

# Call for input – Improving the WaterSure Financial Support Scheme

Severn Trent Response

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WONDERFUL ON TAP



# Summary of response

We welcome this opportunity to feed into CCW's recommendations for the WaterSure scheme. We think it is the right time to reconsider some aspects of WaterSure, given the changes that have occurred since its introduction 25 years ago.

We would support some of the options that CCW has put forward:

- **Expanding qualifying benefits** to include non means-tested disability benefits. We currently offer this additional support through our non-statutory WaterSure Plus tariff.
- **Signalling medical eligibility more clearly.** We think that it would be helpful to communicate the principle that WaterSure provides support for customers who have a medical need for additional water usage with clear examples, making it clear that this was not an exhaustive list.
- **Changing the cap to a company average metered bill,** provided this average excludes the impact of social tariffs and WaterSure itself.
- **Replacing the cap with a percentage or fixed discount.** Given the Government's goal of reducing average consumption to 110 l/p/d, we think that options which give WaterSure customers some incentive to conserve water usage should be considered.

Some of these options would involve a modest increase in the level of cross-subsidy provided through WaterSure, which we believe would be acceptable to customers. We also believe that WaterSure should be put on a statutory basis in Wales, and we have previously communicated this view to the Welsh Government.

In general, we do not support the options that would potentially result in a large increase in the level of cross-subsidy through WaterSure. Our regular customers are already being asked to fund an increase in social tariffs; as part of our research for PR24 we asked customers whether they were prepared to increase the level of cross-subsidy to customers who struggle. As a result of this exercise, our plan proposes to increase this from £15 to £40 (in 2022-23 prices). While a smaller majority of customers would have supported a higher value, our modelling suggested that we will reach an inflexion point where further cross-subsidies are counter-productive (i.e. they will push more customers into water poverty than are lifted out). If water bills rise more rapidly than real incomes (as may be the case) then cross-subsidies cannot alleviate all water poverty forever. A dwindling number of customers on full charges will be asked to support an expanding requirement with the result that some of those who are only just about managing will themselves fall into water poverty.

We think the following options are likely to result in a significant increase in the level of cross-subsidy:

- **Removing the requirement to be in receipt of benefits,** which could also result in high income households receiving subsidies.
- **Replacing the benefits entitlement with an income threshold.**
- **Reducing the number of children needed to qualify.**
- **Extending support to larger multigenerational households,** which also has other practical issues with determining which adults are dependent and resident in a home.
- **Changing the cap to the lower of a company or industry average,** which also has some practical issues since we do not know the industry average metered bill when fixing our charges.
- **Introducing a single occupier bill cap,** which also has significant issues with data validation.

We hope this is helpful and would be happy to discuss our views further with CCW.

# Responses to options considered by CCW

## A. Low income

### 1. Remove the requirement for claimants to be in receipt of benefits

We do not support the removal of this requirement. As CCW notes, this would increase the cost of the cross-subsidy that is funded by other customers and would result in some high-income families being supported by households that are just about managing. As such, the subsidy would be poorly targeted. At a time when regular customers are already being asked to provide higher levels of subsidy to social tariffs, there is a risk that this could increase the level of water poverty. In its current form, WaterSure is a capped charge and therefore this change could expand the number of households that have little or no incentive to reduce their consumption.

### 2. Replace benefit entitlement with a household income threshold

There is already general support for low-income households through social tariffs and we think that this should continue to be the main way in which we seek to address water poverty. If WaterSure was moved to an income-based threshold there would be a large overlap with what we are attempting to achieve with each of these tariffs. The current rules-based approach is relatively simple to implement and makes it possible to share data with the DWP to validate entitlement. WaterSure is a distinct offering, limiting the amount that customers will need to pay if they have a requirement for high usage. As CCW notes, changing to an income-based threshold would result in “winners and losers”; depending on where the threshold was set, some households that currently qualify for WaterSure would become ineligible. The households that lose out would be likely to have a negative reaction.

### 3. Expand qualifying benefits to include non means-tested disability benefits

We support this expansion, which we cover through our non-statutory WaterSure Plus. We believe that people in receipt of disability benefits should be entitled to support if they meet the other qualifying criteria.

## B. Family size

### 1. Increase or reduce the number of children needed to qualify

In our opinion, the large family criteria should remain as three children eligible for child benefit. An increase in the number would disadvantage some existing recipients and a reduction in the number could increase the level of cross-subsidy required from other customers. As CCW notes, single parents with two children might have consumption low enough that they don't receive any benefit from a capped tariff. If the form of WaterSure changed (as considered under the “bill support” section) then there could be a benefit to them

As noted in the overview, our regular customers are already being asked to fund an increase in social tariffs and we think that CCW should be careful about recommending measures that could place an additional burden on supporting customers, some of whom may only be just about managing.

## **2. Extend support to larger multigenerational households**

There could be a case for allowing an extension to cover adults who are genuinely dependent on the bill payer. This could possibly include people in receipt of a disability benefit (whether means-tested or otherwise). However, the practicality of any changes in this area would need to be considered carefully. Besides the issues about the increase in cross-subsidy (as noted in part B1 above), there are some practical difficulties with establishing whether other adults are genuinely resident within a given household. This is something the Government found when it tried to implement a poll tax in the 1980s, and the Government has better information-gathering powers than water companies. As such, we would not support an extension that aimed to cover multigenerational families more generally – for example, people in receipt of a state pension.

## **C. Medical conditions**

### **1. Signal eligibility more clearly**

As CCW notes, the use of a general statement could make the offer clearer to some customers, but less clear to others. We think the best approach would be to include a statement of general principle followed by a list of examples, but emphasise that this list is not exclusive. The general principle that CCW suggests - “any physical or mental health condition which may result in the use of significant additional water usage” – is reasonable. We agree that the requirement for a medical practitioner’s note could be removed, provided the applicant can provide other evidence of the condition. In practice, we are not seeking ways to keep customers off WaterSure but we do have to be mindful that other customers will be paying for them to receive a discounted service.

## **D. Bill support provided**

### **1. Change the cap to the company average metered bill level**

If WaterSure does remain as a bill cap, then – in principle - it could be reasonable to move to a cap based on the average metered bill. The company average bill is influenced by increases in unmetered bills over time, so in principle it could be fairer to base the WaterSure bill on the metered average. However, the arithmetic average “metered” bill includes subsidised tariffs – i.e. customers on social tariffs and WaterSure itself. A fairer measure could be the average metered bill for a customer on regular charges – i.e. the metered bill of a customer with average consumption.

### **2. Change the cap to either the local average metered bill or industry average metered bill – whichever is lower**

We think that there are issues with the practicality of this option, as we do not know what other companies’ average measured bills are until they have published them. Charges are set through an integrated process; we need to balance all charges against our revenue controls. This means that we need to know what the WaterSure rate will be before our charges are approved by our Boards. If we were to implement this option, we would therefore have to agree an estimated national average bill for the purpose (perhaps based on the prior year with an uplift for the effect of inflation and each company’s individual price controls) so that we could work it into our price calculations.

Leaving this issue aside, this change would increase the level of cross-subsidy required – particularly for companies with high bill levels – with all the issues discussed in our overview.

### **3. Replace the cap with a percentage or fixed amount discount**

We would support a change to the form of WaterSure. As CCW notes, this would have the advantage of providing some discount to families whose overall consumption is below the average and would also restore a price signal for non-essential water usage. In our opinion, a fixed discount would be better than a percentage. With a fixed discount, customers would have the same incentive to save water (the same marginal cost) as any other customer. A percentage discount – while better than a capped bill – would have weak incentives for water efficiency.

The value of a percentage discount would naturally flex with the overall bill. The amount of a fixed discount could be fixed at a given level and then uplifted in line with the change in average bills. With a fixed discount there would need to be a floor of zero - a customer on WaterSure that happened to register very low consumption because they were away from their home should not expect to receive a negative bill.

A further advantage of a fixed discount would be that the total value of the cross-subsidy could be calibrated quite easily and therefore the impact on other customers could be assessed. The cost of a percentage discount is slightly more difficult to assess, but the cost of the existing cap is also volatile – some customers with very high usage receive very large discounts while others receive none at all. For this reason, changing to either of these approaches could lead to “winners and losers”. Nonetheless, given that the UK Government’s 2038 target of reducing water consumption to 110 l/p/d, we support a fixed discount to support this goal.

### **4. Introduce a Single Occupier bill cap**

As CCW notes, there are issues with validating single occupier status – notwithstanding the fact that all companies have been required to offer an assessed charge for single occupiers. The effect of the single occupier assessed charge is muted because customers can only apply for this in very limited circumstances – i.e. when we are unable to install a meter. However, any WaterSure customer that could claim to be a single occupant would have every reason to apply for this alternative.

A single occupier cap is simply a more generous form of the current tariff. If customers with very high usage - who may or may not be single occupants – are able to apply for this with limited evidence then it would be rational for them to do so. Given that single occupants on WaterSure will have qualified under the medical criteria, we should not presume that their usage will be lower than the average – it may in fact be extremely high. For single occupants where the cap is making an impact, this measure would simply increase the cross-subsidy they are receiving.

In practice, water companies do not have the ability to check how many people are in each property. As we discuss in B2, Government has found it difficult to do this with more extensive powers than water companies. We do not hold data on WaterSure customers’ occupancy because there is currently no business need for that data – we only know how many have qualified under the three child criterion. It is therefore difficult to estimate how many WaterSure customers could qualify for a single occupier charge and what the impact might be, but it would inevitably increase the level of cross-subsidy required.

Even if neither of the options in D3 is adopted as the overall approach to bill support, it might be possible to make one of these available as an alternative option – for example, customers could be offered a fixed discount rather than a bill cap. This would mean that customers with below average consumption could receive some discount as opposed to none.