in the south west] we pay the highest water rates in the whole country..."*

*...It's unfair, if you can change gas and electricity supplier but not your water...*

*...Why should we pay more for water down here than up your end?...*

*...Why is the water dearer down here?" (Kingsteighton; Workshop 1)*

3.7.5 In the South West, there were spontaneous suggestions in both breakout groups for a cross subsidy to help lower water bills in the region.

*"Or could it mean that other regions could help us a little bit because we pay so much, we have a lot of coastline, lots of tourists who use a lot of water, and we have to pay for all that for us?" (Kingsteighton; Workshop 1)*

*"It's because we have such a long coastline, we have to cover that cost..."*

*...I think we should be subsidised for everyone using our beaches." (Kingsteighton; Workshop 1)*

3.7.6 On balance, the consensus was that there did appear to be grounds for water being a special case when it came to cross subsidies and social tariffs. Interestingly, a number of respondents spontaneously suggested that any such cross subsidies should be linked to metering to ensure that anyone who benefits from lower bills is also encouraged to use water efficiently.

*"I disagree with that Welsh Water one because it's not metered and I think they've got no incentive to try and keep the water usage down, they could just use it willy-nilly and it wouldn't make any difference." (Stockport; Workshop 1)*

### 3.8 Meeting the Cost

3.8.1 We briefly explored with participants their initial views on how any cross subsidies and/or social tariffs in the water industry should be funded.

3.8.2 Perhaps not surprisingly, many wanted to see the water companies meeting the cost out of their profits. They resented what they perceived to be the large profits that were being made out of a basic human need.

*"Companies are making enough money to subsidise it themselves..."*

*...Yeah, I agree...*



*...I think it's immoral the amount of money they're making." (Stockport; Workshop 1)*

*"Well I feel a little bit cross that actually the big companies, maybe if they had more of a social responsibility and a conscience in terms of how they operate because they're driven basically for the shareholders to make money and profits. Then I think potentially they should maybe stumping up some of that cost themselves." (Cardiff; Workshop 1)*

3.8.3 In the case of South West Water, some were aware that they were owned by an overseas interest, and this made the fact they were paying very high bills seem even worse.

*"But, you know, like Devon and Cornwall are hammered very, very hard and it's all going to the shareholders that don't actually live in this country and they're not pumping any money back in for the infrastructure of the water system." (Kingsteighton; Workshop 1)*

3.8.4 Participants seemed to have very little understanding of why companies need to make a profit or what happens to the money. They tended to assume it all ended up in the pockets of shareholders and senior staff through dividends and bonuses. They did not appreciate that many of the shareholders are large pension funds that use the return on their investment to pay the pensions of ordinary people and they also did not appear to understand that a proportion of profits are retained and reinvested in the business. They felt that the companies could, if they so chose, make efficiency savings, for example, by reducing the level of leaks, and that such savings could be used to meet the costs of cross subsidies and social tariffs. Finally, they lacked any real appreciation of the impact of a company diverting funds to other causes and declaring lower profits.

*"At the moment how do they work out what is a profit? Because at the end of the day if they're having to borrow money to - I mean no other business would get away with it, would they? Well, the banks have got away with it. Surely all their profits should go into paying off their debt because then the sooner they've paid off the debt then [most agree]..."*

*... Well it would be interesting, wouldn't it, to see the profit made since South West Water has been privatised, the profits made compared to the debt that we've now built up. So in other words, what money's gone out without putting back into the service over those years? That would be an interesting figure to have." (Kingsteighton; Workshop 1)*

3.8.5 This lack of understanding of how companies work was coupled with a great deal of cynicism and scepticism: they had little respect for, or trust in, their water companies. Even though they would like to believe the water companies would meet some or all of

the costs of social tariffs and cross subsidies, they felt this was very unlikely to happen and that the customer will end up paying 'in the end' through higher bills.

*"It's very unlikely! [some agree]...*

*...I think that you'd feel differently if you thought they were." (Stockport; Workshop 1)*

*"It would be nice if they did but...*

*...The thing is they will maintain their profit, so the customer would soon be paying for it anyway, because that's how they make the profit, what they charge us in the first place." (Lincoln; Workshop 1)*

3.8.6 If the water companies did not meet the costs, an alternative source of funding was the Government. Most recognised that this meant the cost would be met out of general taxation which, in turn, meant themselves as tax payers, however, at least this way the amount each person pays is linked to their income and their ability to pay.

*"Income tax. The Government pays all subsidies through the income tax system, therefore those that earn more pay more." (Stockport; Workshop 1)*

*"The ability to pay it as well because some people can afford to pay a cross subsidy and other people can't. Whereas if you've got a blanket amount, you're expecting people who can't afford it to pay." (Lincoln; Workshop 1)*

3.8.7 Many participants were willing to make some contribution themselves as customers, however this would depend on how much they were being asked to contribute and what was key here was not the cost of any one subsidy but the cumulative effect across all their bills and all such subsidies.

*"If it's going to equal out to around £1.50 a year then it isn't a great deal to have to pay, to help those who are in difficult circumstances, £1.50 over a year isn't a lot, is it?" (Lincoln; Workshop 1)*

*"Where do these one pounds stop? If we do it for Welsh, we do it for north, we do it for the south. It's suddenly going to rack up to £10." (Stockport; Workshop 1)*

3.8.8 One of the problems in this regard is the current lack of clarity in terms of what customers are already paying for, let alone any additional new amounts. Moreover, many people would feel more inclined to pay something if they saw that their water company was also making its own contribution out of its profits.

*"We should pay a certain amount of it but not all of it. We should only pay, say, for argument's sake 20-30% of it in the overall scheme of things, and then the company who are making all of these profits and making everything should put the rest towards it to help the situation." (Stockport; Workshop 1)*



3.8.9 The Wessex Water Assist tariff was briefly introduced to participants to illustrate the idea of a self financing scheme. On the face of it, the scheme sounded appealing as it suggests a ‘win-win’ scenario.

*“Although that scheme demonstrates that if the companies think about it and try to work it out properly and manage their debts and stuff they could actually ensure that the money they are saving is being used properly.” (Cardiff; Workshop 1)*

3.8.10 However, a number of respondents struggled to understand how the scheme worked while others who did understand the principle questioned whether it really can be self-financing given that the company must already have customers who are in debt and therefore having to meet the cost of recovery and write off.

3.8.11 The lack of trust in the water companies is also reflected in the following comment in which the participant suggests that in the long term, the company’s desire to be making a profit will mean that such schemes are likely to get squeezed.

*“The other problem is kind of greed, it’s a business at the end of the day. At the start of the outset it’s a model that works, kind of. However year 3, 4, 5, I would be wanting to see bigger profits and things like that so I think the model works on the outset, but I think it would just, the nature of business, it wouldn’t in the long term.” (Lincoln; Workshop 1)*

3.8.12 Irrespective of which method or methods were used to meet the cost of cross subsidies and social tariffs, most participants took the view that one way or another, they would end up paying for it.

*“It’s still coming from us one way or another, isn’t it? There’s none of the schemes that have come just from either the company or from the Government that doesn’t involve our taxes, it’s all subsidised by us in some way...”*

*...It’s the working person that pays for it...*

*...Yeah...*

#### **Wessex Water Assist**

##### **What is it?**

- A reduced tariff which is given to customers whose income is too low for them to be able to pay their current bill for water and sewerage charges
- Customers pay a lower charge based on the number of people in the household

##### **Who is eligible?**

- Metered and unmetered customers in receipt of a means tested benefit, such as income support or pension credit
- Applications have to be made through a debt advice agency such as CAB

##### **How is it paid for?**

- It is funded through the savings it creates in terms of lower debt costs
- This means it does not add anything extra to other customers’ bills

***...Would it make any difference if there were some cross subsidies that were met by the company itself, so it was paying for it out of its own pockets, as it were?...***

*...Yeah, you'd feel ...*

*...They come from profits though. That has to come from profits which is indirectly from us really, the rest of the people pay for the profits." (Stockport; Workshop 1)*

*"The thing is, whether you pay through tax or whatever, so everybody is going to pay for it anyway, but if the Government support it, then they have to get the money from ourselves through tax, so whichever way you do it, whether you pay it on your water bill, your electric bill, your gas bill or your tax, you're still..."*

*...At the end of the day we are paying...*

*...We're all paying for it anyway, that's how I see it." (Lincoln; Workshop 1)*

## 4 Helping People on Low Incomes

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### 4.1 Key Findings

- Despite reservations about whether some people take advantage of the benefits system, there was almost universal support for helping those on low incomes from the outset; the level of support did not change over the course of the deliberations.
- The principle reasons why such help should be provided related to fairness, equality and social inclusion.
- However, attitudes towards benefit recipients had a pronounced impact on participants' views about how such support should be delivered.
- Out of the two options considered, there was a marked preference for using social tariffs as the method of delivering help and this increased as deliberations proceeded.
- The main reason for opting for social tariffs was that this guarantees the extra money goes directly to the water company and not the customer.
- There was a marked preference for a national scheme as this was felt to be fairer to all concerned, as opposed to each water company developing its own.
- Those who wanted to see the benefits system used as the vehicle for helping people considered that this was a fairer approach all round. However, they acknowledged that there was no guarantee that any additional money would be used to pay water bills; for this reason, they wanted any extra benefits to be paid directly to water companies and not to the benefit recipient.
- Participants found it difficult to decide between the five different options for a social tariff as each one seemed to offer some advantages and some disadvantages, although there seemed an overall preference for measures which would help both metered and un-metered customers.
- Participants also found it difficult to come to any firm conclusions about how the cost of a social tariff should be met. Many were prepared to make some contribution through their bills providing other interested parties (water companies and the Government) also make a contribution.

## 4.2 Introduction

- 4.2.1 During the second workshop, participants discussed and further deliberated on each of the three issues. The order in which the issues were covered was varied between locations.
- 4.2.2 For each issue, participants were divided into smaller breakout groups. Our aim was to arrive at two, three or four breakout groups based on how participants felt about the issue. In the case of what to do about people on very low incomes, participants were asked to decide which of three statements they agreed with the most:
- I don't support the idea of helping people on very low incomes
  - I support the idea and feel it is best achieved by increasing the benefit rates
  - I support the idea and I think it is best achieved through social tariffs.
- 4.2.3 Where a large number of participants agreed with the same starting point, we divided them up into smaller groups at random.
- 4.2.4 Each breakout group was given a set of instructions which reflected their starting point. These are illustrated below.

### Helping People on Very Low Incomes

Get started:

- Assign scribes: your job is to write down the different arguments as bullet points
- Choose presenters: your job will be to present your group's arguments.

One person read this out loud:

We have been appointed by our water company to act as consumer representatives. They are interested in our views on helping people on very low incomes.

Our view is that:

we do not support the idea of helping people on very low incomes

we support the idea of helping people on very low incomes, and it is best done by increasing benefit rates

we support the idea of helping people on very low incomes, and it is best done through social tariffs.

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

- 4.2.5 The moderators set a time limit for this task to be completed and were on hand to keep participants on track and to provide encouragement and support as needed. On

completion of this task, the groups were given a second set of instructions as shown below.

**Helping People on Very Low Incomes**  
 ↗ News Flash.....News Flash.....News Flash..... ↗

The Government has just announced that it will legislate to help people on very low incomes by introducing a social tariff which will be paid for by one of several options.

Irrespective of how you feel about this, your task now is to decide:

- which Option or Options you support, along with reasons why you support these Options and why you reject others
- which methods of meeting the cost you support, along with reasons why you support these payment methods and why you reject others

4.2.6 They were also given a summary of the five options and the four payment methods that had been described in their information packs.

Summary of Options	Summary of Repayment Methods
<p><b>Option 1</b> 20% reduction for metered customers who receive income related benefits.</p> <p><b>Option 2</b> 50 litres of water per child per day free of charge for metered customers who receive income related benefits.</p> <p><b>Option 3</b> Bills capped for metered customers who receive income related benefits and either have 3+ children living at home or a family member has a medical condition which requires additional water use. Bills capped at either the national or the local average whichever is lower.</p> <p><b>Option 4</b> All customers (metered and un-metered) who receive income related benefits receive either a reduced bill or a capped bill to ensure it is no more than 3% of their income.</p> <p><b>Option 5</b> Each water company develops its own self-financing social tariff.</p>	<p><b>Customer Cross Subsidy</b> The costs of helping a section of the customer base are paid for by other customers.</p> <p><b>Government Funding</b> The costs of helping customers are paid for by Government by means of a subsidy paid to the water companies. The money would be recovered through taxation.</p> <p><b>Self Financing</b> If fewer customers end up in debt, the Water Companies will incur reduced debt recovery and write off costs and the savings can be used to fund the lower tariffs.</p> <p><b>Water Companies meet the Cost out of their Profits</b> This could be paid for by reducing the dividend paid to shareholders, or out of topline profits. Anything paid out of profits is not regulated by Ofwat.  In the case of Welsh Water this would impact on the company’s ability to share profits with customers through bill reductions.</p>

4.2.7 On completion of this second task, the breakout groups came back together and presented their conclusions, along with their supporting arguments to everyone else.

4.2.8 In addition, participants completed the self-completion questionnaire at the very start and end of the second workshop.

4.2.9 We have set out the key findings below.

### 4.3 Levels of Support

4.3.1 Despite the considerable reservations expressed by quite a few participants that not all benefit recipients deserved to be helped, there was almost universal support for the principle of helping people on very low incomes. The key issues revolved around who receives the help and what form this takes.

4.3.2 Levels of support were high from the outset and did not change over the course of the deliberations. This can be seen in Figure 3 which sets out the number of participants supporting the principle at different points during the deliberations. 58 out of the 67 participants supported the principle at the end of the first workshop and this increased to 62 by the ends of the second workshop.

4.3.3 A number of arguments were put forward in support of helping people on low incomes with their water bill. The two main arguments were:

- water is a basic necessity and therefore access to it should not be a function of someone's ability to pay.

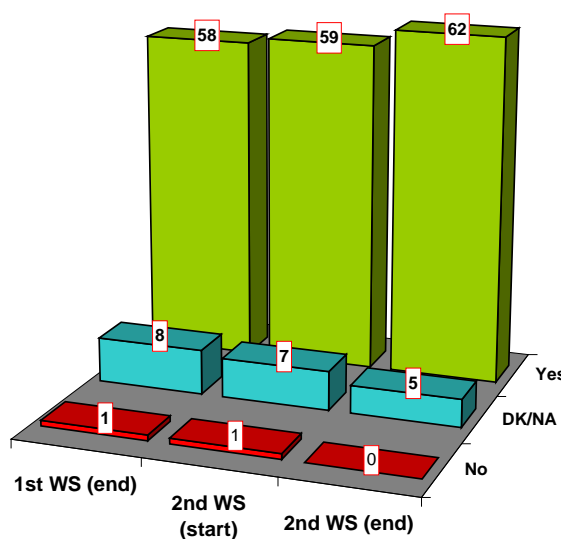
*"Everybody is entitled to water no matter what their circumstances, so we should never stop people getting water and everybody should have the same chance." (Kingsteighton; Workshop 2)*

*"We've all said that we do need water and it is the 'staff of life' so we all need it so we've got to help somewhere." (Lincoln; Workshop 2)*

- we all have a moral and social responsibility to help those on low incomes; it all comes down to a sense of fairness, social inclusion and equality.

**Figure 3: Do you support the principle of having lower water bills for people on very low incomes?**<sup>5</sup>

Base: all participants; n=67



<sup>5</sup> In all charts: WS= workshop and DK/NA=don't know/no answer.

*“We all believe in the principle that the strong should support the weak, i.e., that those on good salaries should support the ones on low salaries. I think that goes without saying really. We all need each other in different ways, plus the fact water is a necessity unlike gas and electric, and where there are social tariffs applied to gas and electric we believe that one could be found to suit water.” (Stockport; Workshop 2)*

*“The reason why we support helping people with low income is because it’s a social responsibility; it kind of promotes social inclusion and because water is a basic need.” (Cardiff; Workshop 2)*

#### 4.3.4 Other arguments put forward included:

- despite the scepticism expressed by some participants, it was acknowledged that many people on benefits are in genuine need of help; we should not penalise them all just because some take advantage

*“You know, all scepticism aside, there are people on low incomes who genuinely do need our help, it could be for like health reasons.” (Lincoln; Workshop 2)*

- for someone with limited means, the cost of water represents a significant proportion of their income

*“Why? Well, one because we think it’s a social responsibility and two, water is a basic human necessity and also because, of course, it is expensive for them and a much larger proportion of their income is going on it.” (Cardiff; Workshop 2)*

- it is in everyone’s best interest to prevent debts occurring in the first place as debt ultimately only adds to the costs for other customers

*“We thought perhaps that some of the issues on here, on the first part of it, was that there was a need for financial backing, pensioners, disabilities etc, to avoid more debt for water companies so that less debt recovery is passed onto us, because it must be expensive, as you say, for folks that are not paying it’s quite an expensive process to claim back all this cash.” (Stockport; Workshop 2)*

- 4.3.5 Some would like to extend help to not just those who are in receipt of means tested benefits but also to those on low incomes but who are above the benefits threshold.

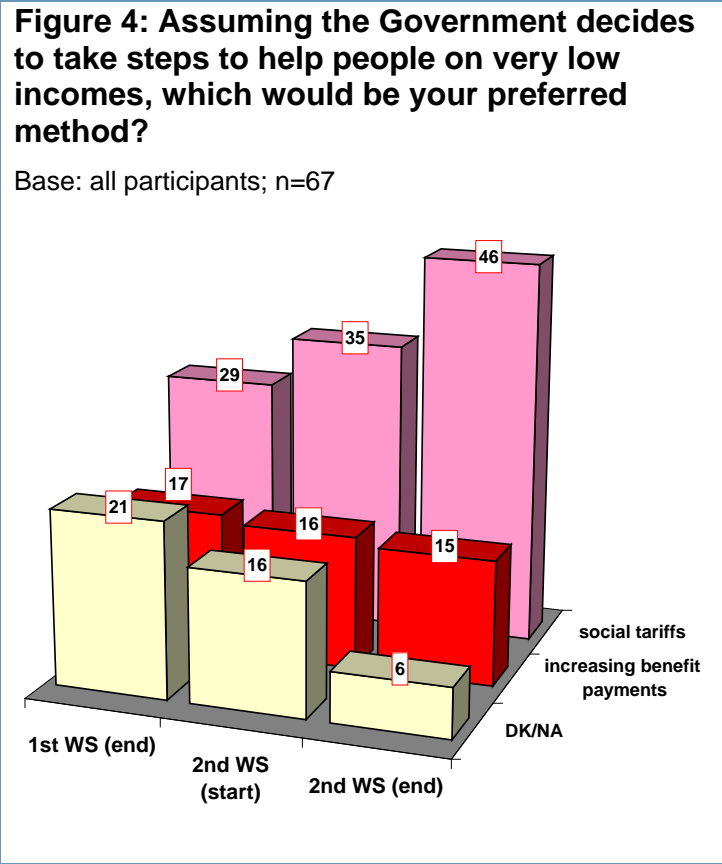
## 4.4 How to Help People on Low Incomes

- 4.4.1 Participants were asked to consider the merits of two different methods of providing help to those on low incomes: through increasing the level of benefit payments or by introducing a social tariff. The preferred method was through social tariffs and support for this method increased through the deliberative process. At the end of the first workshop 29 participants opted for the social tariff approach although 21 were undecided and 17 felt that the benefits system should be used. However, by the end of



the second workshop, most of those who had initially been undecided had come out in favour of social tariffs. In contrast, there was steady support for increased benefit payments from around a quarter of the sample (see Figure 4).

4.4.2 The main argument for introducing a social tariff was that this would mean that the money raised by a cross subsidy would go directly to the water companies who, in turn, would pass it on to those who need help in the form of a reduced tariff. In this way, there was no possibility it could be used for other purposes. This approach satisfied those participants who felt that it is too easy for people to take advantage of the benefits system and explains why, despite their strength of feeling against providing additional help to people on benefits, they were able to support this approach.



*“We support the idea and think it’s best achieved through social tariffs. First of all, should we pay it through the benefits system? We’ve come to the conclusion in our group that no, because it could be abused. If there was a set figure given to somebody for, say, £10 a whatever, that may not be used to pay their water bill, therefore they would receive the £10 and would be further in debt really. They’d still be in debt so it’s a no win situation.” (Stockport; Workshop 2)*

*“Why pay for it through social tariffs? [The money goes] directly to [the] water companies, it can’t be spent on something else. If you have it on your benefits there’s the likelihood that you might want to go down the pub or go on holiday.” (Kingsteighton; Workshop 2)*

*“Well, the majority of us thought that if it’s specific the money will definitely be spent on the water, it’s solving this specific problem rather the benefits, the alternatives. As I say, if benefits were increased there’s no guarantee that they would be spent actually on the water bill.” (Lincoln; Workshop 2)*

4.4.3 The other arguments put forward in support of using social tariffs were that:



- it has the potential to deliver greater transparency in that other customers would be able to see what the cost to them is assuming this is itemised on water bills
- it should result in a 'win - win' situation: social tariffs should result in fewer customers defaulting on payments; water companies should incur lower debt recovery/write-off costs; these savings should be reflected in a lower cross subsidy being passed on to other customers

*"It prevents the likelihood of debts occurring because if they have got lower bills they will be able to pay them, there is less debts, so therefore the company are going to save money in terms of their debt recovery and stuff like that." (Cardiff; Workshop 2)*

#### 4.4.4 Supporters of this approach acknowledged that they had some concerns; in particular

- it requires each water company to develop effective systems to identify eligible customers and ensure they receive help and this is likely to add to the cost; if effective systems are not developed, it would result in potentially eligible customers missing out

*"We felt that it was easy as a system, but it would depend on the proper systems being in place for the water company to check the income of the consumers who were requesting the social tariffs and they would be liaising with benefits or checking their income if they were not on benefits, but on a lower income anyway." (Cardiff; Workshop 2)*

- if each company designs its own scheme, this will result in inequalities for both beneficiaries and contributors – there was a marked preference for a national scheme.

*"But coming back to your point, it would be different in different areas, we did discuss about standardising it and the regulator making sure that companies throughout the country doing that in a fairer..."*

***...[ ] So just to recap then so one of the things that you guys would be arguing, although you've gone down a social tariff route, you'd like to see a national scheme that is the same across all the water companies?...***

*... Yes." (Cardiff; Workshop 2)*

#### 4.4.5 Supporters of providing help via the benefits system argued that this approach would be fairer all round:

- costs would be recovered from taxation which is proportional to income and therefore takes into account the contributor's ability to pay the cross subsidy

- more people pay tax so the load is spread more thinly
- water is essential and it is the Government's responsibility to ensure everyone has access to it at a fair price

*"We just thought that water is just a fundamental human right for everybody and if people on low incomes need help to pay their water bills then it does become a Governmental issue, clearly linked to poverty, so they should be helping to pay towards that." (Cardiff; Workshop 2)*

- a national system (taxation) is fairer to both contributors and beneficiaries – everyone makes or receives a contribution based on the same criteria
- beneficiaries are more likely to receive help – it is not left to the individual to discover that their company has a social tariff and to apply for help.

*"The Government has a better idea of who is in need of benefits as well. So if you are getting a generic tariff, social tariff, then there might be people who are much more needy of the financial help that aren't being looked after. I think, I know in my group when we split up last week, none of us were aware of the social tariffs and I think that you said that you had to call or write to ask to request to be put on one of those social tariffs." (Lincoln; Workshop 2)*

#### 4.4.6 Other arguments in favour of this method included

- it is administratively easier – the systems are already in place to identify eligible beneficiaries

*"I just felt the easiest and cheapest way was to do it through benefits, purely because it's already in place." (Kingsteignton; Workshop 2)*

*"And also the cost, the administration cost to the water companies, to look into who needs the increased benefits, is going to be greater and obviously that's going to be met again by the consumer, whereas the Government has the system in place and the databases available for who is in need of that financial help. Therefore the cost will be less." (Lincoln; Workshop 2)*

- people on benefits should be encouraged to take responsibility for their own finances as far as this is possible.

*"People should be in charge of their own financial obligation in life and not kind of run by a 'nanny' state." (Lincoln; Workshop 2)*

#### 4.4.7 Supporters of using the benefit system acknowledged that its main drawback was the fact that there was no guarantee the extra money would be used by the beneficiaries to pay their water bills. However, they felt this could be easily addressed by having the

extra money paid directly to water companies by the Government. Many of those who had opted for the social tariff route acknowledged that if this was done, their main reason for not supporting this approach disappeared

*“This was related to the fact of cutting out the person claiming the benefit, so that they wouldn’t have to be the one getting in touch with the water company, having proof of income, having proof of earnings, proof of benefits...”*

**...So this is done directly between the Government and the water companies...**

*...Yes and giving, you know, the person who may have just lost their job, one less thing to think about, one less form to fill in.” (Cardiff; Workshop 2)*

- 4.4.8 Such an approach is not consistent with the idea of encouraging people to take responsibility for their financial affairs. However, while this is a laudable aim, in reality some people are just very bad at looking after their finances and it does nothing to solve the problem.

*“I think it’s a never ending argument though, isn’t it? Because in theory in terms of crime as well, well you are not supposed to commit crime but people might do it, so it’s the same with finance. Everybody is in charge of what they do in terms of their own life and if they are not able to morally or kind of economically, in this case, take responsibility for their own family and what they’re doing then unfortunately...”*

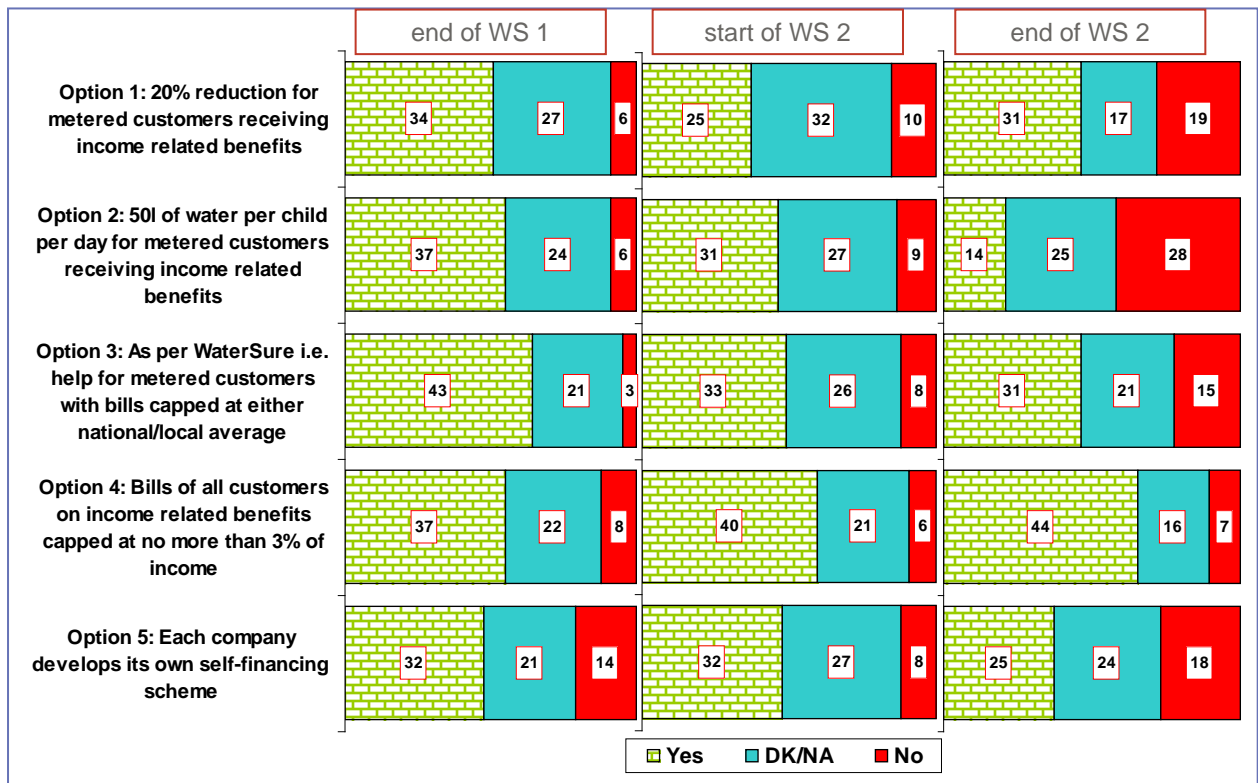
*...But then they’d get more benefit, don’t pay it on the water and then we still have to subsidise their water rate, so what they didn’t pay with the money that they’ve got extra for paying it.” (Lincoln; Workshop 2)*

## 4.5 Options for Social Tariffs

- 4.5.1 Participants were asked to imagine a situation where the Government decided to opt for an approach based on social tariffs. They were asked to consider five options and to decide which ones they were/were not willing to support. These were not presented as being mutually exclusive options and their task was not to choose just one of the five options but to consider the arguments for and against each. This proved quite difficult and challenging partly because it was difficult for participants to appreciate exactly how the different options would work and what all the implications of each option might be. Thus, even by the end of the deliberative process, many participants found it difficult to decide whether or not they agreed with each option. This is reflected in Figure 5.

**Figure 5: Assuming the Government decides to use social tariffs to help such people, which of the following options are you prepared to support?**

Base: all participants; n=67



4.5.2 One way of summarising the number of participants who agreed or disagreed with each option is to subtract the latter from the former while ignoring those who could not decide or did not answer. The results are summarised in Table 2 which displays the options in rank order preference at the end of the deliberative process.

**Table 2: Summary of Overall Preferences for Each Social Tariff Option**

Base: all participants; n=67

	End of WS1	Start of WS2	End of WS2
<b>Option 4:</b> bills of customers on means tested benefits capped at 3% of income	+29	+34	+37
<b>Option 3:</b> a modified version of the current WaterSure scheme whereby bills are capped at either the national or the local level depending on whichever is lowest.	+40	+25	+16
<b>Option 1:</b> 20% reduction for metered customers on means tested benefits	+28	+15	+12
<b>Option 5:</b> each company develops its own self financing scheme	+18	+24	+7
<b>Option 2:</b> 50l of water free per child for metered customers on benefits	+31	+22	-14

4.5.3 None of the five options was ruled out but at the same time none found universal support. By the end of the second workshop, Option 4 (bills capped at 3% of income) was the most favoured while Option 2 (free water for each child) was the least favoured. Some of the key factors influencing participants' opinions are summarised below.

#### 4.5.4 Option 1: 20% reduction for metered customers on means tested benefits

- this found favour from about half our sample; the numbers supporting this option remained constant throughout however as the deliberation proceeded the proportion against increased
- one of the attractions was that a percentage reduction, as opposed to a capped tariff, meant that customers would still have an incentive to use water efficiently
- some considered a percentage reduction was fairer than a flat rate

*“Having a set percentage regardless of how much you use, whether it’s low or high, 20% is 20% so everyone knows where they stand and it is the same for everybody in that situation, in terms of the percentage that will come off.”  
(Lincoln; Workshop 2)*

- however the suggested size of the reduction seemed high

*“The 20% discount is too high, so we looked at 10%-15% as an average percentage of the discount.” (Kingsteighton; Workshop 2)*

*“I think it was felt that this was quite a large reduction across the board. So that’s why it was less favourable certainly for us to entertain that within our group.”  
(Lincoln; Workshop 2)*

- the scheme is open to all people in receipt of benefits provided they have a meter.

#### 4.5.5 Option 2: 50 litres of water free per child for metered customers on benefits

- initially, this attracted considerable levels of support mainly due to the emotional appeal of helping children; however, support fell such that by the end of the second workshop there were more people against than there were in favour
- the main argument against this option was that it was too exclusive in that it only benefited metered customers who have children.

*“We felt that the children - while we appreciate families, it does exclude people on low incomes who haven’t got children.” (Stockport; Workshop 2)*

4.5.6 **Option 3: a modified version of the current WaterSure scheme whereby bills are capped at either the national or the local level depending on whichever is lowest.**

To be eligible, customers must have a meter, be in receipt of means tested benefits and either have 3+ children or a family member who has a medical condition which requires them to use significant amounts of extra water

- this option also attracted considerable support to begin with but some of this support fell away as participants found out more about it
- the initial support was linked to the emotional appeal of helping both children and those with certain medical conditions; moreover, compared to the existing scheme, the method of capping at either a national or regional level was felt to be fairer

*“So if you had three or more children or a medical condition or anything like that you are able to get some help which is cross subsidised.” (Stockport; Workshop 2)*

- however, as with Option 2, it provided help to a relatively restricted range of customers.

4.5.7 **Option 4: bills of customers on means tested benefits capped at 3% of income**

- support for this option increased from 37 to 44 out of 67 over the course of the deliberations
- it was seen as the most inclusive option as it included non-metered customers and those with and without children, and it links the size of the reduced tariff to individual circumstances

*“Option 4 I think we came up with which is the best one, which would encompass most people.” (Stockport; Workshop 2)*

*“So when we were looking at the summary of options, the one that leapt out to us and seemed like the fairest was Option 4 which was about the 3% of their income. So you wouldn't pay anymore than 3% and I liked your point as well in saying that actually that should be across the board and that should relate to everybody really, you know water bills shouldn't be more than 3% of anybody's income.” (Cardiff; Workshop 2)*

- some participants wanted to see it extended to all customers, not just those on benefit, however it was also an expensive option even without increasing the number of customers who might be eligible for the tariff

*“Because it’s a universal fairness, the person, I’ll just pick a figure out of the sky now, on £150.00 a week on income benefits can get this subsidy, but a person on £150.00 a week not on income benefits can’t get it. That is universally unfair. We’ve got to right that unfairness somehow.” (Cardiff; Workshop 2)*

*“It says on here [it adds] ‘£17 to other customers’ bills’ and we’re not very pleased about that.” (Kingsteighton; Workshop 2)*

- moreover, it was also considered to be the most complicated to set up and administer due to the difficulty in establishing each customer’s income and, by capping a bill, it offers no incentive to use water efficiently.

*“It’s just too complicated to get any sense from it because everybody gets a different level of benefit and, I think it was mentioned before, it’s too complicated.” (Kingsteighton; Workshop 2)*

*“Option 4, there wasn’t really anyone particularly against it, as such, we just thought with it being a sort of 3% cap it could be open to sort of abuse or people could take the mick with it and use absolutely loads and loads and loads and know that it’s only going to be a certain amount.” (Lincoln; Workshop 2)*

#### **4.5.8 Option 5: each company develops its own self financing scheme**

- levels of support fell slightly over the course of the deliberations
- not everyone appreciated how such a scheme would work and, for some, it was interpreted as the cost was being met out of company profits

*“Self-financing, lower dividends for the shareholders, you know, they don’t need all that money, what are they going to do with it, they’re only wasting it! So take 1% off their dividend, that’s not going to hurt them.” (Kingsteighton; Workshop 2)*

- for those who did understand how it might work, it offers a potential ‘win - win’ scenario provided that such schemes can generate sufficient funds to provide help to all the customers who need it

*“In poor economic areas they would struggle with the burden of that option basically.” (Kingsteighton; Workshop 2)*

- a significant disadvantage was that it would be more complicated and potentially unfair if each company developed its own scheme.

*“We didn’t really like that. Yet again another system, too much complicated bureaucracy going on out there really, isn’t there?” (Stockport; Workshop 2)*

*“And with Option 5, although it sounds good in theory, the water companies developing it themselves, it would be different in each area, I think is something*



*we discussed. It would be different for people in different areas, because there's so many different water companies.” (Lincoln; Workshop 2)*

*“On that one it was the last question posed, I think it was like should water companies set up their own schemes of funding, and what we said was that it should be a nationalised scheme, so that wherever you live you get the same scheme everywhere and everybody knows what's happening wherever...”*

*...Where they stand and what they're paying.” (Lincoln; Workshop 2)*

- 4.5.9 An important issue that gave rise to considerable discussion throughout the research process was whether social tariffs should only be available to metered customers. Those who were in favour of this approach argued that it would encourage people to use water more efficiently. It was as if they were looking for a *quid pro quo* along the lines of ‘we will help make your water bill more affordable provided you use it efficiently’. However, this logic only applies to certain options; a capped bill offers no incentive to use less water.

*“There's no incentive for people who aren't metered to try and save water at the cost of the rest of us. If we're paying a social tariff, say it's coming from us, why should people who are getting this support if they're not metered have any sort of incentive to cut down on their water use 'cause they're not having to pay for it and the rest of us are. So if it's not metered they're using more, we're paying more for them to use. Whereas, if it's metered, at least it's monitored.” (Stockport; Workshop 2)*

- 4.5.10 Although the aim of such schemes is to target help at customers who may face a high metered bill and not as a method of encouraging customers to have a meter, limiting eligibility to metered customers might mean that unmetered customers could ‘lose out’. While in most cases there is nothing to stop such customers switching to a meter, participants were worried that switching might result in higher bills such that any benefits to be gained from a lower tariff could still leave these customers in a worse financial position.

*“The only problem with somebody going onto a meter is if they're in, say, a Band A house, the very fact that they go onto a meter they will probably be paying more anyway for the water, from the Band A...”*

*...Band A's the lowest. And then when they get the social tariff it probably will still be more than what they were previously paying on the Band A through the rates. That's the problem there.” (Stockport; Workshop 2)*

*“Can I just give you a scenario? This one Option 3, I've got a family of five and I meet all the criteria for like medical things and I'm on benefits or a low income but I've got to be on a meter for Option 3, to get a set reduction. When I go on the meter I find that I'm using more and I've offset that set reduction so my net*



*result is I'm paying slightly more. That's not very good, is it?" (Cardiff; Workshop 2)*

4.5.11 Some participants were also aware that not every customer can be switched to a meter and would not therefore be able to take advantage of any social tariff restricted to metered customers.

*"For metered customers - this is me banging on because my house you can't put a meter in - I can't have a meter, apparently it is too expensive to put one in." (Kingsteighton; Workshop 2)*

*"But the point is that if they are in rented accommodation it can be difficult. I mean, it's all well and good as the lady was saying that it's free, it's a legal requirement or whatever like that, but in the real world of living on low income and dealing with landlords who are not the nicest people and if you're in a block of flats and they say it's not feasible or this and that or they are just generally nasty people." (Cardiff; Workshop 2)*

4.5.12 Until these concerns are addressed, there is likely to be considerable resistance to restricting social tariffs to metered customers on the grounds that it is unfair.

#### 4.6 Meeting the Cost of a Social Tariff

4.6.1 In much the same way, participants were asked to consider four different methods of meeting the cost of a social tariff. Once again, we did not require them to choose one method from the four options nor did we ask them to link the payment methods to the different social tariff options. Instead, we asked them to think about whether they agreed or disagreed with each of the payment methods along with arguments for and against each. This also proved quite difficult and challenging. The results are summarised in Table 3 and Figure 6. Table 3 shows the net number of participants who agreed with each payment method. This was computed by subtracting the number who disagreed from the number that agreed while ignoring those who were undecided.

**Table 3: Summary of Overall Preferences for each Method of Payment**

Base: all participants; n=67

	End of WS1	Start of WS2	End of WS2
<b>Method 3:</b> self financing	+42	+37	+29
<b>Method 4:</b> out of water company profits	+33	+34	+28
<b>Method 1:</b> customer cross subsidy	+5	+7	+22
<b>Method 2:</b> government funding	+2	+8	+17

**Figure 6: Assuming the Government decides to use social tariffs to help such people, which of the following methods of meeting the cost are you prepared to support?**

Base: all participants; n=67



4.6.2 To begin with, there was strong support for meeting the cost of any social tariff through a combination of self financing schemes and out of water company profits. Although the number of participants supporting these methods decreased over the course of the deliberation, they were still the most popular methods by the end of the process, with four times as many participants in favour than opposed.

4.6.3 In contrast, participants were divided over meeting the cost from a customer cross subsidy or out of government funds. At the end of the first workshop, participants were fairly evenly divided between those who supported these methods, those opposed and those who could not decide. Over the course of the deliberations, the number that were opposed to these methods remained more or less constant however, a proportion of the undecided participants opted to support them.

4.6.4 By the end of the second workshop, there was more or less equal support for all four methods; indeed, during their presentations, a number of participants argued for a combination of all four methods being adopted. Not only was this seen as fairer, it was suggested that customers might be more willing to ‘pay their share’ if they saw that their

water company was also meeting its share of the costs (and not passing this on to their customers).

*“For the repayment methods, well we really didn’t see why there was any reason that it shouldn’t be a combination of all four. It’s quite workable, I guess in the end it would all come down to us all paying something, whichever category it falls into. But it does seem to be sort of a shared responsibility if sort of the customers, the Government and the water companies themselves are taking some responsibility. We also thought that customers would be more likely and willing to contribute if they knew that the company was funding it out of their own profits as well and that Government funding would help regulate the amount that the companies can charge. They know that if they’re sort of meeting the shortfall they wouldn’t want that shortfall to get out of hand. So they would take a sort of more keen interest in it...”*

***...I’m not sure I understand that. Could the group try to recap? I’m not sure I understand what the point is that’s being made?...***

*...I think it was just that if the Government is sort of paying for some of it, they are not going to let the water companies do as they like because it’s going to cost them [the Government] money.” (Lincoln; Workshop 2)*

4.6.5 The key arguments used to support or reject each payment method are summarised below.

#### 4.6.6 **Method 1: customer cross subsidy**

- most participants were willing to make some contribution towards a social tariff provided the sum in question is not too large however, most would prefer to see a national scheme in place to ensure that everyone was making the same contribution

*“Another way is pay more on water bills, everybody, so we’re thinking about £1.50 per year...”*

*“Cross subsidy, we all agreed on that at a national rate. And all pay towards those on lower incomes, £1.50 or whatever.” (Kingsteighton; Workshop 2)*

- it was recognised that any extra amount added to customers’ bills could create a burden for those who are on low incomes but who are above the threshold for support.

#### 4.6.7 **Method 2: government funding**

- it was recognised that the main difference here was that tax payers, rather than water company customers, would be meeting the cost; the main advantage of this approach is that the burden is shared more widely (there are more tax

payers than water company customers) and each tax payer's contribution is in proportion to their ability to pay.

*"We've got the affordability and it's equal for everyone." (Stockport; Workshop 2)*

*"It was the Government funding option for repayments that we thought would be the best way forward with it, really. That was our first one and possibly the self-financing one as well. The Government funding one we just thought again was the easiest, not easiest option, but the fairest option really because it was linked to income and taxation really and that seemed a lot fairer. Maybe the self-financing one might be a bit messy again with different water companies making up their own rules and it not actually being fair and level across the board." (Cardiff; Workshop 2)*

#### 4.6.8 Method 3: self financing

- in principle this represents a 'win – win' situation which is why it attracted considerable support however concerns were expressed as to whether sufficient funds would be generated in order to meet the needs of all the customers who needed help. For this reason, participants often came to the conclusion that by itself this method of funding would not be sufficient

*"We looked at that one, everyone's a winner." (Stockport; Workshop 2)*

*"This is what I was saying about the money that you save on people not paying their bills is only quite a small amount of money so therefore not many people will actually benefit from that." (Kingsteighton; Workshop 2)*

- a lack of trust in their water company also led some to be somewhat sceptical of such an approach; there was a suspicion that at least some of the cost might still be passed on to other customers via a hidden cross subsidy.

*"But whether that would actually happen I really don't know. I think we think the customer may well end up paying anyway themselves. There's nothing in it for them really, is there? There's nothing really for them to go overboard and really try. I mean all they're interested in is making profit..."*

*...[ ] We think that the self-financing schemes could come back on the consumer anyway, so eventually they'd be paying anyway with something like that." (Stockport; Workshop 2)*

*"Option 5 would be great, very simple for us to use but probably in reality it would be very easy to abuse that. I think kind of the Government having a stake or regulating this type of option would probably be quite easy as long as there was a body or a party kind of overseeing exactly what went on." (Lincoln; Workshop 2)*

#### 4.6.9 Method 4: out of water company profits

- for many participants, this would be their natural ‘first choice’; there was considerable resentment over the levels of profits that water companies were perceived to be making out of a ‘basic necessity’ and many people would argue that a share of these profits should be used to help people who are struggling to pay their bills

*“The way we think to pay is for shareholders to pay out of profits.” (Kingsteighton; Workshop 2)*

- however, as with the self financing method, there was a considerable degree of scepticism about whether the water companies would still find a way of passing on the cost via a hidden cross subsidy

*“Yeah, and the water companies, kind of, it’s an obvious one that we mentioned even before we came onto this, that we would want the water companies to really drive this as much as anybody else, using their profits to support the scheme. Again like any company or any business will do, the principle will work for the first year or two, but it’s just keeping tabs on them, to make sure that everybody’s rates don’t increase in line with their profits and then it would become a bit of a mockery of the whole thing.” (Lincoln; Workshop 2)*

- there was also some appreciation that lower profits could result in lower investment levels (or more expensive borrowing) which, in turn, could result in higher bills, so while many would like to see the cost being met out of company profits, there was a resigned acceptance that this may not produce the desired end result.

*“To a small degree it came down to if you reduced the profits then it would struggle to get investment as a company.” (Kingsteighton; Workshop 2)*

*“The companies when they make a profit, because I said this straightaway that the companies should take it out of the profits, but apparently they do. They don’t all go on holiday or whatever we think they do, they do put some money back into what they want to do, make things better, cleaner, whatever. So they are not just getting so many billions of profit and sharing it out between them and all that lot, they do reinvest it. So if they use that profit to make bills lower for lower income people then we’d have to get money from elsewhere to do what they want to do, so then the bill would go up anyway so we weren’t too keen on that really.” (Lincoln; Workshop 2)*

## 5 Concessionary Charges for Community Groups

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### 5.1 Key Findings

- There was strong support for helping community organisations from the outset and this did not change over the course of the deliberations.
- The main reason was that such groups were perceived to be an essential part of a community's lifblood that may find it difficult to survive without financial help.
- The main criteria used to decide which organisations should receive a concession were charities and not for profit organisations that benefit the local community.
- There were different views on how the discounts should be shared out; some wanted to give more support to favoured groups, some felt an equal share of the money would be fairest and others wanted to link the discount to an organisation's ability to pay.
- On balance, most participants considered it may be necessary to offer the discount on a permanent basis as they considered the types of organisations they had in mind would always struggle financially.
- Most felt it was appropriate to link any discounts to the adoption of environmentally friendly measures on the part of qualifying organisations; for example, replacing concrete areas with surfaces that allowed rain water to soak into the ground.
- Given that members of the local community stand to benefit from the existence of community groups, it was considered appropriate that domestic customers should make some contribution towards the cost of the cross subsidy but they also wanted to see the water companies making a contribution out of their profits.
- Once again, there was a preference for a national scheme whereby the same criteria and the same discounts are provided across England and Wales.

## 5.2 Introduction

5.2.1 Participants were asked to decide which of three statements they agreed with the most:

- I don't think Water Companies should offer discounts to any organisations
- While I think Water Companies should offer discounts to certain types of organisations. I don't think domestic customers should be asked to help meet the cost
- I think Water Companies should offer discounts to certain types of organisations and I think domestic customers should make some contribution to the cost.

5.2.2 Each breakout group was given the following instructions.

**Concessionary Charging for Community Groups**

Get started:

- Assign scribes: your job is to write down the different arguments as bullet points
- Choose presenters: your job will be to present your group's arguments.

One person read this out loud

We have been appointed by our water company to act as consumer representatives. They are interested in our views on possible concessions to community organisations for site area charges.

Our view is that

- water companies shouldn't offer a discount to these organisations
- water companies should offer a discount to these organisations, but domestic customers shouldn't be expected to contribute to the cost
- water companies should offer a discount to these organisations, and domestic customers should make a contribution to the cost.

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

5.2.3 On completion of this task, participants were handed the following instructions.

**Concessionary Charging for Community Groups**

↘ News Flash.....News Flash.....News Flash.....↙

Your water company has just announced that it will offer concessions to certain types of organisations and that other business and domestic customers will be asked to share the cost.

Irrespective of how you feel about this, your task now is to decide:

- which types of organisations you feel should receive help
- for every £1 provided in the form of a discount, how this should be shared among the organisations in question For example, 20p goes to organisations of type x, 40p to organisations of type y and z, and nothing to organisations of types a and b
- whether the discount should be made on a permanent or transitional basis; if transitional, for how long

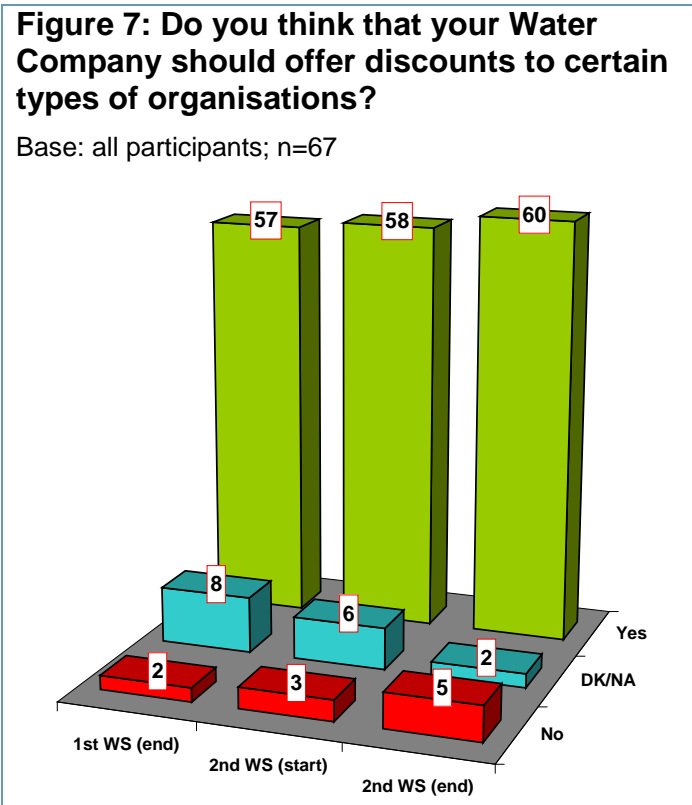


5.2.4 On completion of this second task, the breakout groups came back together and presented their conclusions, along with their supporting arguments to everyone else. We have set out the key findings below.

### 5.3 Levels of Support

5.3.1 There was a strong level of support for helping community organisations meet any increase in the rainwater runoff element of their bills that might arise from the introduction of site area charging. At the end of the first workshop, 57 out of 67 participants agreed that discounts should be offered to such groups and only two disagreed. By the end of the deliberative process, 60 agreed and five disagreed (see Figure 7).

5.3.2 A number of arguments were put forward as to why this support was considered important:



- the types of groups that participants had in mind were considered to be essential elements of the community and any help they receive will contribute towards building and maintaining a greater sense of community spirit

*“In principle we agree that certain groups should get a discount and we’ve come to the conclusion that these groups would be mainly youth groups, hospices, organisations like that. We feel that they are social things, community things, that the spirit of the community has got to be upheld, and those groups we feel are important to communities, and that’s our argument for those.” (Stockport; Workshop 2)*

*“We felt as a society we should contribute to build a stronger community.” (Lincoln; Workshop 2)*

- they benefit the whole community, either directly or indirectly; for example, older residents may not directly benefit from a youth organisation but if it helps reduce anti-social behaviour this will benefit everyone



*“These places are for the benefit of everybody and even if you don’t specifically use this sports hall or this club or whatever like that, they do add to the whole, they contribute to the country. And obviously if you move around on holiday you could use a sports centre somewhere else even if you don’t actually live there, or libraries, things like that.” (Cardiff; Workshop 2)*

- they tend to be not-for-profit and/or volunteer based organisations that often struggle to keep going and may have limited means of raising the extra funds

*“These are also non-profit making groups, they don’t go into it to make money. They’re not a business, they are just there to help the community in general e.g. a village community hall where nobody’s obviously making any money. It might collect an awful lot of rainwater off it but at the same time, why should they have to pay?” (Stockport; Workshop 2)*

*“Because community groups tend to be poor and they don’t have a lot of income so they shouldn’t have to pay very much. They’re non-profit making, they rely on volunteers, they historically have no money. The money that they have as groups, youth groups, Scout groups, is used to help people, so it’s pointless them wasting it basically. It benefits the community as a whole. They’ve got no means of funding it really other than quite a lot of cake bakes. They can’t actually raise money on the financial stock exchange or anything. Everybody’s involved in the community, church halls, community halls, pubs and everything.” (Kingsteighton; Workshop 2)*

- essentially, they were considered to be part of the community lifeblood and they may struggle to survive if they do not get help.

*“Non-profit organisations should get a discount quite simply because a lot of times because with falling membership, places will fold and organisations will struggle to keep alive. As we were saying, the social groups most of the time like youth hostels, youth organisations, drug awareness clinics, people like that, they do need help towards them.” (Stockport; Workshop 2)*

*“It’s ongoing, and more kids are going to go into the youth clubs and sports clubs and things like that. As one generation grows out of a youth group another generation is going to come into it, so they’re always going to be having kids go through it and everyone’s going to profit from it.” (Kingsteighton; Workshop 2)*

*“To keep the community services open because if we don’t do this some of them might close.” (Cardiff; Workshop 2)*

5.3.3 Although only a handful of participants were against the idea of offering support to community groups, nevertheless, they advanced a number of arguments in support of their position including the following:

- they considered that the types of organisations in question should either already have sufficient funds to meet the extra costs or they should have the ability to

raise these; indeed, their argument was that most community groups are used to doing this so it should not be an especially difficult or onerous task

*“Yeah a lot of community groups do self-fund. They charge people to come in and obviously we know they’ve got to buy equipment and pay for sport coaches or whatever, but they are still charging, they are still making a bit of profit to start paying things.” (Lincoln; Workshop 2)*

- they also argued that any scheme that a water company tried to develop would be difficult to set up and manage; for example, they assumed that a large number of organisations might be eligible and it would be difficult deciding on the selection criteria

*“Yeah I think the other conundrum was deciding exactly what groups would benefit from this and, kind of, who would ultimately decide that.” (Lincoln; Workshop 2)*

- for this reason, they anticipated that any such scheme would entail large administration costs which would only add to the size of the cross subsidy

*“We also believe that administration costs on managing this scheme would be very, very high. You have got to go round all these organisations checking out the sizes, checking out, you know, what they do, are they church buildings, are they carpet warehouses, all sorts of things, you know. There is going to be high administration costs.” (Cardiff; Workshop 2)*

- essentially, they considered that discounts for community charges represent the thin end of the wedge – and felt that ‘we need to draw a line in the sand’.

*“We were saying in the ideal world everybody wants to help everybody, you know but realistically we can’t help everybody with everything because that’s the way it is, that is life.” (Lincoln; Workshop 2)*

## 5.4 The Types of Community Organisations That Should Receive a Discount

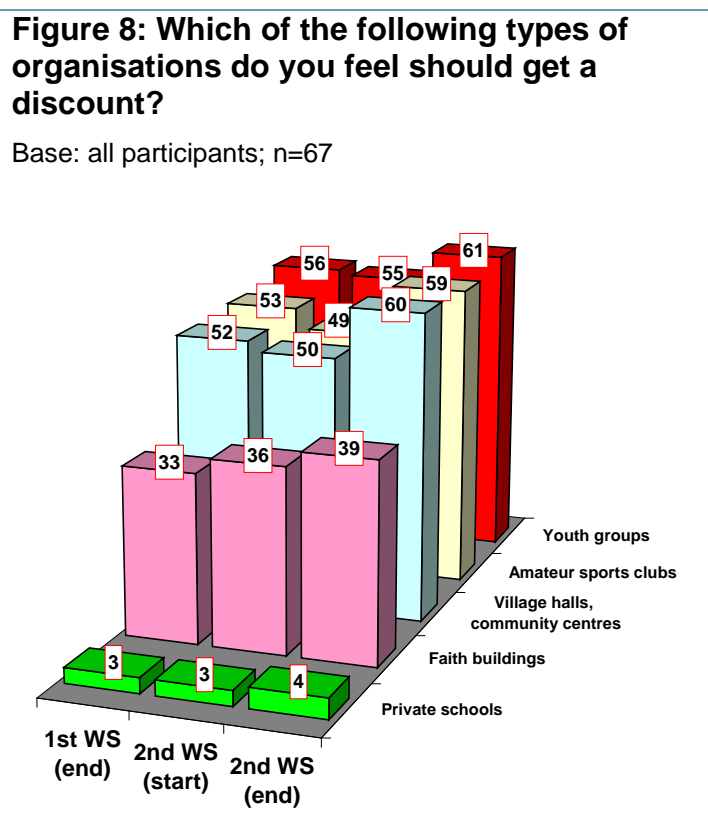
- 5.4.1 This was assessed both through responses to the self completion questionnaire and in the breakout group deliberations. Those participants who disagreed with the proposition were asked to imagine the situation where the Government had introduced legislation allowing water companies to offer concessions to community organisations and to meet the costs out of a cross subsidy levied via the bills of other domestic and commercial customers. The results of the self completion questionnaire are set out in Figure 8. The levels of support for the different types of organisations did not change in any significant way over the course of the deliberations.

5.4.2 The main criteria that participants used to decide which types of organisations they felt should receive the discount were **charities and not for profit organisations that clearly benefit the local community**. The condition about benefitting the local community is important. The terms ‘charity’ and ‘not for profit’ were often used in a loose way; for example, many participants argued that support should be offered to ‘charities’ as a generic category but were then surprised to discover that most private schools are charities; nearly everyone felt independent schools should not be helped.

*“It would have to be narrowed down to something like that otherwise you’d get all sorts of people. It’s got to be more to benefit the community.” (Stockport; Workshop 2)*

5.4.3 It was also clear that in their deliberations participants often lost sight of the fact that the only organisations that are affected by site area charging are those that own a property or site and who are responsible for paying the water and sewerage charges. Some community groups might rent or have the free use of a facility, such as a village hall. While it may be the case that the hire cost of such a facility might be increased to cover any increased water and sewerage bill, these groups would not be eligible for a discount.

5.4.4 As Figure 8 illustrates, there was a high level of agreement that discounts should be offered to various youth groups, amateur sports clubs and village halls and community centres. There was less support for faith buildings. This partly reflected individual religious beliefs as well as the view of some that the Church, as an establishment, is wealthy enough and should not need to seek financial assistance. Others were willing to accept a compromise; while they may not hold any strong religious beliefs, they were willing to include faith buildings provided these were made available for the wider community to use.



*“Community church halls, provided they are active in the community. If they are just used as a place of worship we decided that...”*

*...The Church is one of the richest organisations in the world though...*

*...Yeah, but the point is, if the hall is used for, as we've mentioned if you live in the country, the church hall could be the only community hall, so it's the only place where the karate club can go, the boys brigade can go, the scouts can go, and things like that. And then that's fair enough, but if it's just a specific hall, it could be a specific, say, Mormon religion hall or whatever religion, that no one else uses those facilities then...*

**...So to be eligible they need to open up their facilities for the community to use?...**

*...Yes.” (Cardiff; Workshop 2)*

*“We felt that some churches may not qualify for a discount because they are very wealthy in their own right. I mean we have all seen wealthy churches on television, mosques and so on that may not need a discount. Other churches maybe need some assistance.” (Cardiff; Workshop 2)*

- 5.4.5 Private schools were seen as wealthy organisations that attracted fees from well off parents and were almost universally excluded; the only possible exception was if a private school was catering for students with special educational needs.

*“Non-profit making organisations, i.e. churches, community centres, Scouts and Guides, sports clubs. We agree with those definitely. Except for private schools. Again, they're heavily funded obviously by people who pay for their children to go to private school, but everything else like the churches, Scout halls, anywhere like that should not be paying it. It's unfair on them because otherwise they could close down.” (Stockport; Workshop 2)*

*“And then the things we didn't think should get help were the private schools and faith buildings, although we were a bit split on that as well. I think it was agreed that anything like places of worship, shouldn't get the discount, but then like the Church halls and more community based buildings, they probably should...”*

*...But as a group there wasn't one of us that agreed that private schools should get a concession towards it was there?” (Lincoln; Workshop 2)*

*“A lot of private schools are fairly rich, other private schools, maybe dedicated schools for vulnerable people, handicapped people. So we feel that that needs breaking down as well and more work needs to be done on that because I don't think that you can say all private schools in or out.” (Cardiff; Workshop 2)*

- 5.4.6 The question about whether public sector buildings, such as state schools, hospitals, police stations and so on, would attract any increase in their water and sewerage bills was not addressed in any of the fact sheets. Some participants felt that any discounts should be extended to include public sector organisations as they serve the whole community.

*“There were two other public services that we thought about and that was schools and hospitals. Then as we’ve sat here I’ve thought of three others, the ambulance service which have properties, fire service which have properties, and of course, the good old police, they also have properties where they have to pay water rates. We’re just wondering where that fits in with what we’ve just gone through as to whether we as public citizens of the nation should actually help pay part of their water rates? I don’t know where the Government stands or where we stand on that.” (Kingsteighton; Workshop 2)*

## 5.5 How the Discount Should be Shared Out

5.5.1 Participants were asked how any discount should be shared out among the different types of eligible organisations. Three different approaches emerged:

- some wanted to give more support to certain groups (e.g. charities) and less to others (e.g. faith buildings) and this reflected their own beliefs and priorities

*“20p to youth organisations, 5p for buildings, churches and faith buildings and that, 25p for any non profit organisation buildings, schools and adults with needs and all that, 25p each.” (Lincoln; Workshop 2)*

- others opted to divide the available money equally among all qualifying organisations; they considered this to be both the simplest and fairest approach

*“We said that any monies available should be split equally between them, as long as they can fit the criteria.” (Stockport; Workshop 2)*

*“Yeah how should it be shared out – we thought equally between all the organisations so they all get 20% each for whatever...”*

*... Yes, I think we were going to do it equally and then like, sort of like do a discount off their total bill. We thought that would be fair and probably the simplest, easiest way to work it out.” (Lincoln; Workshop 2)*

- the third approach involved a sliding scale or a tiered structure proportional to an organisation’s level of funding/ability to pay; while it was recognised this will involve more administration (e.g. organisations having to submit a claim backed up with accounts, etc), it was also seen as a way of ensuring those that need it most get the most help.

*“A sliding tariff makes sense in a way, but again it’s this administrative thing, how much does it cost and so on.” (Stockport; Workshop 2)*

*“You present your statement of accounts every year. So if on receiving the statement of accounts, we feel an organisation has got financial resources to fund, say, only 50% of this increased bill, then we will subsidise them to the appropriate level. If another organisation has got financial resources to pay 90% of the bill, then we will fund them at the lesser - so, you know, on a sliding scale.” (Cardiff; Workshop 2)*

## 5.6 Transitional or Permanent Arrangement

- 5.6.1 Participants were also asked to consider whether the discount offered to community groups should be provided on a permanent or a temporary basis.
- 5.6.2 Perhaps somewhat surprisingly, given that the cost of the cross-subsidy would be met by other customers, including themselves, most participants argued in favour of a permanent arrangement albeit one that would be subject to regular review.

*“We’ve got five years, it was conditional on access to the club’s accounts. So again if they’re making a huge profit then we think they should pay, but if they’re non-profit making or a very small profit - and also if there was a change of use of the building, that should be a review as well because we thought it might not always be a village hall. So we were sort of semi-permanent.” (Kingsteighton; Workshop 2)*

- 5.6.3 The rationale for this was that the types of organisations that they felt would be eligible would always find it difficult to raise sufficient funds and would need ongoing assistance.

*“We said permanent because organisations like Scouts and churches, they’ve been the same for hundreds of years so they’re not going to change over the next five or ten years.” (Stockport; Workshop 2)*

*“Why did we say it should be permanent? Because they’re organisations and groups that are going to be there for a very long time.” (Kingsteighton; Workshop 2)*

- 5.6.4 A number of participants opted for a transitional arrangement typically spread over a three to five year period. Their rationale was that this would give the organisations sufficient time to either raise the extra funds or to introduce environmental improvements that would lower the charge.

*“Just another point, we feel that this would not be permanent, we feel that probably five years would be ample really to get people used to the idea that eventually they will all have to pay. That’s arbitrary, five years, but if you give people and organisations time to plan I think they could well come up with funding of their own, just to give them a certain responsibility.” (Stockport; Workshop 2)*

*“Right transitional or a permanent thing – we more or less said transitional, didn’t we, on a five year thing because we thought it would encourage them to go greener and benefit the environment and stuff like that.” (Lincoln; Workshop 2)*

*“Transitional because we felt that there was no incentive for the companies to ever try and change the way of using the water, or if they’ve got a huge car park, if it’s not transitional there’s no incentive for them to try and make it more environmentally friendly.” (Stockport; Workshop 2)*

- 5.6.5 Irrespective of whether the concession was permanent or transitional, everyone felt that beneficiaries should be encouraged to adopt more environmentally friendly measures,



as this would create a 'win – win' situation. Such measures would reduce the load on the drains and sewers infrastructure, lower the size of the bill and therefore the size of any discount which, in turn, would reduce the cross subsidy passed on to other customers.

*“And it’s to encourage people to be greener, all these companies with concrete car parks and things like that, we thought it might kick onto them to have proper drain-away things. So like, basically, they don’t have to pay as much on their bills, they can put their money back into things that will benefit the community like helping out youth clubs and such like...”*

*...Buying equipment and stuff like that.” (Lincoln; Workshop 2)*

5.6.6 Participants were less clear as to how this could be achieved. One option might involve a transitional arrangement with the size of the discount decreasing year on year thereby encouraging the beneficiaries to find ways of reducing their rainwater runoff and their bill. However, there was a concern that the organisations in question may lack the necessary capital funds to invest in appropriate measures in the first place and this led some of them to suggest making grants available in addition to any discount.

## 5.7 Meeting the Cost of Concessionary Charges

5.7.1 By the end of the deliberative process, nearly three quarters of participants were prepared to make a contribution towards the cost of providing discounts to community groups. Their reason was to ensure such groups survived and continued to provide benefits for the whole community, including themselves. There was a preference for a national scheme whereby the same criteria were used to determine eligibility and the same discounts were applied throughout the country. This was felt to represent the fairest way of providing discounts.

*“Why should domestic customers pay as opposed to everybody else? The community spirit. We didn’t think it was too bad to spend a few pounds a year to create a community spirit. Everybody has some connection with some group or another so we thought it was quite nice to have that as your water bill to go towards part of the community. We came up between £1 and £5, which we wouldn’t mind paying a year extra on our water bills as general domestic customers.” (Kingsteighton; Workshop 2)*

5.7.2 The main arguments put forward against the suggestion that domestic customers should make a contribution included:

- members of the local community are already paying to support such groups, for example, through hiring the facilities, attending events, buying raffle tickets, etc

and any additional costs incurred due to the introduction of site area charging could be recouped from these charges

*“If you are paying for raffle tickets or if there are charges on the door you are contributing anyway to the upkeep of the place or the charity or whatever. We pay enough already for the same sort of thing.” (Cardiff; Workshop 2)*

- increasing the bills of customers will add to the burden of those already on low incomes but above the benefits threshold, as a flat rate cross subsidy does not take into account the financial circumstances of individual customers

*“We feel that just a levy, a certain amount of money, would not necessarily be fair to all because it doesn’t take into account the ability to pay...”*

*...Also the fact that it’s not means tested which means everybody will be paying the same rate regardless of whether they’re on a high income or a low income, and that doesn’t seem fair.” (Stockport; Workshop 2)*

- customers might be paying for things from which they personally do not benefit.

*“Certain individual customers who will not benefit like, say, an elderly childless couple, they’re not going to benefit from a Scout hut or anything like that so why should everybody have to pay if they don’t feel they’re getting the benefit of the community organisations?” (Stockport; Workshop 2)*

5.7.3 Other methods of meeting the cost of the discount that were put forward included from company profits and out of general taxation.

5.7.4 The arguments for why water companies should meet the cost out of their profits were the same as those advanced for social tariffs.

*“That’s because obviously the water companies make astronomical profits, they make enough money and they get profits off customers from all sorts of areas.” (Stockport; Workshop 2)*

5.7.5 Again, there was considerable cynicism about the willingness of water companies to make a contribution.

*“Well, it’s 99.9% certain that the water authorities won’t fund it themselves out of their profits, you know, do it through it any altruistic reason. It’s got to come from the consumer or the tax payer. And it just so happens that the consumer and the tax payer are the same person – us. The Government is enforcing this in this legislation on us. If they are enforcing it, then they should pay for it.” (Cardiff; Workshop 2)*

5.7.6 Advocates of meeting the cost out of general taxation considered this to be a fairer method as it spreads the cost more widely and is more socially inclusive in that it takes into account an individual’s ability to pay.



5.7.7 A different suggestion was for large, profitable business, such as supermarkets, to be encouraged to support local community groups either by paying a larger share of the cross subsidy or by providing financial help, a form of corporate social responsibility.

*“Or why can’t larger large profit making organisations pay an increased area charge to help subsidise the non-profit organisations like, say, Tesco’s or the airport that makes God knows how much, but certainly more than enough to fund everybody, I would think. So we thought why can’t bigger companies pay that?” (Stockport; Workshop 2)*

*“But there is this idea call the ‘goodwill’ which has become quite fashionable. Companies seen as being green and doing good things for the community wouldn’t necessarily be a bad thing in terms of attracting shareholders.” (Cardiff; Workshop 2)*

## 6 The South West Legacy

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### 6.1 Key Findings

- Not surprisingly, customers of South West Water were in favour of a cross subsidy paid for by the customers of other water companies.
- Levels of support for tackling the legacy among the other participants increased from 50 percent at the end of the first workshop to three quarters by the end of the deliberative process.
- Supporters felt it was only fair that customers of South West Water are given help for something for which they are not responsible whereas those opposed to it felt it was down to the Government and South West Water to resolve; they took the view the problem should have been identified and resolved at the time of privatisation.
- Given a choice between a one off payment funded out of general taxation or a cross subsidy added to the bills of other water company customers, customers of South West Water mainly opted for a cross subsidy. Customers of other water companies felt differently. There was a small preference for meeting the cost out of taxation but nearly as many felt it should be done via a cross subsidy and nearly as many (a quarter of the sample) were still undecided at the end of the process.

### 6.2 Introduction

6.2.1 Participants were asked to decide which of three statements they agreed with the most:

- I don't support the idea of lowering water bills in the South West region
- I support the idea but I do not feel that tax payers and/or other water company customers should be asked to make a contribution to the cost
- I support the idea and I think that tax payers and/or other water company customers should make some contribution to the cost

6.2.2 Each breakout group was given the following instructions.

**The South West Legacy**

Get started:

- Assign scribes: your job is to write down the different arguments as bullet points
- Choose presenters: your job will be to present your group's arguments.

One person read this out loud

We have been appointed by our water company to act as consumer representatives. They are interested in our views on water bills in the South West region.

Our view is that

- we don't support lowering water bills in the South West region
- we support the idea of lowering water bills in the South West region, but tax payers or other customers shouldn't be expected to make a contribution to the cost
- we support the idea of lowering water bills in the South West region, and tax payers or other customers should make a contribution to the cost

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

6.2.3 On completion of this task, participants were handed the following instructions.

**Concessionary Charging for Community Groups**

↙ News Flash.....News Flash.....News Flash..... ↘

The Government has just announced that it will legislate to reduce the water bills of customers of South West Water.

Irrespective of how you feel about this, your task now is to decide:

- whether this should be done through increasing taxes or by adding the cost to the bills of all other water company customers

6.2.4 On completion of this second task, the breakout groups came back together and presented their conclusions, along with their supporting arguments to everyone else. We have set out the key findings below.

### 6.3 Levels of Support

6.3.1 Not surprisingly, customers of South West Water were very much in favour of a cross subsidy; all bar one participant supported the idea from the outset (see Figure 9; left hand chart). Indeed, there had been spontaneous calls during the first workshop in both breakout groups for just such a subsidy.

*"Maybe if the Government subsidised the water board in general to try and make prices cheaper then it would be split up between the different regions depending on costs of different regions..."*

*... [ ] Or could it mean that other regions could help us a little bit because we pay so much, we have a lot of coastline, lots of tourists who use a lot of water, and we have to pay for all that for us?" (Kingsteighton; Workshop 1)*

*“But a cross subsidy there would go down a treat because I know we have particular problems down here with all the small villages, the big coastline and the lack of mains sewerage for some places, but we have been hammered in particular as individuals down here...”*

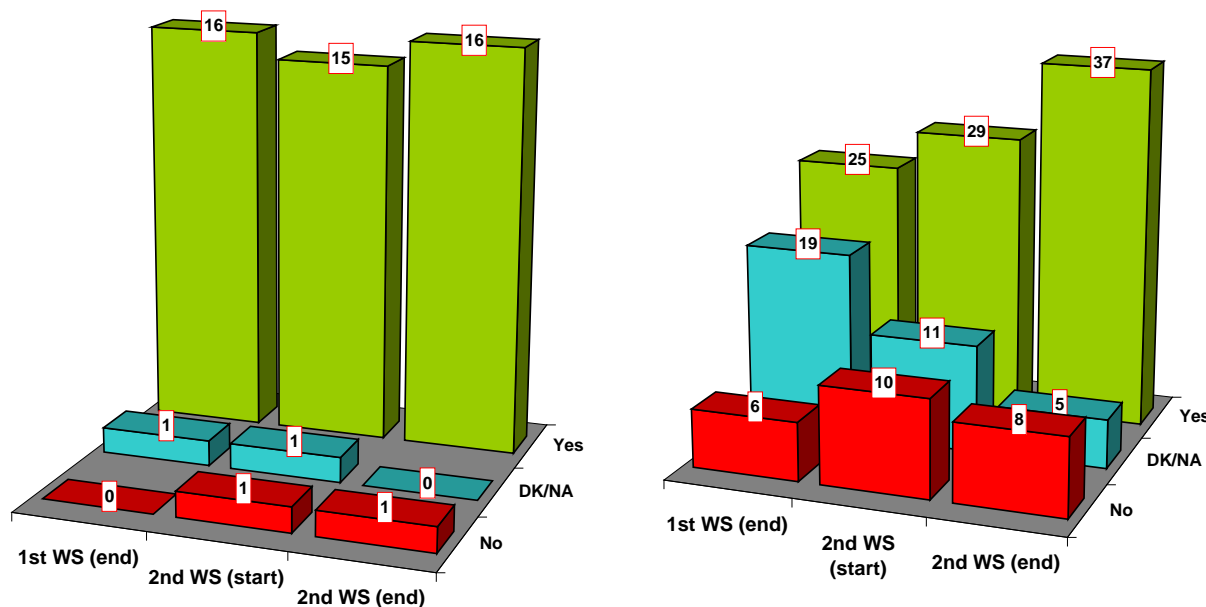
*... And because of the extra influx of people.” (Kingsteighton; Workshop 1)*

6.3.2 The customers of the other three water companies involved in the research were less supportive to begin with; they did not rule out the idea but a large proportion of them started out undecided. By the end of the deliberations, three quarters of them supported the idea and only 8 participants were opposed (see Figure 9; right hand chart).

**Figure 9: Do you support the idea of lowering water bills for customers of South West Water?**

Base: all South West Water customers; n=17

Base: all other customers; n=50



6.3.3 The main argument in support of helping customers of South West Water came down to a sense of fair play:

- South West Water customers are having to pay a lot more for something for which they are not responsible

*“We felt that South West Water need to receive help because it’s not their fault that they live where they do and that their infrastructure was so much worse to start with that this money’s had to be spent. They’re forced to pay for it, they’ve got no choice, even the lower income families are going to be paying more than the rest of the lower income families in the rest of the country.” (Stockport; Workshop 2)*

*“We shouldn’t penalise them just because they live in this particular area with this particular problem. They shouldn’t be penalised in this particular way.” (Cardiff; Workshop 2)*

- they have no choice about their supplier and little choice about where they live

*“Obviously you can’t choose your water company because it’s in theory a monopoly. The customers don’t have any choice, they’re just lodged with the cost of paying the increase.” (Lincoln; Workshop 2)*

- the largely rural economy in the South West results in lower average incomes which compounds the problem

*“We have lower incomes, we have a higher burden to keep the beaches and the reservoirs clean and up-to-date and fit for purpose. That was our main thrust as to why others in the nation should help us reduce our water bills.” (Kingsteignton; Workshop 2)*

*“Why we support funding. Cornwall and Devon have the lowest income in England. Obviously in the summer they make a lot of ice creams but after that it’s pretty dire. 22% are pensioners. Small population, big area.” (Cardiff; Workshop 2)*

- the area is a ‘national asset’ which attracts large numbers of visitors who place extra strains on the infrastructure without paying (directly) towards it

*“Basically it is a national asset, it’s something that is worth protecting, it’s something worth looking after. It benefits everyone in the long run.” (Cardiff; Workshop 2)*

*“We have a very, very old sewerage system to maintain, which has been gradually updated, and that’s cost us a lot and the debt there is massive, and it’s over-used by grockles, you know, they flush the loo every five seconds, they waste water like it’s...” (Kingsteignton; Workshop 2)*

*“Largest tourism area, large water usage so basically maybe that group there [referring to a breakout group that opposed the idea] don’t go on holiday there but the rest of us that do, we all use their water and then bugger off basically so that’s great!” (Cardiff; Workshop 2)*

- at least some of the investment costs have been incurred since privatisation so one cannot lay the entire blame at this door.

*“EU standards; since privatisation lots and lots of standards have come in about the coastline being maintained and all that sort of thing so, I know everyone else around the country has got coast but it was already broken there in the first place so a bit more to fix etc, etc.” (Cardiff; Workshop 2)*

#### 6.3.4 Two main arguments were advanced by those opposed to the idea, namely:

- the problem should have been identified at the time of privatisation - the Government and South West Water should have factored this into their calculations

*“Yeah, taxpayers and customers shouldn’t be paying for it because it’s not their fault that at the point of privatisation the Government didn’t dish out enough money to the south west.” (Stockport; Workshop 2)*

*“The company should pay in so much as they should have checked this out when they took up the franchise or when they bought it or whatever the franchise agreement was. I mean, they must be very naive if they didn’t realise that Cornwall and Devon have a bigger coastline than anywhere else and they should have been savvy enough to check the pipe work and the drains and all that sort of thing.” (Cardiff; Workshop 2)*

- South West Water is making healthy profits which should be used to sort out the problem.

*“I did a bit of research this week, as we were all asked to do, and of course, as you would expect, a company called the Pennon Group, who actually actively manage South West Water, were very lucky last year in that they actually made an operating profit of 3.6%. It doesn’t sound very much, does it, 3.6%? Pennies that. It came out actually £191 million as profit. So that’s an argument why we don’t support the idea of lowering water rates for the South West just at the moment.” (Stockport; Workshop 2)*

#### 6.3.5 This led some to argue that ‘it’s their mess, let them sort it out!’

*“Yes we don’t want to have anything to do with it. We consider it’s their mess and that they should clear it up and should work out a plan themselves paid for by them and/or try to revisit the original franchise deal. I think that was in about 1991 because on there, perhaps, will be some information about what was intended to be done and where has the money gone.” (Cardiff; Workshop 2)*

#### 6.3.6 Other arguments in support of this position included:

- it creates a dangerous precedent

*“If we did pay or help to pay, it does create a dangerous precedent because any water company could say, ‘oh, we are in trouble here, we are in trouble. Surely the rest of the country will have to help us’.” (Cardiff; Workshop 2)*

- we do not have regional cross subsidies for other things where there are large differences in prices, such as housing

*“It’s not fair that we should be paying for something that is happening in Cornwall because there is no other regional issue where the bills are shared out nationally, is there? You know, because of the house prices in the south east we don’t get different payments of house prices because unemployment’s low and we don’t*

*get anything directly from the people of the south east. Only this one particular thing of water and we don't think it's fair.” (Cardiff; Workshop 2)*

- if customers are going to be asked to pay more for their water in the form of cross subsidies, some would rather the money went to support helping those on low incomes and/or concessionary charges for community organisations.

*“But the reason we felt that we shouldn't pay for it is because we felt that if we're paying, I don't know, an extra £2 a year on our bills or something to pay for this, that could be £2 that could be going to what we feel are more worthy organisations that are going to benefit everybody, like the non-profit organisations, like low income families. We feel that they are more deserving than just a small percentage of the country that's having to deal with this debt.” (Stockport; Workshop 2)*

## 6.4 Tackling the South West Legacy

6.4.1 Participants were asked to imagine a scenario whereby the Government decided that it was going to take action to address the issue and they were asked to give their views on the two options outlined in the Walker Review, namely, a one off payment by Government of approximately £650m or a cross subsidy of about £1.50 a year on the water bills of all other water company customers. Although the Walker Review did not indicate over what period of time this cross subsidy would be collected, participants were told to assume it would be 'for the foreseeable future'.

6.4.2 Views on the most appropriate way forward were mixed. Among customers of South West Water, there was a preference for a customer cross subsidy; by the end of the deliberative process, 16 of the 17 customers of South West Water supported such a cross subsidy as they recognised that if it was met out of taxation, they would be paying a share. They argued that since the customers of other water companies have been enjoying lower bills for some twenty years, it was only fair that they now make a contribution to help lower the bills in the South West.

*“We came down in favour of the extra on the water customers because we believe that we've paid a lot since privatisation, is it 20 years it's been privatised? We believe we've paid quite a lot over in the last 20 years, so the other areas have been advantaged since privatisation. And we already pay enough in tax, everybody pays enough in tax, and so we thought it ought to be lumped together with the water.” (Kingsteighton; Workshop 2)*

*“So the increase we thought instead of putting it into taxpayers, paying it in the tax, put it on the water bill, £1.50 across the whole nation, and then that would help subsidise South West Water ratepayers with their bills.” (Kingsteighton; Workshop 2)*



6.4.3 However, among other water company customers the position was far less clear cut. To begin with, most of them felt unable to decide between the two options.

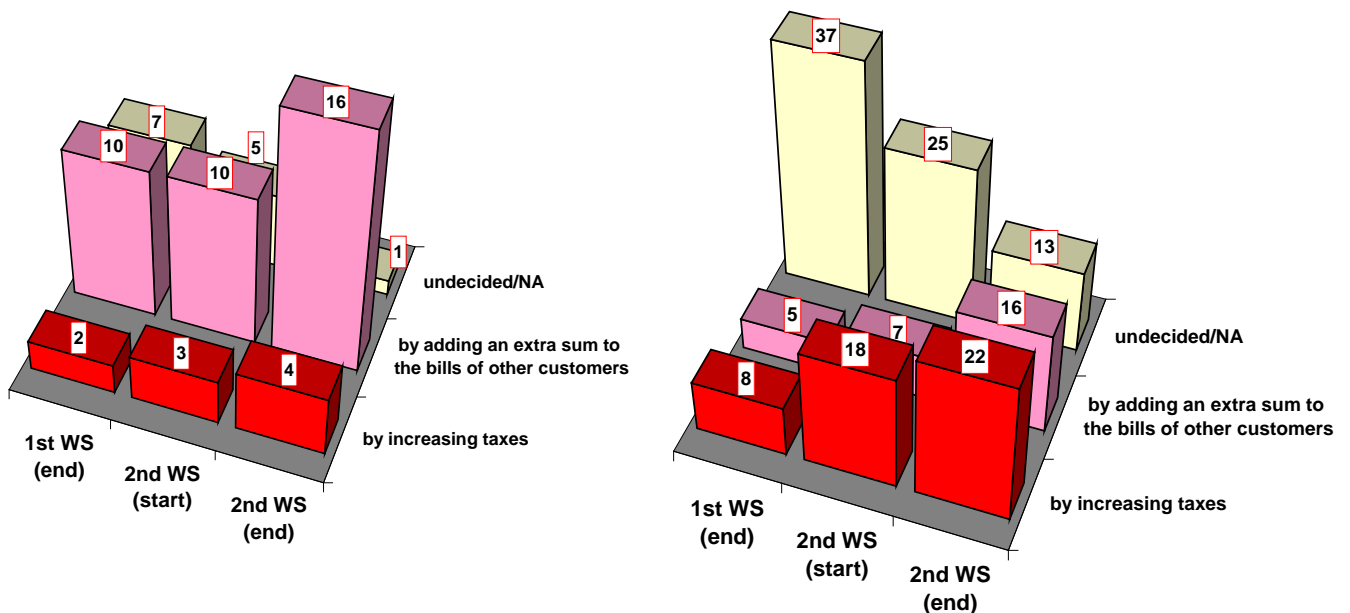
*“This is like asking a prisoner how do you want to die, by hand or by being shot? Because both of them are terrible as far as we are concerned.” (Cardiff; Workshop 2)*

6.4.4 By the end of the research, 22 supported meeting the cost out of taxation, 16 felt it was best achieved through a customer cross subsidy while 13 were still undecided. The outcome is illustrated in Figure 10.

**Figure 10: Assuming the Government decides to take action to reduce water bills in the South West, how do you think the cost should be met?**

Base: all South West Water customers; n=17

Base: all other customers; n=50



Counts can sum to more than the base as some participants opted for a combination of increased taxation and a customer cross subsidy.

6.4.5 Whichever method participants supported, the main argument advanced in its favour was one of fairness.

6.4.6 In the case of a **one off payment met out of taxation**, this was perceived to be fair because:

- tax is proportional to income

*“People who earn the most can afford to pay the most then.” (Stockport; Workshop 2)*



*“Taxation again is income related so those people with more money can pay more towards it cause they have probably got second homes in Cornwall and Devon anyway.” (Cardiff; Workshop 2)*

- more people pay tax so the load is spread more thinly

*“75% of us within the group felt it should be paid through tax because it seemed a fairer system, there were more people who pay tax, than pay water, person for person, so there would be, each individual would pay less, which means that more people would help.” (Lincoln; Workshop 2)*

- water is essential and it is a national issue to ensure everyone has access to it at a fair price.

*“Water is such a basic fact of life, an essential factor, therefore it’s only right and proper in a civilised society that everybody, no matter where they live in the country, should have equal access to good quality water and the services that go with it. So it’s an effective way of raising the cash.” (Kingsteignton; Workshop 2)*

#### 6.4.7 Additional arguments supporting this method included:

- it was perceived to be administratively easier; systems are already in place to collect taxes and there would be no need for the water companies to set up something from scratch

*“If it comes out of tax as well, the monies would be more readily available to the South West, and if it came off the bills of water companies, they’d have to pay for the administration to take the extra bit of money off all their customers. So through Government and the tax system that’s already in place then it takes one of the steps out and makes it a bit more efficient. So it would probably cost a bit less as well.” (Stockport; Workshop 2)*

- and the problem would be resolved in ‘one hit’.

6.4.8 Supporters of this approach acknowledged there were some possible disadvantages; in particular it would be less transparent in the sense that it would not be as clear what each individual tax payer was contributing.

6.4.9 Participants’ lack of trust of water companies again surfaced. Some were concerned that South West Water would simply use the subsidy from Government to boost its profits instead of lowering bills. People were seeking reassurance that the money would be ring-fenced and there would be adequate monitoring and regulation to ensure it was used for the purpose intended.

*“What we are saying as well is, if it comes out of taxes, it effectively is providing profits for South West Water. If all the infrastructures are brought up to speed*

*then that, in effect, would be a bonus to South West Water and the shareholders in South West Water would reap the benefits from that.” (Stockport; Workshop 2)*

6.4.10 Advocates of a **customer cross subsidy** also felt it represented a fairer approach.

They took the view that not all tax payers are responsible for paying a water bill and it is unfair to expect a non-bill payer to make a contribution.

*“I think the only thing we had for it being come off the water bills was only people who pay water bills would pay for it, whereas people who pay tax but don't necessarily pay a water bill.” (Stockport; Workshop 2)*

*“If it was done through taxation only, working people would pay and obviously not other water users who were unemployed, also if it was through taxation, multiple members of a household might be paying.” (Lincoln; Workshop 2)*

6.4.11 This method was also felt to offer greater transparency – at least in principle provided that the water bills are itemised. However, given the fact that participants had discovered that they already pay a number of cross subsidies that they were not aware of and which are not itemised on their bills, there was considerable scepticism that this benefit would be realised.

*“If it was paid through the water bill, there would be better transparency because you'd possibly have a figure and the reasoning why behind it, whereas if it was just taxation, it would be just lost in a general figure and you wouldn't be able to possibly see how much.” (Lincoln; Workshop 2)*

*“The people who felt that it should be paid for by other water customers said that they were wary about paying money out of the taxes because they didn't know how much was going on what and it isn't listed as it is through your water bill. You need to know what you're paying out and on your water bill it is itemised what proportion of the bill that you're paying goes to help which thing and you would see what percentage was going to help the South West.” (Lincoln; Workshop 2)*

6.4.12 They also expressed concerns that not only would the cross subsidy last for the foreseeable future, should the situation in the South West get worse, the cost to other customers may increase over time rather than decrease or disappear altogether.

*“Also we felt that if you're just adding a nominal figure to your bill every year there's not necessarily any end in sight, and there's no guarantee that what they're adding to your bill is going to cover that debt and that each year that isn't just going to keep going up and up because they discover that that's just not covering it. It just seems like, you explained last week, there's no time limit on how long this would be added to your bill for, whereas if it's coming out of taxes it's probably going to be a larger percentage and it'll be paid off more quickly, where this way we just felt there would be no end in sight to the debt. So that was our thinking.” (Stockport; Workshop 2)*

6.4.13 Unsurprisingly, a number of participants wanted the cost to be met out of the profits of South West Water and, possibly, other water companies or through greater efficiency savings although this was countered by others who felt this would only result in higher bills.

*“The shareholders because the majority of them don’t live in Britain, they don’t use the water, they just take the money. Not only that, they get enough from their dividends and their profits to actually put a bit more back in, so if they just take out a small slice, small percentage, it doesn’t need to be a lot, that actually does reduce the cost of the debt.” (Kingsteighton; Workshop 2)*

*“We decided we want to streamline the companies so that they’re all paying, so that everybody is paying the minimum, because water gets wasted, there’s a lot of utilisation waste and everything else, you all see the water popping up and all the rest of it. So we’d like to streamline the company so that it is quite efficient.” (Kingsteighton; Workshop 2)*

*“The only fair way or the only way we thought that they could come up with is that all the other water companies in the UK contribute a percentage of their profits to South West Water, divided that equally between them to clear it off and then everyone’s back on an even keel and everyone will be paying the same on the bills. That was the only solution we could come up with, and we thought that would probably have to be a one-off payment from each water company to clear that debt.” (Stockport; Workshop 2)*

6.4.14 One suggestion was for a local tourism tax. Another suggestion was for larger companies to pay via an increase in corporation tax and a few suggested the cost should be met by a combination of customers, water companies and the Government.

*“How about a taxation on local tourism? You go to Spain, you pay a few extra Euros for your hotel. We go to Cornwall, perhaps a pound or two on our hotel bills could perhaps help towards it. It’s a local tax, I admit, but it could work.” (Stockport; Workshop 2)*

*“But then again, what about corporation tax? If I pay £1, you pay £1, that seemed reasonable. If Tesco’s pay £1 towards this tax is that fair? So perhaps there is the need to look at corporation tax as an issue. Would large companies pay more? I leave that question over to you folks.” (Stockport; Workshop 2)*

*“I personally think it should go three ways, I think the Government holds some responsibility for the way they’ve let the water boards get into this situation, water boards themselves have some responsibility, and I think when it was nationalised the nation as such never had this problem, we were paying a basic rate for our water and I don’t think there’s any argument that we should not now. The difficulty we have is that we have individual companies so there’s no way you’re going to get one bill right across, there’s no way that they’re going to do that, are they, because otherwise they’re not a private company anymore, they are run by Government. The only way I see you can do it is by getting each individual company to contribute, plus a certain amount from the taxpayer, plus a certain amount from water users. That’s my view.” (Kingsteighton; Workshop 2)*

## 7 Willingness to Make a Contribution

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### 7.1 Key Findings

- Most participants were prepared to pay something extra via their water bill each year towards one or more of the three initiatives. Fewer than half the sample were prepared to pay more than £5.00 a year in total.
- Considerable care needs to be taken in interpreting this finding. Not only is it based on a very small qualitative sample, it also reflects the conclusion participants arrived at following over six hours of deliberation and discussion. For this reason, it is probably represents the best achievable scenario.
- Of the three issues, helping people on low incomes was perceived to be the most important whereas (outside of the South West), tackling the South West legacy was considered lowest priority.
- Offering discounts for community groups started out at the same level of priority as the South West legacy however, as participants learned more about it and thought more about the issue, community groups increased in importance.

### 7.2 Introduction

- 7.2.1 The extent to which participants were willing to make a financial contribution towards meeting the cost of providing a social tariff for those on low incomes and discounts for community groups as well as addressing the South West legacy, was gauged by their responses to the self completion questionnaire. We did not invite participants to discuss this as part of their deliberations partly because it is a personal matter and participants were drawn from across the social spectrum and they may have felt inhibited from expressing their willingness and/or their ability to pay more. We also did not want participants to feel pressured into going along with a 'group norm' and opting for a higher or lower amount due to peer pressure.
- 7.2.2 The question was asked in such a way that it took into account all three issues rather than considering each one in isolation. Participants were asked to assume that:
- their water company decided to offer a concession to certain community groups, and

- the Government decided to reduce water bills in the South West by adding an extra sum to the bills of all other customers (excluding customers of SWW), and
- the Government introduced a social tariff and the cost was added to the bills of all other customers.

7.2.3 They were asked what is the most they would be willing to pay extra each year on their water bill to help meet the cost of these initiatives. They were then asked how they would like to see this sum distributed between the three initiatives. The moderator emphasised that it was perfectly acceptable for participants to decide that they did not want, or could not afford, to make any contribution, in which case, they should write in £0; a number chose this option. A number also did not provide any amount, they effectively did not answer the question. One option would be to treat these as people who were unwilling and/or unable to pay anything; however, they could equally be unable to decide whether or not they are prepared to make a contribution. For this reason, we have treated them as ‘undecided’ rather than as ‘not willing to pay any more’.

7.2.4 We present below the results; considerable care is needed when interpreting these. The base sizes are small and the data needs to be treated qualitatively and **cannot be generalised to the wider population of water customers**. It was clear from the initial discussions in the first workshops that most customers will have little, if any, appreciation of cross subsidies and social tariffs. Participants had spent 6+ hours deliberating and discussing the issues. During the course of the research, participants went up a steep learning curve and it is unlikely that the majority of consumers would undergo a similar journey if the initiatives were introduced. One way of thinking about the results is that they represent the best case scenario; that is, when people understand the issues, and are exposed to the arguments for and against each initiative, our results reflect the level of financial support they may be prepared to contribute.

### 7.3 Total Amount Extra Participants Were Prepared to Pay

7.3.1 There was a willingness to make a contribution from the outset. At the end of the first workshop, 53 out of 67 participants said they were willing to pay something extra each year. Just under a third (18) were only prepared to pay up to £1 more while a similar number (17) would pay up to £5 a year more. 23 respondents were willing to pay more

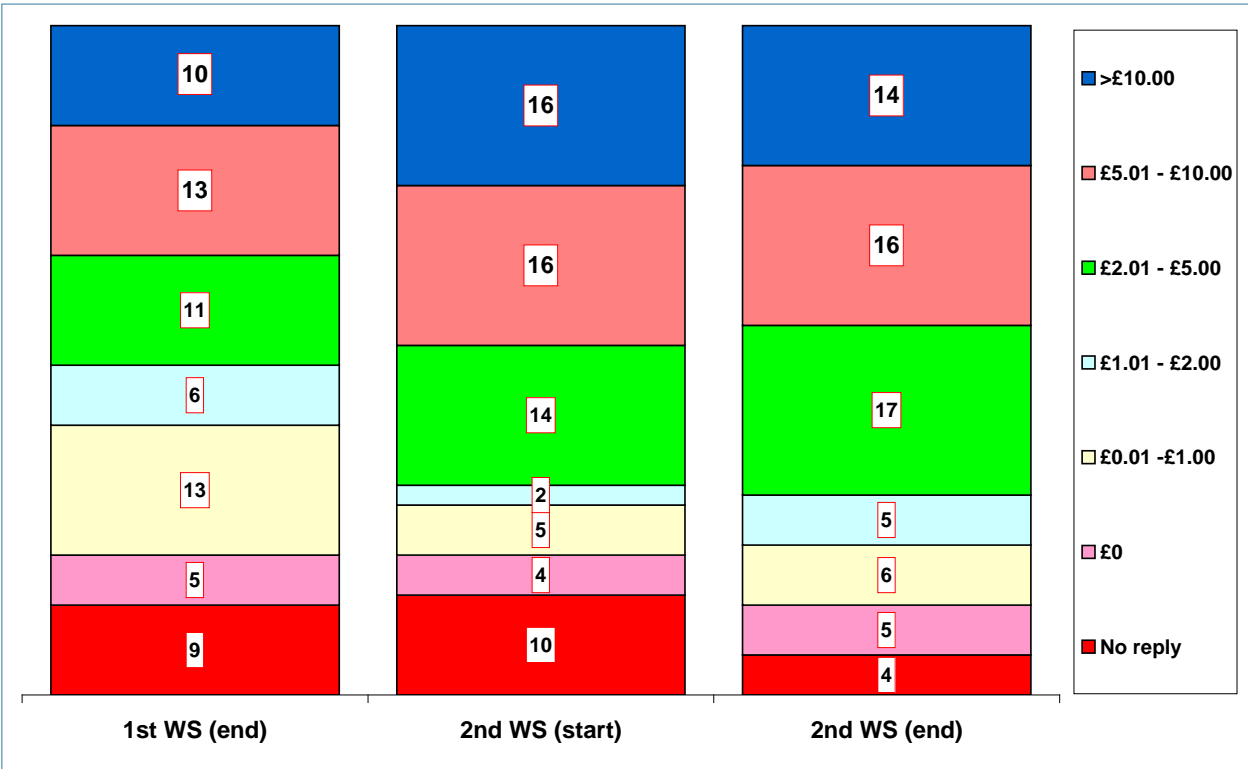
than this. By the start of the second workshop, the proportion of participants willing to make a contribution had not changed although the proportion willing to pay more than £2 a year had increased. By the end of the deliberative process, there was a small increase in the number of participants willing to make some contribution and now only four did not answer the question. Participants fell into four roughly equal size groups:

- 16 would want to pay an extra £2 or less
- 17 would pay up to £5 extra
- 16 would pay between £5.01 and £10 a year more
- 14 were willing to pay more than £10 a year more.

7.3.2 These findings are illustrated in Figure 11.

**Figure 11: What is the most you would be willing to pay extra each year on your water bill?**

Base: all participants; n=67

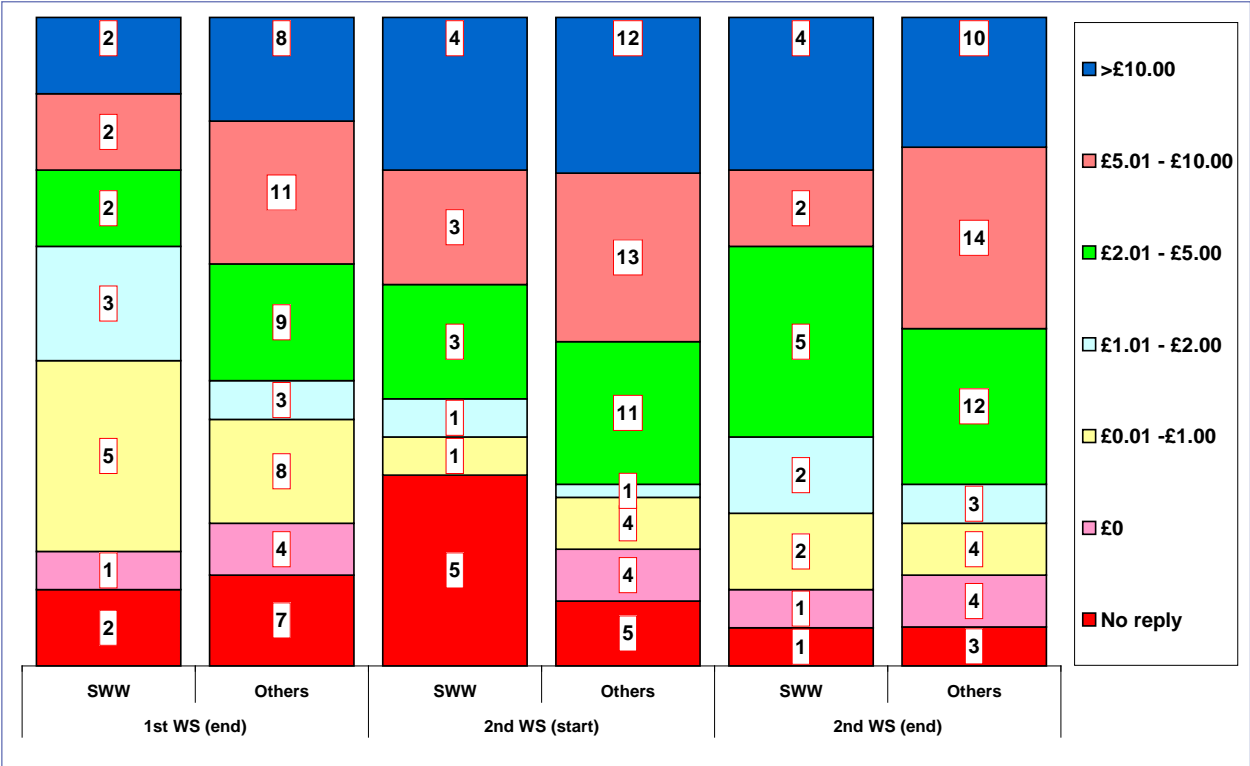


7.3.3 Customers of South West Water were, on average, paying the highest bills however, they were only asked if they would be willing to contribute to two of the three issues and it is possible that this had an impact on how much these participants were willing to contribute. To begin with, there was a clear difference, with customers of South West

Water opting to make a much smaller contribution. Although this difference had almost disappeared by the start of the second workshop, it re-emerged, albeit a smaller differential, at the end of the deliberative process: 6 out of every ten customers of South West Water were only prepared to pay an extra £5 or less on their bills whereas half of the customers of other water companies were prepared to pay more than £5 a year extra. The data are illustrated in Figure 12.

**Figure 12: What is the most you would be willing to pay extra each year on your water bill? Customers of South West Water vs. Other Customers**

Base: all participants; n=17 and 50

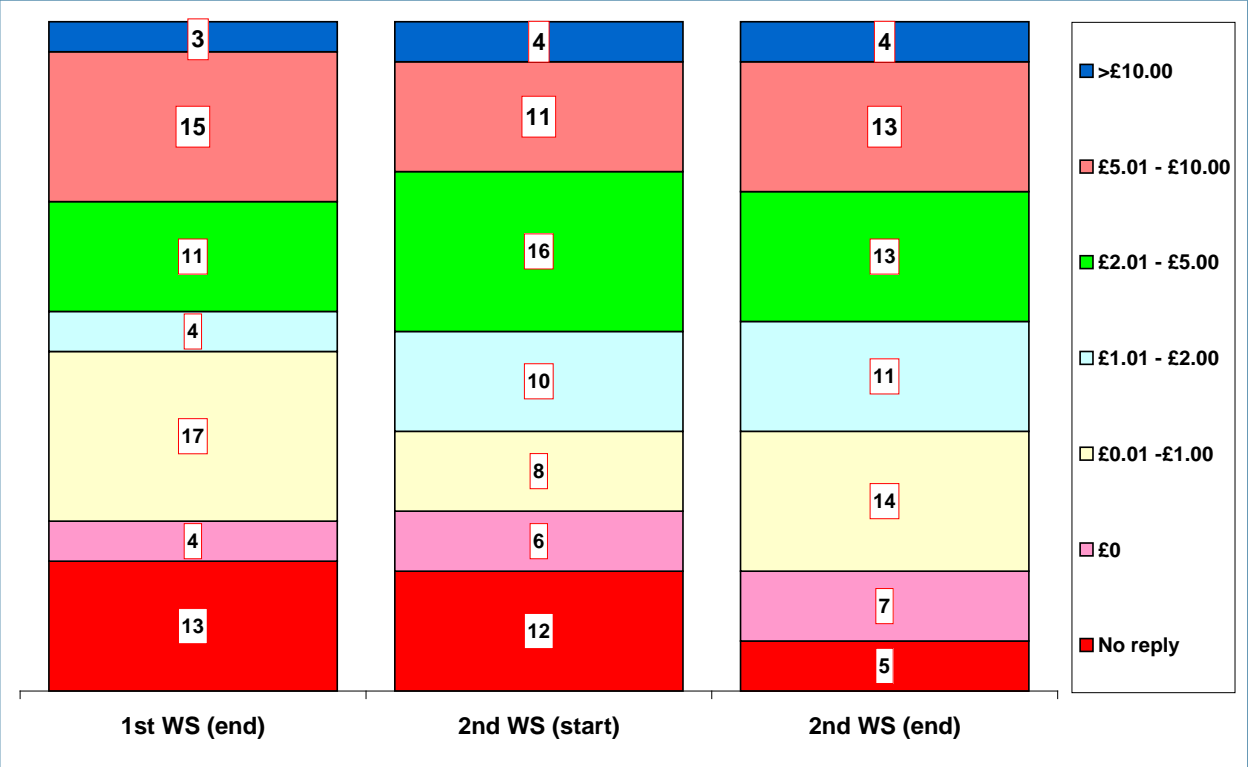


7.4 Helping People on Low Incomes

7.4.1 Participants were asked to indicate what proportion of any additional amount they were prepared to pay on their water bill that they would like to see going to help people on low incomes via a social tariff. The willingness to make a contribution was high from the outset with three quarters of the sample prepared to pay something extra. By the end of the deliberative process, eight out of every ten participants were prepared to make a contribution. Overall less than half of those who answered the question were willing to pay more than £2 to address this particular issue. See Figure 13.

**Figure 13: Amount Participants Were Willing to Contribute Each Year Towards the Cost of a Social Tariff**

Base: all participants; n=67



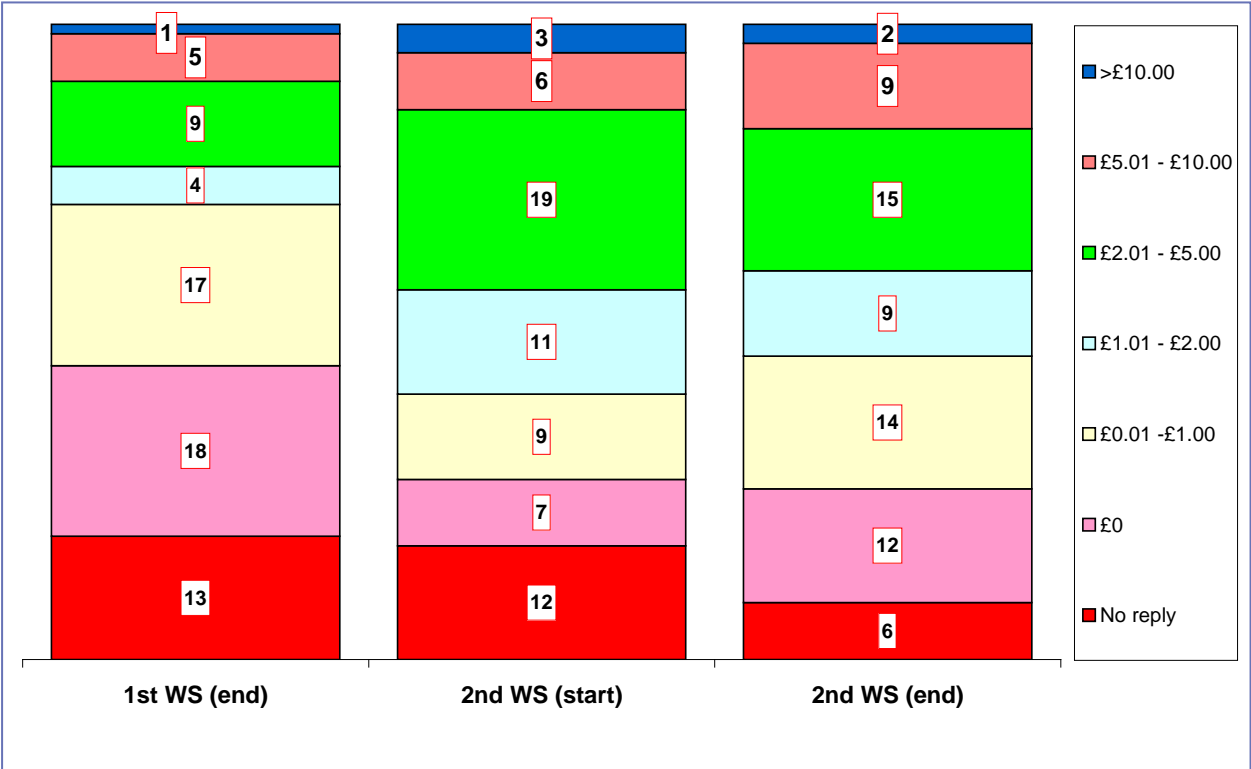
**7.5 Contributing Towards Concessionary Charging**

7.5.1 To begin with just over half our sample were willing to make a contribution to help meet the cost of discounts for community organisations in relation to site area charges. However, as the research continued, this situation changed. At the start of the second workshop, over two thirds were willing to make a contribution and by the end of the process, nearly three quarters were prepared to make a contribution. Overall less than half of participants were willing to pay more than £2 towards funding help to community groups. See Figure 14.



**Figure 14: Amount Participants Were Willing to Contribute Each Year Towards the Cost of Concessionary Charges**

Base: all participants; n=67

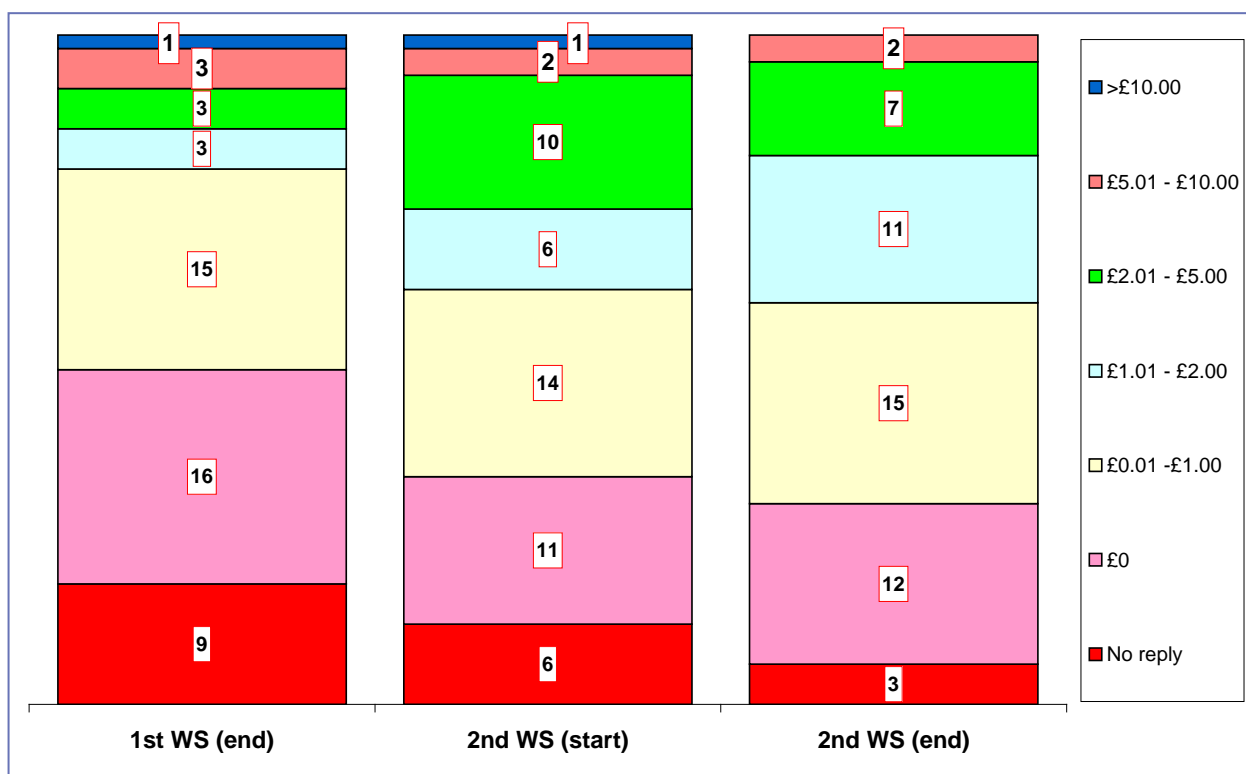


**7.6 Helping Address the South West Legacy**

7.6.1 To begin with, half of the customers of Anglian Water, Dŵr Cymru and United Utilities were prepared to make a contribution although fewer than half the sample were willing to pay above £1. By the end of the deliberative process, the proportion prepared to make a contribution was over two thirds however, the majority would not be prepared to pay more than £1. These data are summarised in Figure 15.

**Figure 15: Amount Participants Were Willing to Contribute Each Year Towards the Cost of Addressing the South West Legacy**

Base: all participants; n=50



## 7.7 Relative Importance of the Three Issues

7.7.1 The amounts of money participants were prepared to pay towards each of the issues reflects the relative importance they attach to each one. The situation is complicated by the fact that customers of South West Water were only asked to contribute towards two of the three issues.

**Table 4: Relative Contributions to the Three Issues**

Base: all participants except customers of South West Water excluding those not answering; n=variable

	Helping people on low incomes	Concessionary charges for community groups	South West Legacy
End of WS1	60p in the pound	20p in the pound	20p in the pound
Start of WS2	42p in the pound	36p in the pound	22p in the pound
End of WS2	44p in the pound	36p in the pound	20p in the pound

7.7.2 Outside of the South West region, the South West legacy was consistently seen as the lowest priority of the three issues. By the end of the research, the average contribution to this issue was 20 pence from every extra £1 raised.

- 7.7.3 Concessionary charging for community groups started out receiving the same level of support as the South West legacy however, as participants deliberated on the issue, it became more important and eventually the issue received 36 pence in every pound.
- 7.7.4 Helping people on low incomes through a social tariff was consistently seen as the most important issue although its 'share of the pot' fell from 60 pence in every pound to 44 pence as concessionary charging gained in importance.
- 7.7.5 The relative importance attached by customers of South West Water to the issues of helping those on low incomes and concessionary charging are summarised in Table 5.

**Table 5: Relative Contributions From Customers of South West Water**

Base: customers of South West Water excluding those not answering; n=variable

	Helping people on low incomes	Concessionary charges for community groups
End of WS1	56p in the pound	44p in the pound
Start of WS2	59p in the pound	41p in the pound
End of WS2	57p in the pound	43p in the pound

- 7.7.6 The relative importance of the two issues, with more money being assigned to helping those on low incomes, remained constant throughout the research. The fact that there was a higher level of support for concessionary charging from the outset (which was not the case in the other locations) may reflect that fact that the location for this workshop was the most rural of the four and the moderators noted a strong sense of community from the start of the research.
- 7.7.7 When the contributions from other water company customers are adjusted to exclude the South West legacy, the final allocation of money was remarkably similar as the final row of Table 6 demonstrates.

**Table 6: Relative Contributions When South West Legacy is Excluded**

Base: all participants except customers of South West Water excluding those not answering; n=variable

	Helping people on low incomes	Concessionary charges for community groups
End of WS1	74p in the pound	26p in the pound
Start of WS2	54p in the pound	46p in the pound
End of WS2	55p in the pound	45p in the pound

## 7.8 Increases to Their Water Bills

7.8.1 The table below summarises the price points above which less than half of our sample was prepared to pay towards the different issues. This suggests that in total, any increases above £5 a year would not be acceptable to the majority of water customers. Moreover, in terms of relative priorities, participants would prefer to see this sum divided up such that £2 goes towards helping people on low incomes, a similar amount is used to fund concessionary charges for community groups and £1 goes towards addressing the South West legacy.

**Table 7: Summary of Indicators**

	Total Extra Amount	Helping people on low incomes	Concessionary charges	South West Legacy
Price which 50% would not go above	£5	£2	£2	£1

7.8.2 These amounts are considerably higher than those from previous research. For example, a quantitative study conducted in 2007 (see Footnote 2) found that only 39% of customers were willing to see the existing WaterSure customer cross subsidy extended to help other customers by increasing the cross-subsidy from under £1 per customer per year to £2 per customer per year and only 19% supported an increase to £5 per customer per year. There are however a number of factors that may account for these differences including:

- respondents in the quantitative research did not have the opportunity to discuss or think about the issues before forming an opinion; nor did they have access to a range of fact sheets
- they were responding to the suggestion of increasing the level of an existing customer cross subsidy which currently stands at under £1 per customer. This frames initial expectations: the starting point is established as £1 and the suggested additional amounts represent an increase of between 100 to 500 percent; although participants in the current research were provided with information about the current WaterSure tariff, this was only one option that they considered along with a range of alternatives
- in the last two years, there has been a major recession during which time many customers would have found it difficult to keep abreast of rising bills; it is possible

that attitudes towards helping others have changed in the light of the recent economic climate.

- 7.8.3 Although the question about how much more participants were prepared to pay on their water bills was asked in such a way that the cumulative impact was taken into account, it was asked outside the context of what might be happening with all the other bills people have to pay. In a situation where customers find themselves faced with increases in a number of other household bills, including their water bill, their willingness to pay for additional cross subsidies may be reduced.
- 7.8.4 Whilst the deliberative approach used in this research can provide a deeper understanding of customers' views compared to a quantitative survey, the sample size is small and statistical results are best viewed as indicative.

## 8 Conclusions and Recommendations

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### 8.1 Understanding and Engagement

8.1.1 The subject matter proved to be a considerable challenge for many participants:

- they found the concepts of cross subsidies and social tariffs difficult to understand over and beyond at a fairly superficial level
- they also found some aspects of the proposed new cross subsidies and social tariffs difficult to grasp.

8.1.2 This was the case even after participants had had the opportunity to deliberate over the issues and discuss them with each other at some length. Clearly, most members of the public when confronted with these issues will be starting from a position of very limited understanding.

8.1.3 For this reason, the findings need to be interpreted with care:

- the value of the research lies in the fact it identifies a wide range of views and opinions and the principles which underpin them. It also highlights areas where consumers' knowledge is at best patchy and, in some cases, misinformed
- CCWater should use the findings not only to help it develop its position vis-à-vis the issues but also to help it explain the reasons for the position it adopts.

### 8.2 Key Themes

8.2.1 There was support for all three issues to be tackled and the main reasons underpinning this was a sense of **fairness**. This is consistent with the results from a previous deliberative research study<sup>6</sup>.

8.2.2 This also accounts for why many participants felt that whatever solutions were adopted to address the issues, they should be **national solutions**. They wanted to see the same criteria being used the length and breadth of England and Wales in terms of deciding who should receive help and who should be making a contribution towards the

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<sup>6</sup> Deliberative research into consumer views on fair charging for the Consumer Council for Water, 2007  
[http://www.ccwater.org.uk/upload/pdf/CWRD\\_907\\_full\\_version.pdf](http://www.ccwater.org.uk/upload/pdf/CWRD_907_full_version.pdf)

cost. For this reason, Government funded solutions which take account of ability to pay appealed to many participants.

8.2.3 **Most participants were prepared to make some contribution** via their water bills to help resolve the issues, however they also want to see **contributions being made by other parties** in particular, water companies and the Government. They were also very aware that it is one thing to agree to support issues on an individual basis, but account has to be taken of the **cumulative effect** of all the different cross subsidies and social tariffs they are being asked to support – not just in relation to water but in terms of all their bills.

8.2.4 This, in turn, throws up questions about **transparency** both in relation to knowing exactly what it is one is being asked to contribute to, and in terms of schemes designed to help certain customers being adequately publicised.

### 8.3 Helping those on Low Incomes

8.3.1 This was considered to be the most important of the three issues. Despite the concerns of many that it is too easy for people to take advantage of the benefits system, **there was almost universal agreement this issue needs addressing**. The earlier deliberative research (see Footnote 6) found a marked reluctance on the part of water customers to help others apart from pensioners relying on their State pension as their only means of support and those with particular medical conditions. A quantitative study conducted in 2007 (see Footnote 2) found that 48% of water customers **agreed in principle** to using social tariffs funded by a customer cross subsidy to help vulnerable customers and only 24% disagreed. In relation to the existing WaterSure social tariff, 69% thought it was reasonable that households pay about an extra £1 per year in their bill to provide this assistance. When asked if they would find it acceptable to pay more than the current £1, the proportion of participants responding positively declined as the amount of the proposed charge increased. 39% would support it increasing to £2 and 19% would support it increasing to £5 with support declining to 3% for more than £10.

8.3.2 Both of these studies were carried out prior to the recent recession; the current economic climate may well have resulted in participants adopting a more favourable attitude towards helping others.

8.3.3 **Increasing benefit rates was seen to tick many of the right boxes**. However, unless it was possible for the extra payments to go directly to the water companies, this



method did not address the main concern, namely that there was no guarantee that any extra money would be used by people for the intended purpose i.e. to help them pay their water charges. Given how many people felt about the benefits system, this was perceived to be a major disadvantage of this approach.

8.3.4 For this reason, the introduction of **a social tariff was felt to be the best approach by most**. This is consistent with the results of the earlier deliberative research (see Footnote 6).

8.3.5 Participants found it very difficult to decide on the relative merits of the different social tariff options; each of the options considered had both advantages and disadvantages. **It was generally considered that it would be unfair to limit help to those with a water meter.**

#### 8.4 Concessionary Charging

8.4.1 **This was considered to be the second most important issue.** Almost no one felt that community groups should not be helped in this way. The key reason for supporting the idea of a cross subsidy was **to ensure that essential elements of the local community are not put under undue financial stress.**

8.4.2 The main criteria in terms of which organisations to help and how to help them were:

- **charities, not for profit and volunteer organisations** that provide a clear **benefit to the local community**
- either on an **equal basis** (easiest) or **in proportion to their financial circumstances** (harder)
- potentially on a **permanent basis** (subject to regular review).

8.4.3 Participants felt that concessions should be directly linked to measures to encourage community groups to reduce their hard stand footprint by **adopting environmentally friendly initiatives.**

#### 8.5 The South West Legacy

8.5.1 Although not surprisingly a key issue for customers of South West Water, it was the lowest priority issue for customers in other parts of the country. Nevertheless, **most do believe the issue needs to be addressed.**

8.5.2 The main argument in favour was again about **fairness** but this can be offset against perceptions that the problem stems from a lack of due diligence at the time of privatisation. There was **no clear consensus in terms of how best to tackle the problem** although a one off cross subsidy from Government ticks most of the right boxes. Participants often struggled to fully understand how this would work – hence concerns about how the money might be used. This is something CCWater should seek to address in its communications.

## 8.6 Meeting the Cost of the New Measures

### Customer cross subsidy

8.6.1 Most participants were willing to make some contribution via their water bills provided the total amount was affordable – for most people, this was no more than £5 pa. However, in our view, the most appropriate interpretation of the findings is not to read customers' willingness to pay up to £5 a year on top of their current water bills too literally. Instead, what the research shows is that when they understand the arguments for and against the three initiatives, there is a willingness among most customers to make a contribution towards meeting the cost. For most customers, this is limited to paying, at most, a few pounds extra per year. Moreover, this willingness is likely to vary depending on the prevailing economic conditions; if bills in general are increasing while incomes are largely static or even falling, then the size of any contribution people would be prepared to make is likely to fall.

8.6.2 The only way to get a robust handle on the acceptability or otherwise of any increased bill would be to carry out the necessary quantitative research. Such an approach is likely to arrive at a lower amount because it would not be possible to take respondents on the same journey that our deliberative participants went on.

8.6.3 Customers are more likely to consider a cross subsidy as fair if they can see that other parties are also making their contribution.

8.6.4 Some concerns were expressed about customers on low incomes who are above the benefits threshold being asked to pay more.

### Government funding

8.6.5 Effectively this means tax payers, nevertheless this method does offer some clear advantages especially in relation to **fairness**:

- the burden is shared more widely and takes into account ability to pay

- it operates at a national level rather than having different criteria being applied in different regions.

### **Self financing**

- 8.6.6 This was seen as potentially offering a 'win - win' outcome but it may not be sufficient by itself in terms of the amount of money it gives rise to and it will probably require other methods to be introduced alongside it.
- 8.6.7 Many participants found it difficult to understand exactly how such an approach would work and furthermore, they were not sure they could trust their water company – again, this is something that CCWater could address through communication.

### **Water Company profits**

- 8.6.8 This would definitely strike a chord with most customers, and might help make any customer cross subsidy more palatable.
- 8.6.9 The issue of water company profits – and the implications of seeking to use these to fund help – is clearly one that needs explaining. Information on this topic was included in a fact sheet and some participants did take note of this however, many others did not. This suggests that there is a strong and enduring perception that water companies are making excessive profits out of their customers and it will be a challenge to change this view.

## **8.7 Differences between England and Wales**

- 8.7.1 Dŵr Cymru Welsh Water operates on a different business model compared to other water companies; essentially it is a 'not for profit' business. During the course of the research, the moderators were on the look out for any differences in the views of the Cardiff participants and, in particular, if these might be driven by this difference. At the end of the second workshop, the moderators explicitly raised this as a question.
- 8.7.2 In fact, prior to reading the relevant fact sheet that outlined the Dŵr Cymru Welsh Water business model, only two or three participants had known that their water company operated any differently. Moreover, other than the fact that one or two participants felt more positive about being customers of such an organisation, participants said that this had not had any bearing on how they had responded to the issues. This is consistent with our interpretation of the Cardiff workshops. There was nothing that could be said to be a 'Wales' effect. We found the same range of views and opinions amongst the Cardiff participants as we found in all other locations.

## 9 Appendices

### 9.1 Recruitment Questionnaire and Recruiter Guidelines

Hello, I'm .....from Creative Research, an independent market research company. I wonder if you would be interested in taking part in some research we are conducting on behalf of the Consumer Council for Water which represents the interests of consumers in the water industry.

The research is concerned with making sure that water bills are fair and affordable for everyone. It involves taking part in **two discussion sessions**, with other people like yourself to share views and ideas, and also doing some research on your own in between. Each discussion session would last up to 3 hours. In return for your time, I can offer you **£100** as a contribution towards your expenses; we would give you £35 at the first session and £65 at the second.

#### **Recruiter: please fill in the following details**

##### **RESPONDENT DETAILS**

Explain that you need to record the respondent's contact details so that they can be contacted in the event of a change of plans (e.g. the moderator is ill) and also for quality control procedures. Reassure respondents that no personal details or responses will be passed on to anyone not directly concerned with the research without their express permission

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Postcode: \_\_\_\_\_

Telephone: \_\_\_\_\_

##### **METHOD OF RECRUITMENT**

FROM CLIENT-SUPPLIED LISTS

FROM RECRUITER'S DATABASE

SNOWBALLING

FREE FOUND (In Street/House to house etc)

OTHER (PLEASE WRITE IN): \_\_\_\_\_

##### **RECRUITER DECLARATION**

I DECLARE THAT THIS IS A TRUE RECORD OF AN INTERVIEW WITH THE NAMED RESPONDENT WHICH WAS CONDUCTED IN ACCORDANCE WITH THE INSTRUCTIONS AND THE MRS CODE OF CONDUCT. I AGREE TO BE BOUND BY THE DATA PROTECTION ACT 1998.

SIGNATURE: \_\_\_\_\_

PRINT NAME: \_\_\_\_\_ DATE: \_\_\_\_\_

For Creative Research use only Respondent ID

## KEY DEMOGRAPHICS

### D1 SOCIAL GRADE OCCUPATION OF HEAD OF HOUSEHOLD:

#### ASK THE FOLLOWING FIVE QUESTIONS TO CLARIFY HEAD OF HOUSEHOLD INFORMATION:

IF RETIRED, ASK FOR PREVIOUS OCCUPATION, IF PRIVATE PENSION RECEIVED

IF LOCAL AUTHORITY OR CIVIL SERVICE OR ARMED FORCES, ASK GRADE/RANK

IF SELF-EMPLOYED OR MANAGERIAL, ASK FOR NO. OF EMPLOYEES RESPONSIBLE FOR

ASK FOR DETAILS OF TRAINING/QUALIFICATIONS

INDUSTRY (WRITE IN)

### NOW CODE SOCIAL CLASS

AB	1	Recruit to quota			
C1C2	2				
DE	3				
<b>D2 Gender</b>			<b>D5 Housing Tenure</b>		
male	1	Recruit to Quota	Owner-occupier (owned outright or with a mortgage)	1	Recruit to Quota
female	2		Rented from council/housing association	2	
			Rented privately (furnished/unfurnished)	3	
<b>D3 Age: Write in and code below</b> _____			<b>D6 Water Company Region</b>		
20-35	1	Recruit a spread	United Utilities	G1	
36-45	2		Dwr Cymru/Welsh Water	G2	
46-55	3		South West Water	G3	
56-65	4		Anglian	G4	
66+	5				
<b>D4 Lifestage – see recruiter guidelines for definitions</b>					
Pre-family	1	Recruit to Quota			
Family	2				
Post-family	3				
Retired	4				

**SCREENING**

S1. <b>SHOW CARD A</b> Can I just check, do you or any of your immediate family work in any of the following professions or occupations?					
Market Research or Marketing	1	<b>CLOSE</b>	Any aspect of the water industry	4	<b>CLOSE</b>
Public Relations or Journalism	2				
Advertising	3				
			None of these	7	<b>CONTINUE</b>
S2a. Have you <u>ever</u> attended a GROUP DISCUSSION or IN-DEPTH INTERVIEW before?			S2b. What was the subject under discussion?		
No	1	<b>GO TO Q1</b>	<b>IF PREVIOUS SUBJECT RELATED TO UTILITY BILLS – EITHER ENERGY OR WATER, THANK &amp; CLOSE. OTHERWISE ASK Q2c</b>		
Yes	2	<b>GO TO S2b</b>			
S2c. How long ago was that?			S2d How many group discussions & depth interviews have you attended in the last 3 years?		
Less than 6 months	1	<b>THANK &amp; CLOSE</b>	1-6	1	<b>GO TO Q1</b>
More than 6 months ago	2	<b>GO TO S2d</b>	7 or more	2	<b>THANK &amp; CLOSE</b>

I need to ask you some questions about your water company to ensure we include a good mix of people.					
Q1. Are you the person in your household who is responsible for paying the water bill either by yourself or jointly with your partner?					
solely responsible		1	<b>Continue</b>		
jointly responsible - you can recruit either respondent or partner depending on what you need for your gender quota		2	<b>Continue</b>		
not responsible		3	<b>CLOSE</b>		
Q2. Can I just check the name of your water company? Is it .... <b>Read out the name of the water company that corresponds to the group you are recruiting</b>					
G1: Anglian Water		1	<b>Continue</b>		
G2: Dwr Cymru / Welsh Water		2			
G3: South West Water		3			
G4: United Utilities		4			
Respondent doesn't know name of water company		5			
Other water company		6	<b>CLOSE</b>		

Q3. Is your water supply metered or unmetered?								
		metered	1	<b>Recruit to quota</b>				
		unmetered	2					
		don't know	3					
Q4. What is the annual size of your water bill at the moment?		£						
<b>Use the table below to code as either above or below average – recruit to quota</b>								
<b>NB</b> If respondent is unsure of the precise amount and does not have a bill to hand, use the grid below to find out if it is above or below average for the water company and the type of supply in question.								
<b>NB</b> Check the amount you record is the cost for the whole year. Metered customers may be sent bills every 6 months.								
	<b>Anglian</b>		<b>Dwr Cymru</b>		<b>SW Water</b>		<b>United Utilities</b>	
	Meter	No Meter	Meter	No Meter	Meter	No Meter	Meter	No Meter
average annual bill	<b>£352</b>	<b>£470</b>	<b>£298</b>	<b>£453</b>	<b>£396</b>	<b>£697</b>	<b>£345</b>	<b>£390</b>
<b>above average</b>	1	1	1	1	1	1	1	1
<b>at or below average</b>	2	2	2	2	2	2	2	2

Q5. SHOW CARD B Finally, can I just check whether you are involved in or take advantage of the services and facilities offered by any of the following types of local community group/organisations		
a church or faith based organisation – this might include attending religious services or other forms of community activity held on the premises of such organisations (eg a mother and toddler group held in a church hall)	1	
a youth group or organisation, such as the scouts/guides	2	
a not-for-profit sports club – the club may charge a membership fee but this is to cover its costs rather than to make a profit	3	
a village hall or other local venue which is available for the local community	4	
some other not-for profit organisation that provides services/facilities to the local community: write in brief description	5	

**Give Respondent Show Card C and read out**

The group discussion you take part in will be audio recorded and a transcription will be produced.

This card describes how the information you provide will be used and the steps that will be taken to protect your confidentiality.

Please sign below to indicate your agreement with this procedure.

Name: _____
Signature: _____
Date: _____

**Before finalising recruitment:**

Explain to respondent the nature of the research:

- An initial workshop lasting up to three hours
- An information pack to take home and read along with some other activities to carry out
- A follow-up workshop one week later also lasting up to three hours.

Explain that they will receive a payment of £100 for taking part in two instalments - £35 at the first workshop and £65 at the second.

**You should only recruit someone who agrees to attend both sessions and is prepared to spend a couple of hours in between doing some 'homework.'**

**SHOW CARD A**

**Market Research or Marketing**

**Public Relations**

**Journalism**

**Advertising**

**Any aspect of the water industry**

**None of these**



## SHOW CARD B

### **A church or faith based organisation**

This might include attending religious services or other forms of community activity held on the premises of such organisations (eg a mother and toddler group held in a church hall)

### **A youth group or organisation**

Such as the scouts/guides

### **A not-for-profit sports club**

The club may charge a membership fee but this is to cover its costs rather than to make a profit

### **A village hall**

Or other local venue which is available for the local community

### **Something else**

Some other not-for profit organisation that provides services/facilities to the local community

## SHOW CARD C

**The Data Protection Act requires that we collect and use the information you provide to us in a manner that respects and protects your confidentiality.**

**Your personal details (such as name, address, phone number) will not be disclosed to anyone else without your permission other than Creative Research, the company carrying out the research.**

In most cases the recordings/transcripts will be heard/read **only by the transcriber and researchers from the research company.**

The recordings/transcripts will only be listened to/read for research purposes and only to pursue the aims of the study. Excerpts from the recordings/transcripts may be used to illustrate the research findings. This will always be done in a way to protect your identity (e.g. comments will not be attributed).

The recordings/transcripts will not be used for non-research purposes, such as promotion or direct sales activities.

**In exceptional cases** the recordings/transcripts will be listened to/ read by people from the client organisation working on this project. In these circumstances, where possible we will go through the material first to delete any references to people's names or anything else that could identify them.

Anyone from the client organisation who listens to/ reads the recordings/transcripts will sign an undertaking that they will respect the anonymity of those taking part. Thus, if anyone recognises you, (s)he will immediately stop listening/reading.

**Any other material or information** generated by you, such as ideas written down on paper, will be subject to the same strict controls.

You have the right to **withdraw your consent** at any point in the interview/discussion. You may also withdraw from the interview/ discussion at any point. Please sign below to indicate your agreement with this procedure.

## Recruiter Guidelines

### Purpose

The research is being conducted on behalf of the Consumer Council for Water that represents the interests of consumers in the water industry. One of the key issues it seeks to address is to ensure that consumers are charged a fair and affordable price for the services provided by water and sewerage companies. The research findings will help shape CCWater's approach to a number of issues.

### Research Method

This is an example of what is called deliberative research. This is an approach in which participants are given lots of information on a particular topic and encouraged to spend some time thinking (or deliberating on it) before coming to a particular view in terms of what they think should happen.

This project is based on a number of **reconvened workshops**. Participants come to the first workshop and their initial opinions are discussed. They are then given a pack of information to take home and read. They will also be invited to conduct some research of their own, for example, by looking things up on the internet or in their local library, and to discuss the topic among their family and friends. They then come back for a second workshop where they share what they have found out, discuss how they feel about it, and try to arrive at an overall view.

We have conducted a number of projects on similar lines and we have found that participants usually find it interesting and enjoyable. Unlike in a normal focus group where the moderator sets the agenda, with deliberative research the participants have much more control over the issues that are raised and discussed.

### Your Task

Your task is to recruit 18 participants who are willing to take part. There are a number of exclusions and quotas which are set out below.

### Exclusions

Please do not recruit anyone who works or has members of their family who works in any of the types of job on Card A (S1).

Our usual restrictions on previous attendance at groups/depths etc also apply (S2a-d). **In particular**, please do not recruit anyone who has taken part in any previous research on the topic of utility bills – this includes energy bills as well as water bills.

### Demographics

Please recruit a total of 18 participants as follows:

- 6 respondents from each of the three SEGs AB, C1C2, DE (D1)
- 9 men and 9 women (D2)
- a spread of ages. You should not recruit anyone under 20; there is no upper age limit provided the respondent is able to attend the 3 hour sessions and can participate in the discussions – please use your discretion here (D3)
- at least 4, and no more than 5 respondents at each of the following lifestages (D4):
  - **Pre-family:** single and living independently or married/in permanent relationship; no children; aged 20-35
  - **Family:** married/in permanent relation/single parent with one or more children aged 0-16 living in the family home; aged 20-55
  - **Post family:** married/in permanent relation/single; either never had children or all children are aged 17 and above; aged 36-60 (women)/36-65 (men); no more than 2 respondents to have taken early retirement
  - **Retired:** have reached the State retirement age – 60+ (women) or 65+ (men)

- housing tenure (D5):
  - please ensure that **at least 3** and **no more than 5** respondents live in property rented either from the council or a housing association (NB they must also receive and be responsible for paying a water bill – if someone's rent includes a sum that goes to wards their water bill, you should not recruit them)
  - you can recruit up to 2 people living in private rented accommodation provided that they receive and pay their own water bill; if you do not come across anyone renting privately, you can make up the numbers from the owner occupiers
  - **at least 11** and **no more than 15** respondents should be owner occupiers – it doesn't matter if they own their home outright or if they are paying for it via a mortgage.

## Water

- **Responsibility for water bills:** All respondents should be responsible for paying their water bills either by themselves or jointly responsible with their partner (Q1)
- **Water company:** The locations chosen for the research should mean that everyone has the same water company however you should check that all respondents are customers of the particular water company that relates to your location (Q2).
- **Type of supply:** your quota will depend on which water company region you are recruiting from:
  - **Anglian Water and South West Water:** water meters are common in both regions so please aim to recruit equal numbers; we will accept anywhere between 8-10 with a meter
  - **Dwr Cymru and United Utilities:** water meters are less common in these regions and you should aim to recruit 5-8 people with a meter
- **Size of water bill:** we want to recruit a spread of people in terms of the size of their water bill. The grid at Q4 displays the current average water bill for each water company. You will see this is different for metered and unmetered supplies. You should ask respondents to tell you the amount of their current annual water bill. Bear in mind that metered customers may receive bills every 6 months. You can then use the grid to code their bill as either being 'above the average' or as 'at or below the average'. Make sure you use the correct figure depending on the type of supply. For example, if the annual bill is £400, a customer of South West Water with a metered supply would be codes as 'above average' (the average is £396); however, a customer of Anglian Water with an unmetered supply would be codes as 'below average' (the average is £470). **At least 7, and no more than 11 respondents should be above or below average.**

## Data Protection and Confidentiality

Please make sure every respondent has read Card B and given their signed consent.

## Front Page

Finally, please complete the details on the front page:

- the respondent contact details
- the method you have used to find people
- the recruiter declaration.

Good luck!

### 1. Introduction (10 minutes)

- Moderators introduce themselves and any colleagues from CCWater
- Moderator explains that:
  - the research is being conducted on behalf of Consumer Council for Water a non-departmental public body sponsored by Defra and the Welsh Assembly Government to represent the interests of water consumers across England and Wales
  - charges for water and sewerage services in England and Wales are complex and one of CCWater's concerns is ensure there is a fair, affordable price and charging system
  - CCWater have asked us to carry out a consultation among the public to establish people's views on a range of issues – and that these issues will become clear as we go along
- Usual reassurances provided about confidentiality together with ground rules e.g. everyone to make a contribution, by all means disagree with each other but respect differences in opinion etc
- Format of evening outlined:
  - mix of individual activities, small group work and everyone together
  - presentations of information as we go with discussions around what you hear and find out
  - opportunity to ask questions of representatives from CCWater
  - some things to do at home after the session
  - a follow up session in a week's time
- Participants divided into 2 groups for breakout sessions

### 2. Breakout Session: Cross Subsidies (60 minutes)

#### Introductions

- Participants asked to find out 3 things about person sitting next to them and then to introduce him/her to rest of group
  - first name
  - family circumstances (married/single, whether have any children)
  - what they do for a living

#### Cross Subsidies

The aim here is to explore levels of awareness, understanding of, and initial reactions to the fact that many of the products and services we pay for involve a degree of cross subsidy – not just in relation to water but across many different sectors.

- Moderator displays a board with the term 'cross subsidy' written on it; s/he makes it clear we are not just talking about the water industry at this point but about all types of products/services and organisations that provide these
  - awareness and understanding of the concept of cross subsidy is explored – what does it mean to people, are there examples they know of, do they have a view on whether cross subsidies are a good or a bad idea
- Moderator provides a definition of the term and further explores reactions to this
- Moderator uses round robin approach to identify what participants consider to be examples of cross subsidies
  - writes down examples on separate cards
  - if necessary, moderator provides suggestions based on a pre-determined list
- Participants given a set of cards made up of examples they have suggested, together with any examples from a pre-determined list
- Participants task is to sort the cards in a number of different ways.
  - to begin with, they have to decide collectively on a method/basis for sorting them (this is to establish the sorts of parameters they bring to the discussion). This usually results in different suggestions being thrown up until the group arrives at a basis they are happy with. Moderator will note down different ideas that are suggested.
  - S/he encourages the group to arrive at a sorting that makes sense to them and which involves at least 2 categories. While we are not looking for total agreement in terms of which card belongs in which category, we are looking for consensus.
  - Moderator gets the group to read out which cards are in each group (to capture on the recording) and to briefly explain the basis of the sorting
- Participants now asked to sort the cards into between 2 and 4 piles based on the extent to which they support or disagree with each cross subsidy
  1. those that everyone agrees with/supports
  2. those where some of them agree with it but some disagree
  3. those that everyone disagrees with
  4. any that they feel unsure about i.e. they feel they don't know enough about to decide one way or the other
- Moderator captures which cards are in each pile and invites participants to explain their reasoning
- Moderator explores the extent to which the following factors have a

Cross Subsidy

Cross Subsidy  
Definition

Set of cards  
each  
describing a  
different cross  
subsidy

bearing on how participants feel about cross subsidies

- who benefits from the cross-subsidy - are there certain types of beneficiaries that participants feel are more deserving than others? if so, who are these groups?
- who pays the cost of the cross subsidy – other customers, the service provider, the government (check if respondents suggest the government should pay that they realise this means ultimately the tax payer)
- Focusing on the cross subsidies relating to utilities (energy, water, telecoms):
  - are cross subsidies more or less acceptable in these industries?
  - does it depend on who benefits and/or who pays?
- Focusing on how the water industry cross subsidies are sorted
  - are cross subsidies more or less acceptable in this area?
  - does it depend on who benefits and/or who pays?
  - to what extent, if at all, does it make any difference that (a) water companies cannot disconnect household customers (b) household customers cannot switch suppliers? (FYI businesses using  $>50,000\text{m}^3$  can switch if they meet certain criteria)

### 3. Plenary Session: Cross Subsidies (30 minutes)

The aim here is to begin to introduce participants to the cross subsidies we want them to deliberate on and to give them some initial information on these – namely site area charging and the SWW subsidy.

- Moderator welcomes everyone back together and makes a short presentation which covers:
  - some basic details about cross subsidies with a view of demonstrating that they occur in lots of different guises across all sectors; that there are winners and losers in every case (aim being to make it clear this is not something that is specific to the water industry)
  - that there is a bill currently going through parliament which will almost certainly be passed before a general election which is likely to result in two further cross subsidies being introduced into water bills, namely
    - concessionary charging for community groups
    - the SWW legacy
  - short presentation about concessionary charging for community groups finishing with some key issues/questions we want them to deliberate about
  - short presentation about the SWW subsidy finishing with some key issues/questions we want them to deliberate about
- Q&A session: participants given the opportunity to raise any questions they have relating to these two new subsidies; moderator may answer some of these but will invite CCWater representative to respond. Where appropriate, we will explain that they are going to be given some more information on these topics so rather than getting into detailed debate about the pros and cons, the idea is to provide any clarification of key issues
- Moderator explains we now have to ‘car park’ these issues as we are going to now consider some further things.
- Participants go back into breakout groups

**JUST OVER HALF WAY**

## 4. Breakout Session: Social Tariffs (40 minutes)

### Social Tariffs

The aim here is to explore levels of awareness, understanding of, and initial reactions to the concept of the social tariff particularly in relation to utilities.

- Moderator displays a board with the term 'social tariff' written on it and explores
  - awareness and understanding of the concept of social tariff is explored – what does it mean to people, are there examples they know of, do they have a view on whether social tariffs are a good or a bad idea
- Moderator provides a definition of the term and further explores reactions to this
  - have participants come across any examples?
- Moderator explores initial views on beneficiaries
  - which types of people do they think should benefit from social tariffs (round robin technique used to identify as many 'types' as possible); moderator notes down suggestions
- Moderator displays board with examples of potential beneficiaries and reactions explored
  - those that everyone/nearly everyone disagrees with
  - those where there are mixed views
- Moderator explores initial views on who should pay for social tariffs; we would not go into this in any great depth but we would establish top of mind views on who participants think should pay and the reasons for this. If not raised spontaneously, moderator would seed discussion with the following and seek pros and cons of each:
  - other customers
  - utility companies eg out of profits
  - government (check if respondents suggest the government should pay that they realise this means ultimately the tax payer)
- Moderator displays short description of three different social tariff:
  - BT Basic
  - WaterSure and Welsh Water Assist (cover both in all sessions)
  - energy company social tariffs
  - each description covers what the tariff is, who is eligible and how it is paid for
- Reactions to the three examples discussed:
  - do they approve of the social tariffs? some or all of them?

Social Tariff

Social Tariff  
Definition

Potential  
beneficiaries  
of social tariffs

Summary of  
BT Basic,  
WaterSure &  
energy social  
tariff



- views on eligibility
- views on how the cost is met
- Moderator explains that under current arrangements, it is up to the individual customer to apply for a social tariff, many of those who are eligible have not applied (they may not be aware they exist). For this reason, in the future energy companies are going to be required to check whether their customers are in receipt of certain benefits; any customer who receives these benefits and is not on their social tariff will get £80 off their annual energy bill
  - reactions to this
- Wessex Water scheme outlined and reactions sought

## 5. Plenary Session: Social Tariffs (30 minutes)

The aim here is to begin to introduce participants to the social tariff issues we want them to deliberate on and to give them some initial information on these

- Moderator welcomes everyone back together and makes a short presentation which covers:
  - as a result of the Walker review and the bill currently going through parliament, a number of ideas are being considered for ways of helping people on very low incomes to pay for their water bills
    - a number of different mechanisms could be used (do nothing, increase benefit rates, use social tariffs)
  - if social tariffs were to be used, there are a number of different ways this could be done and these are outlined in Fact Sheet 7
  - there are also a number of ways in which the cost of a social tariff could be met, including
    - a customer cross subsidy
    - a Government subsidy
    - self financing schemes
    - out of water company profits
- Q&A session: participants given the opportunity to raise any questions they have relating to the issues discussed; moderator may answer some of these but will invite CCWater representative to respond. Where appropriate, we will explain that they are going to be given some more information on these topics so rather than getting into detailed debate about the pros and cons, the idea is to provide any clarification of key issues

## 6. Plenary Session: Next Steps (10 minutes)

The aim here is to outline what we want participants to do between the 2 workshops and to give a brief overview of what we will be doing in the second workshop.

- Moderator explains what we would like participants to do next
- Briefly outlines the key questions we want them to think about and to come back ready to discuss further.
- Self completion questionnaires handed out and completed
- Information packs handed out
- Incentives paid
- Participants depart

## 1. Introduction (10 minutes)<sup>7</sup>

- Participants complete another version of self completion questionnaire while waiting for workshop to get underway
- Moderator welcomes everyone back and format of evening outlined:
  - mix of small group work and everyone together
  - the emphasis tonight is more on participants working together to share their views and putting together arguments to persuade other people to support their views
  - opportunity to ask questions from CCWater ‘experts’ to help them shape their arguments
  - going to take each of the three sets of issues one at a time
    - concessionary charges for community groups
    - the South West legacy
    - social tariffs

**NB We will vary the order in which we cover each issue as participants are likely to begin to flag towards the end:**

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
<b>United Utilities</b>	concessionary charges for community groups	SW legacy	helping people on very low incomes
<b>Dwr Cymru</b>	helping people on very low incomes	concessionary charges for community groups	SW legacy
<b>SWW</b>	SW legacy	helping people on very low incomes	concessionary charges for community groups
<b>Anglian</b>	We will decide on the order once we have completed the other 3 workshops so we can start with the issue where we feel we still need the greatest steer		

<sup>7</sup> Timings are intended to give an indication of how long we might spend on each activity.

## 2. Breakout Session: Concessionary Charges for Community groups (20-30 minutes)

At this point we will need to be flexible depending on how people divide up. Our aim is to have 3 sub-groups each with a different starting point:

- those who do not support the idea of water companies offering a discount to certain types of organisations
- those who support the idea but do not feel that domestic customers should be expected to make a contribution to the cost
- those who support the idea and do think that domestic customers should make a contribution to the cost

However, we may need to be flexible - for example, if the majority of participants adopt the same position, we may divide them up into two further sub-groups (4 in total). For example, if a large proportion of people were in the third category, we might sub-divided them on the basis of how much they are willing to pay themselves - we could have one group who would want to pay less and another that was prepared to pay more. **(Moderators to make a note of who is in each group)**

- Each group is set a task. They have to imagine that they have been appointed by their water company to act as consumer representatives and that their water company wants to hear their views about possible concessions to community organisations for site area charges. They need to discuss why they feel as they do about the issue and prepare an argument to present back to the other groups to try and persuade them to join their group.
- Each group will be told to appoint one or more scribes (whose task is to capture the arguments and write it up as a set of bullet points) and one or more presenters who will deliver their argument to the other groups
- Participants are told they can ask the CCWater expert(s) any questions at any point to help them prepare their case
- They are given a list of key questions that they need to address
  - those who do not support the idea of water companies offering a discount to certain types of organisations should focus on the reasons why they feel this and the arguments they would use to support their case
  - those who support the idea but do not feel that domestic customers should be expected to make a contribution to the cost should focus on the reasons why they feel this and how they think the costs should be recovered
  - those who support the idea and do think that domestic customers should make a contribution to the cost should focus on why they think domestic customers should help meet the costs

- Each group is given a set time (about 15 minutes) to complete their task at the end of which they must have prepared their case and be ready to present it.
- They are then told that their water company has decided that it will offer concessions and that other business and domestic customers will be asked to share the cost. Their task now is to decide:
  - which types of organisations they feel should receive help
  - for every £1, how this should be shared among the organisations in question
  - whether the concessions should be offered on a permanent or transitional basis; if transitional, how long for
- Each group is given a set time (about 15 minutes) to complete their task at the end of which they must have prepared their case and be ready to present it.
- These activities are not moderated; the moderators will stay in the background but will be on hand to ensure everyone knows what they are doing, to provide any guidance that may be needed and to keep the group on task and on time; Moderators will also ensure that the range of views expressed are captured by the scribes

### **3. Plenary Session: Site Area Charging (20-25 minutes)**

- Each group presents its case back to the others; at the end of each presentation, the other groups are encouraged to respond, to ask questions, point out any flaws in the argument and generally to debate the points being raised
- At the end of the presentations, participants are invited to move between groups if they feel the arguments they have heard have convinced them. Those who move are invited to explain what, in particular, has persuaded them
- (NB moderators to keep note of who moves where)

### **4. Breakout Session: South West Legacy (15-20 minutes)**

Again our aim is to have 3 sub-groups each with a different starting point:

- those who do not support the idea of lowering water bills in the South West region
- those who support the idea but do not feel that tax payers or other customers should be expected to make a contribution to the cost
- those who support the idea and do think that tax payers or other customers should make a contribution to the cost

Once again, we may need to be flexible - for example, if the majority of participants adopt the same position, we may divide them up into two further sub-groups (4 in total)

**(Moderators to make a note of who is in each group)**

- Each group is set a task along the same lines as before and given a set of key questions to consider. They need to discuss why they feel as they do about the issue and prepare an argument to present back to the other groups to try and persuade them to join their group; groups appoint scribes and presenters. Participants are told they can ask the CCWater expert(s) any questions at any point to help them prepare their case
- They are given a list of key questions that they need to address and a time limit of 15 minutes
  - those who do not support the idea of should focus on the reasons why they feel this and the arguments they would use to support their case; they also have to suggest what steps they would take to deal with people who cannot afford to pay their bill
  - those who support the idea but do not feel that tax payers/customers should be expected to make a contribution to the cost should focus on the reasons why they feel this and how they think the costs should be recovered
  - those who support the idea and do think that tax payers/customers should make a contribution to the cost should focus on why they think this
- They are then told that the government has decided to legislate to reduce the bills of SWW customers. Their task now is to decide whether this should be done through increasing taxes or by adding the cost to the bills of all other water company customers together with their reasons. They have just 10 minutes to complete their task

**NB** For the workshop in the South West the activity will be run on slightly different grounds. Assuming they all support the idea of lower bills, we may end up with sub-groups with very similar starting points. Part of their tasks will be to develop arguments that they feel would persuade other tax payers/customers of other water companies to support the idea.

## 5. Plenary Session: South West Legacy (15-20 minutes)

- Each group presents its case back to the others; at the end of each presentation, the other groups are encouraged to respond, to ask questions, point out any flaws in the argument and generally to debate the points being raised
- At the end of the presentations, participants are invited to move between groups if they feel the arguments they have heard have convinced them. Those who move are invited to explain what, in particular, has persuaded them
- (NB moderators to keep note of who moves where)

## 6. Breakout Session: Helping People on Very Low Incomes (25-30 mins)

Again our aim is to have 3 sub-groups each with a different starting point:

- those who do not support the idea of helping such people (do nothing)
- those who support the idea and feel it is best done by increasing benefit rates

- those who support the idea and do think that it is best done through social tariffs

Once again, we may need to be flexible - for example, if the majority of participants adopt the same position, we may divide them up into two further sub-groups. For example, if everyone opted for the social tariff route, they would be divided into 3 groups and set the same task

**(Moderators to make a note of who is in each group)**

- Each group is set a task along the same lines as before. They need to discuss why they feel as they do about the issue and prepare an argument to present back to the other groups to try and persuade them to join their group.
  - For those groups who do not support the idea, they must also put forward their suggestions for what should be done when people on very low incomes cannot pay their bills
  - For those groups who support the idea of using the benefits system need to focus on why they think this and why they reject the alternatives
  - For those groups who support the idea of using social tariffs need to focus on why they think this and why they reject the alternatives
- Time limit is set (10 mins)
- They are then told to imagine that the Government has decided to opt for the social tariff route. Irrespective of how they feel about this, they are now set a new task. Each group has to
  - Decide which Option or Options they support, along with reasons why they support these Options and why they reject others
  - Decide which methods of meeting the cost they support, along with reasons why they support these Options and why they reject others
  - They may decide to support just one option/payment method or they may feel that a number of different options/methods of payment should be adopted
- Time limit is set (20 mins)

**7. Plenary Session: Helping People on Very Low Incomes (25-30 minutes)**

- Each group presents its case back to the others; at the end of each presentation, the other groups are encouraged to respond, to ask questions, point out any flaws in the argument and generally to debate the points being raised
- At the end of the presentations, participants are invited to move between groups if they feel the arguments they have heard have convinced them. Those who move are invited to explain what, in particular, has persuaded them
- (NB moderators to keep note of who moves where)

## 8. Conclusion (15 minutes)

- **NB in Wales, moderator to probe to establish whether the fact that Dwr Cymru/Welsh Water is a not for profit organisation had an impact on participants views – either with respect to social tariffs or the other two issues (site area charging/SW legacy) – assuming this has not already been covered**
- Final copy of the self-completion questionnaire distributed
- Thanks and Good Byes.

### 9.4 Stimulus Materials: First Workshop

#### **Cross Subsidy**

**Where some customers are required to pay a price which is higher than the cost of providing the service they receive to enable other customers to pay less than the true cost to serve them.**

#### **Social Tariff**

**A discount offered to help make a service or product more affordable for vulnerable customers and those on low incomes. The cost is typically spread across the bills of other customers.**



## **BT Basic**

### **What is it?**

- A subsidised telephone service to help low-income families in the UK cope with the rising cost of household bills.
- £4.50 a month line rental - this is less than half the £10.50 a month phone line rental which customers on the cheapest non-subsidised option pay
- The phone line rental fee includes £4.50 worth of phone calls a quarter
- There is no surcharge for non direct debit payments

### **Who is eligible?**

- People who receive one of three specific benefits – Income Support, income-based Job Seekers Allowance or Guaranteed Pensions Credit.

### **How is it paid for?**

- Although it is funded by BT it is not clear exactly how. It could involve a cross subsidy but as they need to keep their charges competitive it may partly be funded out of profits

## **WaterSure**

### **What is it?**

- Customers with larger families or who need to use large amounts of water for medical reasons are likely to have higher than average bills if they are metered
- The WaterSure tariff ensures that metered customers on low incomes pay no more than the average household bill for their water company

### **Who is eligible?**

- You must have a water meter and be receiving certain benefits or tax credits
- You must also
  - either have 3+ children under 19 living in your home
  - or have a family member who has a medical condition which requires them to use significant amounts of extra water

### **How is it paid for?**

- It is paid for by adding less than £1 a year on average to the bills of other customers.

## Welsh Water Assist

### What is it?

- This is similar to the WaterSure tariff except it also applies to unmetered customers
- A tariff that ensures that certain customers bills are capped; currently this is £250 a year
- The average water and sewerage bill for Welsh Water currently stands at £298 (metered) or £453 (unmetered)

### Who is eligible?

- You must be receiving certain benefits or tax credits
- You must also
  - either have 3+ children under 19 living in your home
  - or have a family member who has a medical condition which requires them to use significant amounts of extra water

### How is it paid for?

- It is paid for by adding less than £1 a year on average to the bills of other customers.

## Energy Company Social Tariffs

### What is it and who is eligible?

- All energy providers have to offer social tariffs to help their most vulnerable customers cope with the high costs of gas and electricity
- Each company operates its own scheme but under Ofgem rules, all social tariffs must at least equal the supplier's cheapest deals

### Some examples

- EDF Energy Assist
  - Customers spending 10% or more of their income on their energy bills or receive income support or pension credit get a 15% discount
- npower Spreading warmth
  - customers on low incomes (<£13.5k) and where a member of the household is either under 16 or 60+ or is disabled or has a chronic illness get a discount of £125 per year per fuel (£250 for dual fuel customers).

### How is it paid for?

- It adds about £6 a year to the bills of other customers.

## Wessex Water Assist

### What is it?

- A reduced tariff which is given to customers whose income is too low for them to be able to pay their current bill for water and sewerage charges
- Customers pay a lower charge based on the number of people in the household

### Who is eligible?

- Metered and unmetered customers in receipt of a means tested benefit, such as income support or pension credit
- Applications have to be made through a debt advice agency such as CAB

### How is it paid for?

- It is funded through the savings it creates in terms of lower debt costs
- This means it does not add anything extra to other customers' bills

## Who Should Benefit?

- People on below average income
- People on very low income
- People in receipt of means tested benefits, such as Income Support or Pension Credit
- People in receipt of tax credits
- People with a disability or a long term chronic illness
- People with a medical condition that means they have to use more energy (e.g. to keep warm) and/or more water

## Examples of Cross Subsidies

<p><b>BT Phone boxes</b></p> <p>Fixed call charges irrespective of the installation/maintenance costs e.g. city centre vs. isolated rural location</p>	<p><b>Royal Mail</b></p> <p>Flat rate universal postal service irrespective of the distance involved</p>
<p><b>Energy and Water Rural/Urban</b></p> <p>Customers in rural locations pay the same charges as those in towns even though it is often more expensive to provide services to them</p>	<p><b>Broadband Levy</b></p> <p>The plan is for all landline customers to pay an extra £6 a year to extend broadband access to all parts of the country</p>
<p><b>Free cash payments</b></p> <p>Water companies allow people to make regular cash payments free of charge even though this is more expensive. Costs are absorbed by other customers</p>	<p><b>Energy Company Social Tariffs</b></p> <p>All companies are required to offer a reduced tariff to customers on very low incomes. It is estimated that this adds around £6 a year to other customers' bills</p>
<p><b>Debt Costs</b></p> <p>For example, customer debt and the costs of trying to recover this currently adds around £12 to water customers' annual bills</p>	<p><b>BT Basic</b></p> <p>A scheme that offers a lower telephone standing charge for people in receipt of benefits. Likely to involve a degree of cross-subsidy</p>
<p><b>WaterSure</b></p> <p>A scheme for limiting the water bills of people on low incomes with medical conditions and/or 3+ children. Typically It adds less than £1 to other customers' bills</p>	<p><b>Non-metered Water Customers</b></p> <p>Water bills of non-metered customers are based on the rateable value of their property. A single person living in a large house is likely to have a larger bill compared to a large family living in a small house</p>



## Cross Subsidies and Social Tariffs: 1<sup>st</sup> Workshop

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On behalf of



Job No. 591

## Introduction

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Who we are

Our CCWater colleagues

Format of the evening

Creative Research 2

## Breakout Session 1

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Creative Research 3

## Plenary Session 1: Cross Subsidies

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Creative Research 4

### Cross Subsidies

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A cross subsidy takes place when some customers pay more than they otherwise would to balance out charges to other customers which are lower than the true cost of providing the service.

#### Cross subsidies:

- exist in many different forms in lots of different markets
- create 'winners' and 'losers'
- it is not always possible to calculate the 'savings' and 'costs'

Creative Research 5

### Cross Subsidies

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There is a possibility that two new cross subsidies could be introduced into water bills:

**Concessionary charging for community groups**

**The South West legacy**

**CCWater would like your views on both of these**

Creative Research 6

## Concessionary charging for community groups

**In addition to charging customers for water supply and sewerage, water companies charge customers for the cost of removing rainwater run-off from their properties**

### Domestic customers

- The cost is charged as part of the normal bill and there are no plans to change this

### Non-domestic customers

- Water companies currently use a variety of different methods to charge for this service including rateable value, water usage and the size of the water supply connection
- Some water companies are already using a method of charging known as 'site area' charging and Ofwat expects all water companies to switch to this method

Creative Research 7

## Site Area Charging

### What is it?

- Site area charging relates **the size of the bill to the surface area that is actually drained**
- It **includes** hard standing areas which drain to the public sewer, including roofs and concreted areas, such as car parks
- It **excludes** areas of grass or gravel

### Why is it being introduced?

- It is considered to be a **fairer system** of charging – customers pay for the amount of runoff they create
- It encourages **more environmentally friendly** choices – e.g. the use of gravel surfaces to allow water to soak into the ground
- If less runoff enters the drains this will **reduce the risk of flooding** as well as **the need to upgrade** the sewer system

Creative Research 8

## Site Area Charging

### Winners and Losers

- Although the total amount of money collected by Water Companies does not change, the change to site area charging creates 'winners' and 'losers'

**Charges currently based on rateable value**

A town centre shop

A large church with a car park

**Charges currently based on water used /meter size**

A hairdressing salon

A large out of town warehouse

Creative Research 9

## Concessionary charging for community groups

### Concessions

Following pressure from a number of non-profit organisations the Government is planning to change the law to enable water companies to offer reduced charges to community groups paid for through cross subsidies from other customers, including household customers

### Groups which might be considered for discounts include:

- Premises of youth organisations such as Scouts and Guides
- Faith buildings (churches, mosques etc)
- Amateur Sports Clubs (non-profit)
- Village Halls / Community Centres
- Private Schools

Creative Research 10

## Concessionary charging for community groups

### Key questions to think about before next week

- Do you think that Water Companies should offer discounts?
- If you agree that some types of organisations should receive a discount:
  - which types of organisations do you think should benefit from the discount and which should not?
  - should the discount be offered on a permanent basis or should it be for a transitional period only?
  - what size of discount do you think is reasonable?
  - how should the cost of the discount be met?
  - would you be willing to pay something extra on your water bill to help meet the cost? If yes, how much more would you be willing to pay each year?

Creative Research 11

## The South West Legacy

### What is the South West Legacy?

- South West Water (SWW) bills are, on average, 43% higher than other regions.
- An independent review ("The Walker Review") found that water and sewerage bills in the South West Water region are unfair because:
  - the local sewerage infrastructure at the time of privatisation was in a considerably worse state compared to the rest of the country
  - the extensive coastline means that the cost of meeting environmental standards in terms of sewerage discharge is higher compared to other regions
  - SWW has had to have a substantially larger investment programme to bring the infrastructure up to the same levels found in the rest of the country
  - SWW has a smaller local population compared to other water companies which has meant the cost of this work has had to be spread over a smaller number of customers

Creative Research 12



## The South West Legacy: Options for the way forward

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### Option 1

- A one off payment to South West Water from the Government funded by tax payers.
- It is estimated that a payment of £650m would be required.

### Option 2

- Adding an amount to the annual bill of customers in all other regions.
- This would increase water bills by an extra £1.50 each year.

### Key Questions

- Do you support the idea of lowering water bills in the South West region?
- If you do support the idea, do you think the cost should be met by tax payers or by adding an extra amount to the water bills of other customers?

Creative Research 13

## Q&A

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Any questions about:

**Concessionary charging for community groups**

**The South West Legacy**

Creative Research 14

## Breakout Session 2

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Creative Research 15

## Plenary Session 2: Social Tariffs

Creative Research 16

### Helping People on Very Low Incomes

#### Affordability of water bills

- An indication of the affordability of water bills is if it represents less than 3% of disposable income
- The number of low income households facing water bills above this threshold has been growing
  - in 2006 approximately 1 in every 7 households had bills above this level

#### Helping people struggling to pay their bill

- Do nothing
- Increase benefit rates
- Use social tariffs

Creative Research 17

### Social Tariffs

**Social tariffs are discounted charges offered to help make a service more affordable to vulnerable or low income customers. One way of funding a social tariff is through a customer cross subsidy.**

Creative Research 18

## Social Tariffs

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**In the light of the Walker Review and a bill currently before parliament, it is possible that new social tariffs could be introduced**

- Fact Sheet 7 describes five options

**CCWater would like your views on these**

Creative Research 19

## Social Tariffs

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**Social tariffs could be funded in a number of ways:**

- Customer cross subsidy
- Government subsidy paid to water companies (but paid by tax payers)
- Self financing schemes
- From Water Company profits
- Fact Sheet 8 outlines each of these

**CCWater would like your views on these**

Creative Research 20

## Social Tariffs

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### Key Questions

- Do you support the principle of helping people on very low incomes who are struggling to pay their water bills?
- If so, which mechanism do you support – increased benefits or social tariffs
- What are your views on each of the different social tariff options outlined in Fact Sheet 7
- What are your views on the different methods of meeting the cost of social tariffs?
- How much extra, if anything, would you be prepared to pay on your water bill to help meet the cost of a social tariff?

Creative Research 21

## Q&A

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**Any questions about social tariffs?**

Creative Research 22

## What Happens Next?

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### **Tonight**

- Complete a short questionnaire
- Pick up an information pack to take home

### **Between Now and the 2<sup>nd</sup> session**

- Read the information sheets
- Carry out your own research
- Discuss it with family and friends
- Think about the list of questions contained in the pack

### **Next Session**

- Come along ready to discuss these questions

Creative Research 23

### Concessionary Charging for Community Groups

Get started:

- Assign **scribes**: your job is to write down the different arguments as bullet points
- Choose **presenters**: your job will be to present your group's arguments.

#### One person read this out loud

We have been appointed by our water company to act as consumer representatives. They are interested in our views on possible concessions to community organisations for site area charges.

Our view is that

**water companies shouldn't offer a discount to these organisations**

**water companies should offer a discount to these organisations, but domestic customers shouldn't be expected to contribute to the cost**

**water companies should offer a discount to these organisations, and domestic customers should make a contribution to the cost.**

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

### Concessionary Charging for Community Groups

↗ News Flash.....News Flash.....News Flash.....↗

Your water company has just announced that it will offer concessions to certain types of organisations and that other business and domestic customers will be asked to share the cost.

Irrespective of how you feel about this, your task now is to decide:

- which types of organisations you feel should receive help
- for every £1 provided in the form of a discount, how this should be shared among the organisations in question For example, 20p goes to organisations of type x, 40p to organisations of type y and z, & nothing to organisations of types a and b
- whether the discount should be made on a permanent or transitional basis; if transitional, how long

#### Possible types of organisation include:

- Premises of youth organisations such as Scouts and Guides
- Faith buildings (churches, mosques etc)
- Amateur Sports Clubs (non-profit)
- Village Halls / Community Centres
- Private Schools

## The South West Legacy

Get started:

- Assign **scribes**: your job is to write down the different arguments as bullet points
- Choose **presenters**: your job will be to present your group's arguments.

### One person read this out loud

We have been appointed by our water company to act as consumer representatives. They are interested in our views on water bills in the South West region.

Our view is that

**we don't support lowering water bills in the South West region**

**we support the idea of lowering water bills in the South West region, but tax payers or other customers shouldn't be expected to make a contribution to the cost**

**we support the idea of lowering water bills in the South West region, and tax payers or other customers should make a contribution to the cost.**

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

## The South West Legacy

↗ News Flash.....News Flash.....News Flash.....↗

The Government has just announced that it will legislate to reduce the water bills of customers of South West Water.

Irrespective of how you feel about this, your task now is to decide:

- whether this should be done through increasing taxes or by adding the cost to the bills of all other water company customers

## Helping People on Very Low Incomes

Get started:

- Assign **scribes**: your job is to write down the different arguments as bullet points
- Choose **presenters**: your job will be to present your group's arguments.

### One person read this out loud

We have been appointed by our water company to act as consumer representatives. They are interested in our views on helping people on very low incomes.

Our view is that

**we do not support the idea of helping people on very low incomes**

**we support the idea of helping people on very low incomes, and it is best done by increasing benefit rates**

**we support the idea of helping people on very low incomes, and it is best done through social tariffs.**

We need to prepare an argument that puts forward this view with the key issues, and be ready to defend it against challenges from the other groups. Try and convince others to join our group.

There are experts around from CCWater, we can ask them any questions we have to help build our argument.

## Helping People on Very Low Incomes

↗ News Flash.....News Flash.....News Flash.... ↗

The Government has just announced that it will legislate to help people on very low incomes by introducing a social tariff which will be paid for by one of several options.

Irrespective of how you feel about this, your task now is to decide:

- which Option or Options you support, along with reasons why you support these Options and why you reject others
- which methods of meeting the cost they support, along with reasons why you support these payment methods and why you reject others

Helping People on Very Low Incomes	
Summary of Options	Summary of Repayment Methods
<p><b>Option 1</b> 20% reduction for metered customers who receive income related benefits</p> <p><b>Option 2</b> 50 litres of water per child per day free of charge for metered customers who receive income related benefits</p> <p><b>Option 3</b> Bills capped for metered customers who receive income related benefits and either have 3+ children living at home or family member has a medical condition which requires additional water use. Bills capped at either the national or the local average whichever is lower</p> <p><b>Option 4</b> All customers (metered and un-metered) who receive income related benefits receive either a reduced bill or a capped bill to ensure it is no more than 3% of their income</p> <p><b>Option 5</b> Each water company develops its own self-financing social tariff</p>	<p><b>Customer Cross Subsidy</b> The costs of helping a section of the customer base are paid for by other customers.</p> <p><b>Government Funding</b> The cost of helping customers are paid for by Government by means of a subsidy paid to the water companies. The money would be recovered through taxation.</p> <p><b>Self Financing</b> If fewer customers end up in debt, the Water Companies will incur reduced debt recovery and write off costs and the savings can be used to fund the lower tariffs.</p> <p><b>Water Companies meet the Cost out of their Profits</b> This could be paid for by reducing the dividend paid to shareholders, or out of topline profits. Anything paid out of profits is not regulated by Ofwat.</p> <p>In the case of Welsh Water this would impact on the company's ability to share profits with customers through bill reductions.</p>



## Cross Subsidies and Social Tariffs: 2nd Workshop

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On behalf of



Job No. 591

### Introduction

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Concessionary charging for community groups

The South West Legacy

Social Tariffs

Creative Research 2

### Concessionary Charging for Community Groups

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Which group do you belong to?

- A. I don't think Water Companies should offer discounts to any organisations
- B. While I think Water Companies should offer discounts to certain types of organisations. I don't think domestic customers should be asked to help meet the cost
- C. I think Water Companies should offer discounts to certain types of organisations and I think domestic customers should make some contribution to the cost

Creative Research 3



Present back:  
Concessionary charging for community groups



Creative Research 4

The South West Legacy

Which group do you belong to?

- A. I don't support the idea of lowering water bills in the South West region
- B. I support the idea but I do not feel that tax payers and/or other water company customers should be asked to make a contribution to the cost
- C. I support the idea and I think that tax payers and/or other water company customers should make some contribution to the cost

Creative Research 5



Present back: South West Legacy



Creative Research 6

## Helping People on Very Low Incomes

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Which group do you belong to?

- A. I don't support the idea of helping people on very low incomes
- B. I support the idea and feel it is best achieved by increasing the benefit rates
- C. I support the idea and I think it is best achieved through social tariffs

Creative Research 7

Present back:  
Helping People on Very Low Incomes

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Creative Research 8

## A Final Task Before You Go

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- Complete one last questionnaire

**Thanks & Good Night!**

Creative Research 9

## 9.6 Fact Sheets

Dear Participant,

Thank you for taking part in this research we are conducting on behalf of CCWater. Before you attend the second session next week, there are a few things we would like you to do by way of preparation.

We would like you to research and try and formulate your own views on three key issues:

- concessionary charging for community groups
- the South West legacy
- helping people on very low incomes.

Please feel free to discuss these issues with your friends and family to find out what they think.

To help guide you in your own research we have put together this pack of fact sheets. In it you will find information about various aspects of water charging and subsidies which you can use to inform what you think about the topic. If you want to conduct your own research into this issue please do so, and feel free to bring along any material of your own that you feel will help our discussions next week. For example, you might want to bring along some press cuttings or printouts of things you have downloaded from the internet.

On the fact sheets, we have provided some links to websites for further information. These are only our suggestions and please feel free to seek out any other information you feel is relevant. To save you from having to re-type these links, we have put together a page where all the links can be accessed on-line, and this can be found at:

<http://tinyurl.com/creativeresearch>

Overleaf you can find a summary of the key topics and questions that we would like you to be prepared to talk about for our session next week.

Yours sincerely,

Creative Research

## **Key Questions: Concessionary Charging for Community Groups**

- Do you agree with the idea that water companies should be able to offer a discount to certain types of organisations?

If so:

- Which types of organisations do you feel should receive a discount?
- What size of discount do you think should be offered
- Should this be a permanent or a transitional arrangement? If transitional, for how long should it be available?
- How should the cost of the discount be paid for
- How much extra, if anything, would you be prepared to pay on your water bill to help meet the cost of a discount?

## **Key Questions: The South West Legacy**

- Do you support the idea of reducing the size of water bills for customers of South West Water?

If so:

- Do you support the idea of the cost being met by tax payers or by customers of other water companies?
- How much extra, if anything, would you be prepared to pay either by way of additional taxes or your water bill to help meet the cost of this?

## **Key Questions: Helping People on Very Low Incomes**

- Do you support the idea of helping people on very low incomes with their water bills?
- If you do not: what do you propose water companies should do when someone on a very low income cannot pay their water bill?
- If you do support the idea, do you think this is best achieved by increasing benefit rates or by social tariffs?

If social tariffs were to be introduced:

- Which of the options described in Fact Sheet 7 do you agree with?
- Which of the methods of payment described in Fact Sheet 8 do you agree with?
- How much extra, if anything, would you be prepared to pay on your water bill to help meet the cost of social tariffs?

## Fact Sheet 1: Cross Subsidies and Social Tariffs

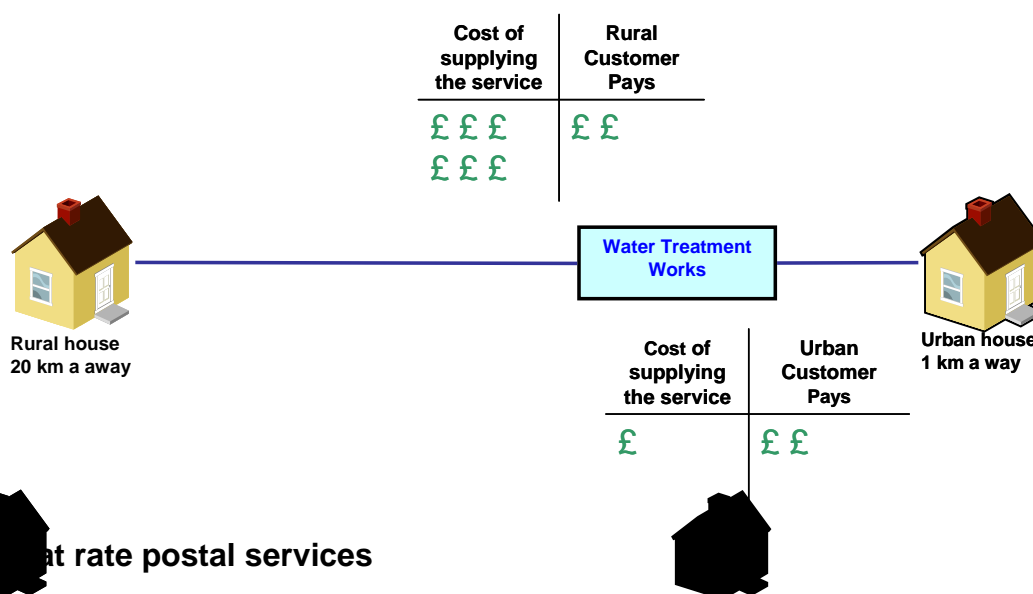
### Cross Subsidies

A cross subsidy takes place when some customers pay more than they otherwise would to balance out charges to other customers which are lower than the true cost of providing the service.

Examples of cross-subsidies can be found in many different sectors.

- **Rural / Urban Cross Subsidies**

Customers in rural locations pay the same charges for services such as their energy, water, telephones and mail as customers in towns and cities even though it is generally more expensive to provide services to them.



- **Flat rate postal services**

The charge for posting a letter within the UK is the same irrespective of distance it is sent. Fixed price bus fares work in a similar way – passengers pay the same price irrespective of how far they travel.

- **Free cash payments by instalments**

Some customers find it easier to pay a bill by making weekly/fortnightly small cash payments. There may be a small charge for this because it is more expensive to collect and process lots of cash payments compared to a smaller number of electronic payments. As well as having to physically collect the money, there are also added security costs involved.

Water companies usually allow customers to make weekly / fortnightly cash payments free of charge even though this is more expensive. Such costs are absorbed by other customers.

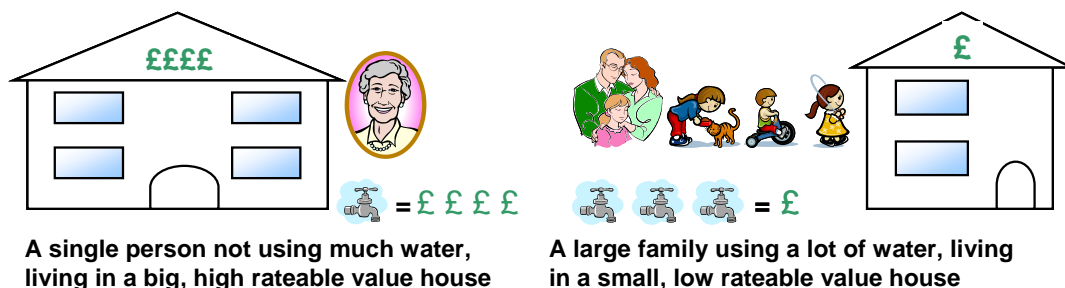
- **Broadband Levy**

The Government has proposed that all landline telephone users pay an additional £6 each year to meet the cost of providing broadband access to all parts of the country.

- **Debt Costs**

Customer debt, and the costs of trying to recover this, is passed on to other customers in the form of higher bills. For example, this currently adds around £12 to each water customers' annual bill.

- **Unmetered Water Bills**



Water bills of non-metered customers are based on the rateable value of their property. A single person living in a large house is likely to have a larger bill compared to a large family living in a small house.

### Arguments for and against cross subsidies

Cross subsidies create 'winners' and 'losers'. Some customers will benefit from one cross subsidy but pay more because of another. For example, a water customer in a rural location will benefit from the rural urban cross subsidy but may subsidise others if they are a prompt payer who pays their full charges at the start of each year.

#### Some arguments for cross subsidies

- They can be used to benefit the community as a whole (such as a flat rate postal service) or provide important support to certain parts of society (such as rural communities) by spreading the cost across a larger group.
- They can simplify charging e.g. with flat rate postage charges, the same tariffs apply to all customers wherever they live. This can mean lower admin costs for the service provider and make it easier for customers to understand.

#### Some arguments against cross subsidies

- Customers can feel it is unfair to expect them to support other customers.
- It can weaken the link between how much someone uses and how much they pay which may, in turn, reduce their ability to control the size of their bill (for example, by taking energy or water saving measures).

## Social Tariffs

Social tariffs are discounted charges offered to help make a service more affordable to vulnerable or low income customers. **One way of funding a social tariff is through a customer cross subsidy.**

Examples include

- **BT Basic**

A subsidised telephone service to help low-income families in the UK cope with the rising cost of household bills. People who receive Income Support, income-based Job Seekers Allowance or Guaranteed Pensions Credit can apply to go onto the tariff.

Line rental is £4.50 a month - less than half the £10.50 a month phone line rental which customers on the cheapest non-subsidised option pay. The phone line rental fee includes £4.50 worth of phone calls a quarter. There is no surcharge for non direct debit payments

- **Energy Companies**

All energy companies are required to offer a social tariff. Each company operates its own scheme but under Ofgem rules, all social tariffs must equal the supplier's cheapest deals. It is estimated that this adds around £6 a year to other customers' bills.

A large proportion of customers who are eligible for these tariffs have not applied for them. For this reason, in the future energy companies are going to be required to check whether their customers are in receipt of certain benefits; any customer who receives these benefits and is not on their social tariff will automatically get £80 off their annual energy bill.

- **Water Companies**

See Fact Sheets 2 and 6 for details of social tariffs in the water industry.

## Arguments for and against social tariffs

Social tariffs are used as a means of providing help to people on very low incomes.

### Some arguments for social tariffs

- They can be used to help a relatively small number of vulnerable people by spreading the cost across a larger group.

### Some arguments against social tariffs

- Customers can feel it is unfair to expect them to support other customers.
- Customers who do not claim help or just miss out on qualifying may end up paying more to help others facing similar financial problems – it may just move the problem around.
- They can result in higher admin costs for the service provider and customers may find it confusing if they are unsure which tariffs they are eligible for.



## **Further Information**

### **Cross Subsidies**

There is a somewhat technical article that discusses the pros and cons of social tariffs in the utility sector which can be found at [http://www.turbosteam.com/documents/articles/sc\\_getting\\_signals\\_right.pdf](http://www.turbosteam.com/documents/articles/sc_getting_signals_right.pdf)

### **Social Tariffs**

#### **BT Basic**

Further details can be found at <http://www.btplc.com/inclusion/Needhelp/BTBasic/>  
<http://www.which.co.uk/news/2008/10/bt-launches-low-cost-phone-service-bt-basic-158560>

#### **Energy Companies Social Tariffs**

Further details can be found at the individual energy company websites.

British Gas: <http://www.britishgas.co.uk/products-and-services/energy/our-products/essentials-programme.html>

E.ON: <http://www.eonenergy.com/At-Home/Products/Products-Electricity-And-Gas/Electricity-and-Gas/StayWarm/>

EDF Energy: <http://www.edfenergy.com/sustainability/our-sustainability-challenge/affordable-energy/energy-assist-social-tariff.shtml>

npower: [http://www.npower.com/spreading\\_warmth/](http://www.npower.com/spreading_warmth/)

Scottish Power: [http://www.scottishpower.co.uk/Home\\_Energy/Product\\_Information/CareFree\\_Plus/](http://www.scottishpower.co.uk/Home_Energy/Product_Information/CareFree_Plus/)

Scottish & Southern: <http://www.southernenergytips.co.uk/help.aspx>

There is also a useful summary provided by Energy Choices although the information may not be fully up to date <http://www.energychoices.co.uk/social-tariffs.html>

## **Fact Sheet 2: Affordability, Water meters, Cross Subsidies and Social Tariffs in the Water Industry**

### **Water Affordability**

Since privatisation in 1989 water and sewerage bills have risen faster than inflation. The regulator Ofwat has allowed these price rises to fund investment of £85 billion to maintain and improve the water and sewerage systems and to meet higher European Community standards for drinking water quality and the environment.

Ofwat sets price limits in England and Wales for five-year periods. During 2010 to 2015 prices will, on average rise no more than inflation.

The average annual household water and sewerage bill in England and Wales is £342 (Ofwat 2009-10 figures) – around 94 pence per day. However costs, and therefore prices, do vary between regions. For example, high investment levels shared between a relatively small population mean customers in the South West of England pay most – the average bill there is £489.

Whereas energy customers can switch to a different, cheaper supplier, this is not an option for water customers. Some customers (particularly single occupiers or smaller families) can reduce their bill by having a water meter installed free of charge and paying for just what they use. Customers who are metered can also sometimes make modest savings by avoiding water wastage (and energy saving costs if hot water is saved).

For most customers, water and sewerage charges are still a relatively small proportion of their income. However there are indications that they are becoming unaffordable for some low-income households. For example, when asked whether water charges are affordable, nearly one in five customers said ‘no’<sup>8</sup>.

The Government has monitored the extent to which water services are affordable by tracking the number of customers whose water bills cost more than 3% of their income after tax. In April 2009, the Government confirmed that, by 2006, 14.5% of customers were already spending more than 3% of income on water and sewerage charges. This could be as high as 30% in the South West region.

### **Water Meters**

Ofwat estimates that by 2007-8 a third of households in England and Wales were metered. The proportions vary between water companies; for example, five companies (Anglian, South West, Cambridge, Folkestone & Dover and Tendring Hundred) have more than 50% of households on meters.

All new homes now come with water meters pre-installed. Water customers currently paying bills based on rateable value can ask for a water meter to be installed. Some water companies will meter properties when they change ownership or when there is high discretionary water use on garden watering and swimming pools etc.

The Government/Defra consider that metering is the fairest basis for charging for water and sewerage services and their aim is to have universal metering in water stressed areas by 2030. A water stressed area is one where the demand for water is in danger of outstripping supply – this includes the whole of South East England.

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<sup>8</sup> Consumer Council for Water Annual Tracking Survey 2008-9

In areas where water resources are stretched there are plans to increase the number of households which are metered. Water companies in these areas are able to consider the option of compulsory metering.

This may make bills less affordable for some larger families living in small properties. This is because their current bills are based on the old rateable value of their property and does not reflect the amount of water they actually use (see Fact Sheet 1).

### **Cross Subsidies**

There are a number of cross subsidies already operating in the water industry; see Fact Sheet 1 for some examples.

**There are developments being considered in the water industry that could result in two further cross subsidies being introduced and we would like your views on both of these:**

- concessionary charging for community groups (see Fact Sheet 3)
- the South West Water 'legacy' (see Fact Sheet 4)

### **Social Tariffs**

The Government does not currently fund specific assistance for customers facing water affordability problems in England and Wales. This is in contrast to Energy where winter fuel payments amounting to £2 billion are paid to all pensioner households, irrespective of income, each year. There are also plans for the UK Government to fund measures in Northern Ireland to limit bills to low income households when water charges are introduced there. In Scotland water charges are paid as part of council charges and reductions are made for low income households.

Water companies in England are required to offer a capped tariff (WaterSure) to those metered customers who are on low incomes and have large families or a medical condition which requires extra water usage (companies in Wales operate similar schemes). There is no equivalent scheme for unmetered customers.

One water company, Wessex Water, has introduced a scheme to offer lower charges to customers struggling to pay their bills. This is funded by the savings which the scheme generates in terms of lower debt recovery costs.

You can find more information about existing social tariffs in the water industry in Fact Sheet 6.

The Government recently commissioned Anna Walker to conduct an independent review of charging for household water and sewerage services (the Walker Review). Her final report was published just before Christmas and it contains a number of recommendations for making water bills more affordable for people on low incomes.

A bill currently going through parliament (the Floods and Water Management Bill), if passed, will enable water companies to introduce tariffs which reduce charges for those who would find it difficult to pay and to allow these schemes to be funded through a subsidy from other customers.

**We would like to get your views on a number of options for new social tariffs in the water industry arising from this review.** You can find out more information on these options in Fact Sheet 7.

## Further Information

CCWater website provides information and links to consumer information on the water and sewerage industry: <http://www.ccwater.org.uk/index.php>. Its position on social tariffs can be found at <http://www.ccwater.org.uk/server.php?show=ConWebDoc.1779>

The view of Water UK (the water industry representative) on prices is available at <http://www.water.org.uk/home/resources-and-links/waterfacts/waterprices>

A general introduction to charges and links to further information can be found at <http://www.ofwat.gov.uk/consumerissues/chargesbills/>

Information on the Anna Walker Review of Charging and Metering for Water and Sewerage services, with links to the interim and final reports, the call for evidence and Defra's Future Water: The Governments Water Strategy for England is available at <http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/index.htm>

The final report of the Walker Review can be found at: <http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/final-report.htm>.

This is a long report but some of the key chapters include Chapter 11: Helping Customers – Affordability and Chapter 14: The South West

Ofwat has information on meters including <http://www.ofwat.gov.uk/consumerissues/meters/> and [http://www.ofwat.gov.uk/consumerissues/chargesbills/household/prs\\_inf\\_meteropt](http://www.ofwat.gov.uk/consumerissues/chargesbills/household/prs_inf_meteropt)

The Government's long term strategy is set out in Future Water (NB this is 100 page report) <http://www.defra.gov.uk/environment/quality/water/strategy/pdf/future-water.pdf>

A map of water stressed areas can be found on p20 of a consultation document produced by the Environment Agency <http://publications.environment-agency.gov.uk/pdf/GEHO0107BLUT-e-e.pdf>

## Fact Sheet 3: Concessionary Charging for Community Groups

### Background

Part of a water customer's bill is for surface water and highway drainage charges to recover the costs of removing rainwater run-off from customers' properties and from roads and pavements.

The costs of these services are charged to household customers as part of their normal sewerage service bill and there are no plans to change this.

When it comes to non-domestic customers, Water Companies currently charge for these services in several ways including charges based on rating values, water usage and the size of their water supply connection (which determines how quickly they can use water). None of these methods directly relates to the volumes of rainwater runoff involved. Some companies use a method of charging that is related to the size of the site to be drained. This is known as site area charging.

### Site Area Charging

Currently four out of the 10 Water and Sewerage Companies use or are phasing in drainage charges based on the size of the site to be drained. This includes all hard standing areas which drain to the public sewer including roofs, and concrete car parks etc but not areas such as grass or gravel.

Site area charging currently applies to non-household customers of Northumbrian Water, Severn Trent, United Utilities and Yorkshire Water. Ofwat has indicated that it expects the remaining companies to adopt this approach to charging.

This approach is generally seen to be fairer in that customers pay in proportion to the runoff they create. It also encourages businesses and organisations to make more environmentally friendly choices about drainage which minimise the amount of rain water put into the public sewer – for example, by using gravel which allows drainage into the ground, rather than concrete or other surfaces that channel rainwater into the sewers or drains. This reduces the risk of flooding and the need to upgrade the sewerage system to cope with larger volumes of run-off.

In the long term, those who choose to install soak-aways to channel rainwater away from public drains, and lay permeable surfaces for car parks and walkways, would, in most cases, reduce surface water drainage charges to nothing

### Winners and Losers

The change to site area based charges creates both winners and losers in terms of bills. The Water Companies do not collect any more money as a result of the change - costs are simply shared differently between customers.

Where the system replaces **a rates based charge** it will tend to benefit small businesses, retail outlets, charity shops and community facilities which are located close to the centre of towns and cities. These properties typically have relatively high rateable values but occupy a small area. Those who will pay more are likely to be customers with larger sites. This can include schools and community centres as well as churches / faith buildings. Many faith buildings have previously benefited from having a 'zero' rating value which has meant they have paid almost nothing for this service.

Where charges have previously been **based on water use or meter size** the winners will be customers with high water usage relative to size (e.g. hairdressers) and the losers those where the opposite is true (e.g. warehouses and storage depots).

We have provided below some examples of indicative changes in bills in the United Utilities region.

- Church with a drainable area of 650-1499 square metres; charge increased from £95 to £1300
- Scout Group with a drainable area 300-649 square metres; charge increased from £200 to £530
- Charity shop or small business with a drainable area 125-299 square metres; charge decreased from £1000 to £250

### **Proposed Concessions**

Although some Water Companies have phased in these changes over a number of years, they have faced considerable opposition from those who are now being asked to pay more. Following pressure from a number of non-profit organisations the Government is planning to change the law to enable Water Companies to offer reduced charges to community groups paid for through cross subsidies from other household and business customers.

It is likely that Water Companies, in consultation with their customers, would be allowed to decide:

- whether or not to offer a discount
- if they do offer a discount, who should receive help as well as the level of subsidy to be provided
- and whether such help would be given on a temporary or permanent basis.

### **Groups which might be considered for discounts include:**

- Premises belonging to youth organisations, such as Scouts and Guides
- Faith buildings (churches, mosques etc)
- Amateur sports clubs (non-profit)
- Village halls / community centres
- Private schools

The decisions about which groups (if any) receive reduced bills and how much discount is given will determine how much this subsidy would increase other customers' bills.

### **Arguments for and against**

Arguments for giving community groups discounted charges include:

- The groups benefit the community as a whole and increased costs threaten their continued existence
- It is not fair to increase charges by such a large percentage even when this is phased in
- Adding a relatively small amount to every customer's bill would protect these groups from large bill increases.

Arguments against include:

- Customers should take responsibility for funding their own bills whether they are a business or an organisation involved in community activities
- The large increase in charges for these customers reflects the fact they have not previously paid a reasonable share of costs for the services they receive
- Other customers including households struggling to pay their own bills should not have to subsidise other organisations and groups.

### Key Questions

- Do you think that Water Companies should offer discounts? Why do you think this
- If you agree that some types of organisations should receive a discount:
  - which types of organisations do you think should benefit from the discount and which should not?
  - should the discount be offered on a permanent basis or should it be for a transitional period only? What length of transitional period would you consider reasonable?
  - what size of discount do you think is reasonable?
  - how should the cost of the discount be met (see Fact Sheet 8)?
  - would you be willing to pay something extra on your water bill to help meet the cost? If yes, how much more would you be willing to pay each year?

### Further Information

The topic has been debated most widely in relation to United Utilities. They provide details of their policy at <http://www.unitedutilities.com/sitearea.htm>.

There has also been quite a lot of media coverage; see for example, <http://www.telegraph.co.uk/news/uknews/5125636/Water-bill-increases-to-force-church-group-to-cut-services.html>.

The Ofwat view is available at:

<http://www.ofwat.gov.uk/nonhousehold/surfacewater/fair/>.

The Consumer Council for Water view can be found at

<http://www.ccwater.org.uk/server.php?show=ConWebDoc.1799>



## Fact Sheet 4: The South West Legacy

### What is the South West Legacy?

South West Water (SWW) bills are, on average, 43% higher than other regions. The Walker review acknowledged that water and sewerage bills in the South West Water region are unfair. The Review concluded that this is because:

- the local sewerage infrastructure at the time of privatisation was in a considerably worse state compared to the rest of the country
- the extensive coastline in the South West means that the cost of meeting environmental standards in terms of sewerage discharge is higher compared to other regions
- that SWW has therefore had to have a substantially larger investment programme compared to other Water Companies to bring the infrastructure up to the same levels found in the rest of the country
- the South West region has a smaller local population compared to other Water Companies which has meant the cost of this work has had to be spread over a smaller number of customers.

### Options for the way forward

- **Option 1**

One way of dealing with this issue and lowering the bills of customers in the South West would be in the form of a one off payment from the Government funded by tax payers. It is estimated that a one off payment from Government of £650m would be required.

- **Option 2**

The other way being considered is by adding an amount to the annual bill of customers in all other regions. This would increase water bills by an extra £1.50 each year.

### Key Questions

- Do you support the idea of lowering water bills in the South West region? Why?
- If you do support the idea, do you think the cost should be met by tax payers or by a cross subsidy which would add an extra amount to the water bills of other customers? Why?

### Further Information

Chapter 14 of the Walker Review addresses the question of the South West legacy: <http://www.defra.gov.uk/environment/quality/water/industry/walkerreview/final-report.htm>.



## **Fact Sheet 5: Possible Mechanisms to Help People Struggling to Pay their Bills**

### **Do Nothing**

#### **Arguments for**

- There is no immediate cost to taxpayers or other customers.
- Incentivising households to move out of benefits is not affected – an increase in benefits could potentially work against government initiatives to encourage people off benefits (see below).

#### **Arguments Against**

- Some customers on low incomes will continue to struggle to pay their water bills.
- This may lead to people rationing water use or other essentials as they continue to struggle to pay.
- Debt problems are not reduced - so there is no reduction in debt costs from unpaid water bills which could otherwise be passed on to other customers in the form of lower charges.
- Debts may even increase leading to an increase in the debt costs which other customers subsidise via their water bills.
- Customers have no choice about which company supplies their water so they cannot shop around to find lower prices.

### **Increase benefit rates**

#### **Arguments For**

- Minimal/no extra administration work/costs required.
- Paid automatically to benefit recipients – there would be no need to make an application.
- There is a point of view that government should have a responsibility to help lift households out of poverty.
- Government is accountable to the public.
- The cost is spread across all tax payers.

#### **Arguments Against**

- Any increase in benefits may not be spent on water – in which case, the problems remain including unpaid water bills and associated costs which are passed on to other customers.
- Benefits are paid out regardless of whether recipients are actually struggling to pay their water bill. Benefit agencies are unable to take account of factors such as size of bill or whether the household is metered or unmetered.
- Not every low income household is in receipt of benefits – there will be low income households struggling to pay large bills which do not receive help under this scheme.
- An increase in benefits could potentially work against government initiatives to encourage people off benefits.

- Tax payers may feel it is unfair or unreasonable for them to meet the cost.

## **Social Tariffs**

### **Arguments for**

- Ensures any financial assistance is used to provide help with water and sewerage charges.
- This can therefore help to reduce debt levels and the associated costs passed on to other customers.
- It would be possible to take account of both customer income and the level of the bill allowing help to be better targeted to those most in need of help with their water bill.

### **Arguments Against**

- Costs may be passed on to taxpayers or customers (see Fact Sheet 8).
- Additional administration is required to operate such tariffs – for example, if companies are to find out which of their customers are on low incomes. This will create additional costs which will feed into charges.
- Customers may have to apply to the water company for help (rather than receiving an automatic payment) - which means some customers who may need help may not receive it.

### **Key Questions**

- Do you agree or disagree that help should be available for people on low incomes who are struggling to pay their water bills?
- If you disagree, what do you think should happen when someone is too poor to pay their bill?
- If you agree, which mechanism do you support – increased benefits or social tariffs – and why?

## Fact Sheet 6: Current Social Tariffs to help Water Customers

### WaterSure

All companies in England are required to operate the WaterSure scheme (see below for details of what happens in Wales). The costs are passed on to other customers and add less than £1 a year on average to other customers' bills.

WaterSure provides help to household customers with a water meter who use large amounts of water for essential purposes by limiting their bill to the average for their Water Company irrespective of the amount of water used. There is no equivalent scheme for unmetered customers in England.

To be eligible you must be a metered household who receives one of the following benefits:

- Income Support
- Housing Benefit
- Working Tax Credit
- Child Tax Credit (except families in receipt of the family element only)
- Income based Jobseeker's Allowance
- Council Tax Benefits (excluding the single occupier allowance)
- Pension Credit
- Income-related Employment and Support Allowance

In addition, you must

- either have three or more children under 19 living at the same address and still in full-time education
- or have a medical condition which causes significant extra water use – for example:

Desquamation (flaky skin disease)

Abdominal stoma

Crohn's disease

Incontinence

Ulcerative colitis

Weeping skin disease (eczema, psoriasis, varicose ulceration)

Renal failure requiring home dialysis (except where the health authority contributes to the cost of the water used in dialysis)

### Welsh Water Assist

This is a voluntary scheme. Welsh Water's Assist Tariff extends the WaterSure scheme to cover unmetered as well as metered households. The tariff for 2009/10 is set at £250, which is lower than the average bill level that would be produced under the WaterSure criteria.

Other than opening the scheme up to all domestic households the requirements for acceptance onto the scheme remain the same as WaterSure – customers must be in receipt of a qualifying benefit and have either a large family or a medical condition that results in additional water usage.

Allowing unmetered customers onto this scheme means that a customer with a medical condition requiring extra water use receives help even though the amount of water they use does not affect their water bill. In some cases, their bill may already be lower than another customer with a disability which doesn't require extra water use and is not eligible for the WaterSure tariff.

The regulator Ofwat has allowed Welsh Water to extend the scheme in this way as a trial and on condition that the change does not increase customer cross subsidy. It must be self funding.

### **Wessex Water Assist**

The tariff is available for metered and unmetered customers. It is funded through the savings it creates in terms of lower debt cost and so does not add anything extra to other customers' bills. However, this means that there is less money available and this may mean that fewer customers receive assistance.

To be eligible the customer must:

- provide proof that they are in receipt of a relevant means tested benefit, (i.e. income support, income based job seekers allowance, pension credit, working tax credit, housing benefit, council tax benefit)
- apply through a debt advice agency (e.g. Citizens Advice Bureau)
- complete, with the aid of the debt advice agency, a means assessment form that supports a proposed payment level lower than their current bill

Customers accepted onto the scheme pay a reduced charge based on household occupancy (i.e. single person, family of three, etc).

### **Anglian Water AquaCare Plus**

Customers on this tariff pay a higher standing charge and a lower rate for the amount of water they use. The tariff is only available for metered customers in receipt of certain benefits/tax credits.

#### **Key Questions**

- Do you support the WaterSure / Welsh Water Assist / Anglian Water AquaCare Plus tariffs? Is the level of assistance provided right? Should others be helped?
- What are your views on the Wessex Water model of funding the cost of a social tariff from savings in debt costs instead of adding a small amount to the bills of other customers?

#### **Further Information**

The Government's WaterSure tariff is explained at:

[http://www.ofwat.gov.uk/consumerissues/problemspayingbill/prs\\_web\\_vulngrpsregs](http://www.ofwat.gov.uk/consumerissues/problemspayingbill/prs_web_vulngrpsregs) and <http://www.ccwater.org.uk/server.php?show=ConWebDoc.1422>

Information about Welsh Water Assist can be found at:

<http://www.dwrcymru.co.uk/English/library/publications/welshwaterassist/english.pdf>

Details of Wessex Water's Assist tariff and other measures to help customers with their water bills is available at:

<http://www.wessexwater.co.uk/customers/twocol.aspx?id=246#Assist>

Details of Anglian Water's AquaCare Plus tariff is at:

<http://www.anglianwater.co.uk/household/your-account/tariffs/aquacare-plus/>

## Fact Sheet 7: Future Options for Social Tariffs in the Water Industry

Following on from the Walker Review, a number of options are being considered to make water bills more affordable for people on low incomes.

**CCWater would like to get your views on these options.**

### Social Tariffs for metered customers

The aim of these tariffs would be

- to help prevent households restricting their use of water for essential purposes because they cannot afford to pay the cost of the water; for example, by not washing so frequently
- to help those who may see their bills rise as a result of moving to paying by meter – it is expected that in time all unmetered customers will move on to meters. This is likely to happen more quickly in areas where water is more scarce (see Fact Sheet 2)

#### Option 1

Under this option, metered customers who receive income related benefits would receive a 20% reduction in charges. This might result in an average discount of £70 per year.

The Walker Review estimated that if all customers were on meters, some 4.4 million households would be eligible and it would cost £340m per year. If this cost was passed on to other customers, it would add around £13 to the average annual bill.

The impact of this measure based on current numbers of metered households has not been accurately assessed but a very rough estimate based on one third of households having a meter puts the cost at around £113m per year and an extra £4.33 on the average bill. The cost would increase to the level predicted by the Walker Review as more households become metered.

#### Option 2

Under this option, metered households who receive income related benefits would be given an allowance of 50 litres free water per child each day. This would represent an average discount of £40 per child per year.

The Walker Review estimated that if all customers were on meters, some 2.3 million children would qualify and this would cost £110m per year. If this cost was passed on to other customers it would add around £3.60 to the average annual bill.

As before, the impact of this measure based on current numbers of metered households has not been accurately assessed but a very rough estimate based on one third of households having a meter puts the cost at around £37m per year and an extra £1.20 on the average bill. Once again, the cost would increase to the level predicted by the Walker Review as more households become metered.

### Option 3

The current WaterSure scheme (see Fact Sheet 6) could be enhanced to give further help to customers in areas with higher than average bills.

Instead of capping metered bills at the local average, they would be capped at the average for England, where this is lower than the local average. This would mean that as well as getting help with the problem of high bills due to essential usage, these customers would also get help to address the problem of a higher than average regional bill. However this would mean that whilst these customers received help with higher regional bills, other low income customers who are not eligible for WaterSure would not.

If the cost of this was £16m it would add around 50 pence to other customers' bills.

### Social Tariff for all low income customers

The aim of these would be to make help available for all low income households irrespective of whether their supply was metered.

### Option 4

All customers in receipt of income related benefits could be given help with bills. This could be achieved either by a percentage reduction on bills or a cap to ensure that typically such customers do not spend more than a percentage of their income (e.g. 3%) on water and sewerage services. The estimated cost of capping the bills of all customers in receipt of income related benefits at 3% of income is around £450m per year.

Based on the estimates for other schemes this might add around £17 to other customers' bills if the cost was passed on to them.

### Option 5

Companies could develop further social tariffs which aim to give help to a more limited number of low income customers and funded through associated reductions in debt recovery / write off costs.

There would be no additional cost to customers. Some of the cross subsidies currently used to chase and write off debt would instead be used to help customers avoid getting into debt and to maintain regular payments.

The Wessex Water Assist tariff is an example of such a scheme (see Fact Sheet 6).

### Key Questions

- Do you support the principle of social tariffs in the water industry?
- Should such social tariffs be aimed at metered households or all households?
- What are your views on each of the Options outlined?
- How much extra, if anything, would you be prepared to pay on your water bill to help meet the cost of a social tariff? How else might they be paid for?

## Fact Sheet 8: Options for Funding Social Tariffs

This fact sheet outlines some of the different options for meeting the cost of social tariffs. These are not necessarily mutually exclusive options – it might be possible to use a combination of funding methods.

### Customer Cross Subsidy

The costs of helping a section of the customer base are paid for by other customers.

#### Arguments for include

- The cost of helping a few customers can be spread across many.
- It is relatively simple (and therefore does not incur additional costs) for Water Companies to transfer costs between customers.

#### Argument against include

- Costs are passed on to other customers without regard to their own financial circumstances. This may create problems for others and just move the problem around. For example, someone who is just above the threshold and therefore doesn't qualify for the social tariff may end up in a worse position compared to someone who does qualify.
- Water companies are not directly accountable to customers (as opposed to share holders) for how they spend their money (except for customers of Dwr Cymru/Welsh Water – see below).

### Government Funding

The cost of helping customers are paid for by Government by means of a subsidy paid to the Water Companies. The money would be recovered through taxation.

#### Arguments for include

- Recovering costs through taxation means that ability to pay is taken into account as it shares the cost in proportion to someone's income.
- Government has a responsibility to address poverty and is accountable to voters for how it spends their money.

#### Arguments Against

- All governments are reluctant to increase taxes; tax payers may feel it is unfair for them to meet the cost.
- The water industry should manage the problem itself – Government should not have to be involved.

### Self Financing

If fewer customers end up in debt, the Water Companies will incur reduced debt recovery and write off costs and the savings can be used to fund the lower tariffs.

#### Arguments For

- Customers and tax payers do not have to pay any more than they do at present.
- Companies can develop schemes tailored to the specific circumstances of their customers.



## Arguments Against

- The help offered through such schemes is likely to be on a much smaller scale than anything funded by bill payers or Government. This is because not all customers struggling to pay fail to do so, and the amount which can be saved in terms of debt costs will be limited.
- A variety of different company specific schemes may be more confusing for customers and lead to lower take-up.

## Water Companies meet the Cost out of their Profits

In England and Wales, all Water Companies except Dwr Cymru/Welsh Water, are funded in two ways:

- **through equity** – investors, such as pension funds, buy shares in a company and receive a payment each year called a dividend for allowing the company use the money to invest in its infrastructure;
- **through debt** – banks and other lenders provide funds and companies repay these loans over a set period. In many respects it is like taking out a mortgage.

Dwr Cymru/Welsh Water is owned by Glas Cymru, a single purpose company that was formed to own, finance and manage Welsh Water. The company is run on a “not-for-profit” basis. It has no shareholders and any financial surpluses are retained for the benefit of Welsh Water customers, for example, by trying to keep bills as low as possible.

Ofwat sets price limits for the water companies every 5 years. These take into account the amount of investment needed for companies to meet legally required environmental and drinking water quality standards, and discretionary service standards based on customer preferences and local issues.

One of Ofwat’s duties is to ensure that when they set price limits, water companies can finance their functions. This means allowing companies to make a profit so that they can meet debt repayments and pay a dividend to shareholders (including pension funds etc) who have invested their money in the company. Companies who outperform their efficiency targets can increase profits and shareholder dividends, but the benefits are also shared with customers when price limits are next set by Ofwat as they take account of the fact that the company will deliver the same services at a lower cost.

The profitability of a company influences their credit rating and, in turn, the rate at which they can borrow money to fund improvements. As customer bills cover most of the cost of repaying these loans, a higher cost of borrowing could mean higher customer charges.

## Arguments for

- It wouldn’t directly impact on the bills of other customers
- It’s up to the companies what they do with their profits – they can be used flexibly

## Arguments against

- Investors (such as pension fund managers) may be less inclined to invest their money in water companies as dividend payments to shareholders could fall if companies divert part of their profits to help low income customers. If shareholder investment fell it would cost the company more to run their business



as they would have to raise more of their own finance for investment in services and would have to pay for this at market rates. This indirectly affects the prices which customers pay because the costs of running the business are taken into consideration when prices are set by the regulator. Thus, ultimately bills may increase.

- It's up to companies what they do with their profits – there is no regulation in terms of how they might be used to help low income customers. It might work well, or not so well but either way, the companies are not accountable.
- Companies already, at their discretion, spend some of their profits on service improvements e.g. leakage repair, and this may be affected if profit is diverted to help low income customers.
- In the case of Dwr Cymru/Welsh Water, the company has previously been able to share profits with customers through a reduction in their bills. Funding a social tariff may reduce their ability to do this.

### **Key Questions**

- Which method or methods are you willing to support? What are your reasons?

## 9.7 Self Completion Questionnaire

Water Company		Workshop	
<b>Name</b>			
<b>1. Concessionary charging for community groups</b>			
1a.	Do you think that your Water Company should offer discounts to certain types of organisations? <i>Tick one</i>		
	Yes	Undecided	No
<b>Please answer Q1b on the assumption that your Water Company decides to offer discounts</b>			
1b.	Which of the following types of organisations do you feel should get a discount? <i>Tick all that apply</i>		
	Premises belonging to youth organisations, such as Scouts and Guides		
	Faith buildings (churches, temples, church halls, etc.)		
	Amateur/not for profit sports clubs		
	Village halls/community centres		
	Private schools		
If there are any other types of organisations you feel should get a discount please <i>write them in here</i>			
<b>2. The South West legacy</b>			
2a.	Do you support the idea of lowering water bills for customers of South West Water? <i>tick one</i>		
	Yes	Undecided	No
2b.	Assuming the Government decides to take action to reduce water bills in the South West, how do you think the cost should be met? <i>Tick all that apply</i>		
	by increasing taxes		
	by adding an extra sum to the bills of other customers		
	undecided		

### 3. Helping People on Very Low Incomes

3a. Do you support the principle of having lower water bills for people on very low incomes? <i>Tick one</i>			
Yes		Undecided	No
3b. Assuming the Government decides to take steps to help people on very low incomes, which would be your preferred method? <i>Tick one</i>			
increasing benefit payments			
social tariffs (these could be paid for in a number of different ways – see 3d)			
Undecided			
3c. Assuming the Government decides to use social tariffs to help such people, which of the following options are you prepared to support? <i>For each option, tick either Yes, No or DK (undecided).</i>			
	Yes	No	DK
1. Metered customers on income related benefits get a 20% reduction (approx. £70 pa)			
2. Metered customers on income related benefits get 50 litres of free water per child per day (a discount of approx £40 per child)			
3. Bills of customers eligible for WaterSure (metered customers on income related benefits with 3+ children <b>or</b> a medical condition requiring the use of extra water) have their bill capped at the average bill for England where this is lower than the average bill for their region			
4. All customers on income related benefits have their bills capped or reduced so they pay no more than 3% of disposable income			
5. Each water company develops its own social tariff funded by savings in debt recovery/write off			

3d. Assuming the Government decides to use social tariffs to help such people, which of the following methods of meeting the cost are you prepared to support? <i>For each option, tick either Yes, No or DK (undecided).</i>			
	Yes	No	DK
<b>A customer cross subsidy</b> – this means other water company customers will meet the cost			
<b>Government funding</b> – a subsidy is paid directly to the water companies; this means that tax payers will meet the cost			
<b>Self financing</b> – the cost is met through savings achieved by reduced debt recovery and write off costs; this is likely to mean fewer customers will be able to benefit from the scheme			
<b>Water companies meet the cost out of their profits</b> – this may make it harder for them to attract investment funds and customer bills may have to go up as a result			
<b>4. Future Water Bills</b>			
On the assumption that:			
<ul style="list-style-type: none"> <li>• <b>Concessionary charges:</b> your water company offers a concession to certain community groups, <b>and</b></li> <li>• <b>SW legacy:</b> the Government decides to reduce water bills in the South West by adding an extra sum to the bills of all other customers (excluding customers of SWW), <b>and</b></li> <li>• <b>Helping people on very low incomes:</b> the Government introduces social tariffs and the cost is added to the bills of all other customers</li> </ul>			
4a. What is the most you would be willing to pay extra each year on your water bill?	£		
4b. If you were able to choose how this sum was shared out across the three initiatives, how would you like to see it divided up?			
concessionary charging for community groups	£		
South West legacy	£		
helping people on very low incomes	£		