



Action for Warm Homes

Social Tariffs in Water: The Impact of Covid-19

The Covid-19 Crisis

In the first few months of 2020, the world watched a global pandemic unfold. Countries around the world were imposing strict nationwide lock-downs, with economies basically shutting down to control the spread of the virus. The turning point for the UK came on 23rd March when Prime Minister Boris Johnson addressed the nation.

*"No Prime Minister wants to enact measures like this. I know the damage that this disruption is doing and will do to people's lives, to their businesses and to their jobs... But at present there are no easy options. The way ahead is hard, and it is still true that many lives will be lost."*¹

The damage was already underway: on the same day that the Prime Minister made his address to the nation, the most searched page on the Citizens Advice website was *"what you can do if you can't pay your bills because of coronavirus"*². The change in people's priorities was clear - just nine days prior it had been *"claim compensation if your flight's delayed"*.

At the time of writing this paper, there have been:

- over 2.7 million individuals submitting new claims for Universal Credit³;
- over 8.4 million people furloughed as part of the Government's job retention scheme⁴;
- over 1.8 million mortgage payment holidays and over 1.1 million requests for payment holidays on credit cards and loans⁵; and
- over 2 million applications for self-employment government grants⁶.

For these millions of people, their personal finances have been hit hard and hit quickly, and no-one knows when their situations will improve. More than ever before people are looking for support with paying their essential household bills, and yet these bills are likely to be increasing due to additional usage of energy, water, telecoms, and others, at home.

Supporting people to pay their bills

Utility companies in the UK have offered financial support to customers struggling to pay their bills for many years, but

awareness of this support has always been low. In response to this crisis, many sectors have increased the support that is available to those who need it - the water sector is an excellent example of this.

In March 2020, Water UK released a list of immediate changes to support offered by water companies, which all companies had agreed to provide. This included payment holidays, adjusting payment plans, stopping enforcement action for non-payment, and extending the support offered under existing financial schemes and social tariffs⁷. Whilst it is comforting to know that this range of support is available, social tariffs often remain the main support mechanism; NEA has identified several issues in our recent discussion paper which are likely amplified further by the effects of this crisis and may prohibit the current policy from being effective.

Identified issues

The issues identified with the current approach to social tariff have been outlined in our recent discussion paper. These have been provided below with additional commentary to explain how the coronavirus crisis has impacted these issues further.

The differences in eligibility criteria and support levels of social tariffs have created a 'postcode lottery'

- Some areas of the country may suffer more detriment than others due to the reliance on certain industries for local employment (such as tourism and aviation). A higher number of people may need support in these locations than in others.
- Eligibility criteria of some social tariffs are quite restrictive (for example, supporting only those on pension credit) and will need to be significantly expanded to support more people in difficulty.
- The amount of discount offered varies significantly, meaning in some water company areas customers may receive a discount of 90%, yet in others it could be as low as 10%.

Agreed levels of cross-subsidy, used to fund social tariff support, vary greatly by water company

- Some companies are already providing support at the maximum level of their agreed cross-subsidy, whereas

others have scope to access additional cross-subsidy funding. This may restrict companies from expanding their schemes as much as required to support customers.

- Water companies may choose to contribute additional shareholder funding to the social tariff pot to increase this support, but with income reduced from non-household customers, and additional costs incurred due to contingency working arrangements, this may be limited and could risk their financial resilience.

The eligibility criteria for WaterSure is too restrictive meaning many customers cannot access support

- WaterSure reduces bill volatility associated with increased water usage but relies on customers being metered. Some companies have stopped fitting water meters during this time which may restrict access to support.
- Large families who are not on means tested benefits and cannot access WaterSure may experience even higher bills than usual due to the number of people at home during lockdown. If they are above the income threshold they may not be entitled to any support.

There is no auto-enrolment for social tariff support, meaning companies incur high costs for administration

- The data sharing agreements with DWP under the powers of the Digital Economy Act had not been completed prior to the crisis. Companies cannot access this data yet, meaning all applications are still manually processed and verified. With an increased number of applications the administration costs for this could be significant.

The bad debt charge currently adds £21/year onto household bills, making the struggle harder for some of the worst-off households

- With increased financial hardship and recognising that water bills are often the first bill customers default on as they cannot be disconnected for non-payment, customer arrears are likely to rise. With additional uncertainty about the long-term financial situation and the depth of the recession the country faces, it is more likely that these arrears will be deemed 'uncollectible' and the bad debt charge will rise. This places further pressure on households already struggling.

Some households do not meet the income thresholds for support, yet cannot meet their living costs, falling into negative budgets

- The crisis will have inevitably resulted in an increased number of households with significantly reduced income, who suddenly do not have the money required to meet their living costs. This may be short-term for some, and long-term for others. Although some companies offer support specifically for negative budgets, this support should be tailored to meet the transiency of each customers' situation.

Customers often do not understand what 'income' is, which can take them over the threshold required for support

- The crisis may give customers less certainty in the level of income they will receive or the security of that income. Already challenging definitions of what water companies consider as income will only be making it harder for customers to understand if they are entitled to support. This confusion may deter customers from applying for support and could impact their mental wellbeing.

Next steps

The impact of the coronavirus pandemic has not changed the issues NEA has identified with social tariffs, rather it has amplified them further and made the impact of the issues greater for households struggling to pay their essential bills whilst also increasing the number of households likely to need support.

The three recommendations outlined in our paper 'Water Poverty – The Consistency of Social Tariffs' are still extremely relevant, and we recommend they are delivered on an expedited timeframe to make a greater impact when it matters most.

Key Recommendations

1. Government should conduct a thorough review of social tariff guidance in consultation with water companies and stakeholders to make the support across England and Wales fairer for all.
2. Particular consideration should be given to alternative options for funding social tariffs schemes. This should include an impact assessment of the current approach to willingness-to-pay as the basis for funding and the resulting designs of social tariffs, alongside alternatives
3. Government should prescribe 'core' eligibility criteria allowing companies to continue to take account of regional circumstances whilst removing unacceptable variances in levels of support, and to aid the use of powers under the Digital Economy Act for auto-enrolment to mitigate against the lack of customer awareness of social tariffs.

Endnotes

- 1 Prime Minister Boris Johnson. Transcript of his address to the nation on 23rd March 2020 - <https://www.gov.uk/government/speeches/pm-address-to-the-nation-on-coronavirus-23-march-2020>
- 2 Citizens Advice real-time website analysis. Gemma Byrne, 24th March 2020 - <https://wearecitizensadvice.org.uk/coronavirus-what-are-the-concerns-of-the-nation-ba14af20c4d3>
- 3 DWP UC Management Tables (1st March – 12th May 2020) - <https://www.gov.uk/government/publications/universal-credit-declarations-claims-and-advances-management-information>
- 4 As of 27th May 2020 - <https://www.bbc.co.uk/news/business-52819591>
- 5 As of 22nd May 2020 - <https://www.moneysavingexpert.com/news/2020/03/uk-coronavirus-help-and-your-rights/>
- 6 As of 18th May 2020 - <https://www.bbc.co.uk/news/business-52710803>
- 7 Water companies step up action to help customers in need, 25th March 2020 - <https://www.water.org.uk/news-item/water-companies-step-up-action-to-help-customers-in-need/>