

The shape of a social tariff

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As households struggle to afford their water bills, social tariffs have a crucial role to play in ensuring that water is affordable for everyone who needs it. While social tariffs are in place already, their design and eligibility is largely left to companies to decide – resulting in worrying postcode lotteries and poor targeting. This briefing lays out some options for unified social tariff design.

KEY POINTS

- Social tariffs help 1.6 million households to afford their water bills, but inconsistent design means support is highly varied across the country.
- Affordability challenges around water bills are still acute and are likely to remain so over the next price review period.
- Social tariffs are also poorly targeted with some households not receiving sufficient support, and many thousand potentially eligible customers not even receiving social tariffs
- Introducing a single social tariff, where the level of support is consistent across all companies would eliminate this postcode lottery
- Options for a social tariff include:
 - A ‘bill cap’
 - Set percentage discounts depending on income
 - A fixed percentage discount across the board
 - A lower unit price for water.
- However, whichever option chosen will rely on households having a water meter installed and need greater data sharing between government departments and water companies, for better targeting.

A single social tariff for water

The water sector in the UK is facing two enormous long-term challenges over the coming decades: encouraging sustainable use, while ensuring water remains affordable for all. Balancing these objectives is a complex trade-off, particularly given the need for water companies to finance investment while doing so. Managing these concurrent challenges will require far-reaching reform. This could include rethinking the way we charge households for water so as to target discretionary use while making sure essential usage more affordable.

Longer term charging reform is the subject of upcoming SMF research on reforming the water charging system. But in the meantime, as households struggle to afford their water bills, social tariffs have a crucial role to play in ensuring that water is affordable for everyone who needs it.

Why social tariffs?

Social tariffs help millions of customers manage their water bills, but are inadequate in their current form with increases in the pipeline

Social tariffs are a discount on goods and services for certain groups of households, often (though not exclusively) those on a low income or in receipt of means-tested benefits. Social tariffs exist in a wide range of contexts, from public transport to energy to broadband. They are an established feature of the water policy landscape, having initially been introduced in their current form¹ by the Flood and Water Management Act 2010, which allowed water companies to design and offer social tariffs to their vulnerable customers.² Each water company offers their own social tariff scheme to their customers.

Social tariffs already provide a lifeline to many households that may otherwise struggle with water bills. A record 1.6 million water customers – 4% of all customers in England and Wales – are on social tariffs offered by their water company, with water companies collectively spending approximately £259 million on providing social tariff support in 2023.³ That represents an increase of over 250,000 people on social tariffs since 2022/23.⁴ This is forecast to reach an annual average of £640 million for the 2025-30 period.⁵

However, the social tariffs framework needs to go further. Partly, this is because affordability challenges around water bills are still acute and are likely to remain so over the next price review period. Recent estimates from the Consumer Council for Water suggest that 2 million households could be in water poverty – that is, spending 5% or more of their disposable income on water bills.⁶ Our own analysis of the Living Costs and Food Survey puts this number at around 1.75 million. Indeed, 18% of customers, when asked by CCW, said they found their current water bill difficult to afford.⁷

The challenge is all the greater given the need to invest in water infrastructure. In the 2025-2030 price review period, water companies are set to deliver £104 billion of expenditure, in large part to deliver significantly increased investment to reduce leakage, roll out smart meters and boost water supply.⁸ This amounts to a £31

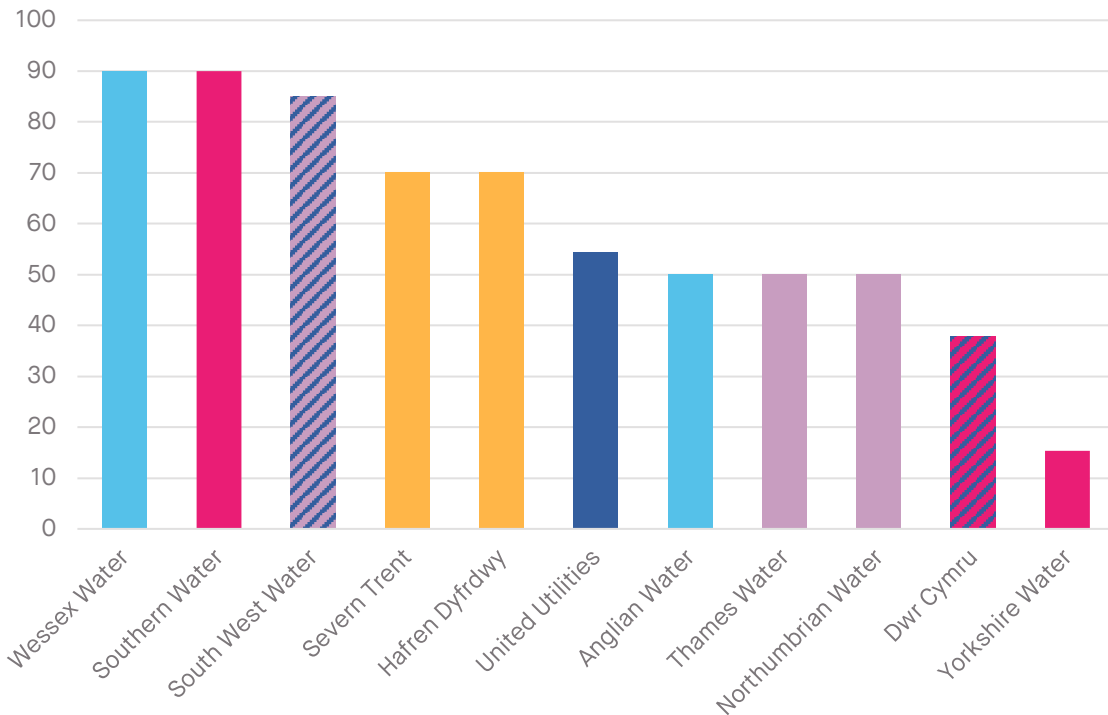
average bill rise for customers before inflation.⁹ Around 2 in 5 (40%) of customers thought that water bills would be difficult to afford for them after they were shown their company’s proposed bill increases for 2025-26 to 2029-30, based on Ofwat’s draft determinations.¹⁰

Social tariffs are inconsistent across water companies

Besides challenges around ensuring sufficient support to combat water poverty, a second problem with the current social tariff system is its inconsistency. Each water company is responsible for delivering its own social tariff scheme and has considerable flexibility in how they do so. This means that, in practice, there is a ‘postcode lottery’ of support available, with differing levels of support and eligibility requirements. Figures 1a and 1b below illustrate this graphically, showing the maximum savings a household on an average bill could expect from social tariffs for different water companies and how eligibility is decided in that area. These charts also distinguish between different eligibility types that are used to determine which households get support, which are denoted by different colours.

Figure 1a: Maximum social tariff savings (% of average 2024-25 bill) water and wastewater companies.

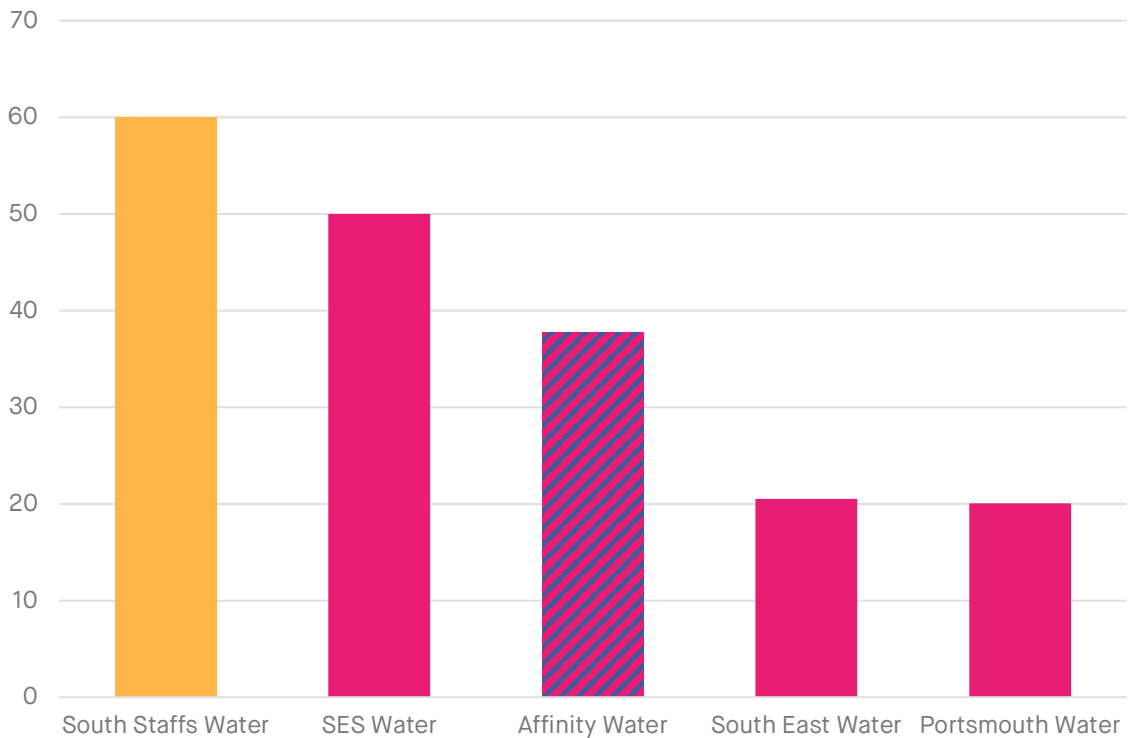
Notes – Figure key: Individual assessment; Income; Equivalised income; Benefits; Bills-to-income ratio



Source: SMF analysis of CCW¹¹ and Ofwat¹² figures. Main eligibility requirements denoted by colours. Schemes with a combination of eligibility types are shown with a striped combination of colours.¹³

Figure 1b: Maximum social tariff savings (% of average 2024-25 bill) water only companies.

Notes – Figure key: **Income**; **Equivalised income**; **Benefits**



Source: SMF analysis of CCW¹⁴ and Ofwat¹⁵ figures. Main eligibility requirements denoted by colours. Schemes with a combination of eligibility types are shown with a striped combination of colours.¹⁶

As Figures 1a and 1b show, the design of social tariffs varies considerably across England and Wales. The maximum amounts that a household on an average bill could save from a social tariff range from £66 to around £450. Most companies use household income to decide eligibility, sometimes with an adjustment for household size or composition, where households will get more or less support based on whether they have more or less people in the household – what is known as ‘equivalising’ the income. However, some use benefits receipt as a criterion while others use a ‘bills to income ratio’, which offers support based on how much of a household’s income is taken up by water bills. For example, Thames Water’s ‘WaterHelp’ scheme offers a 50% discount for households whose water bills is more than 5% of their equivalised income.¹⁷

All this means that two households living in very similar circumstances could be in line for very different levels of support. For example, someone living in Northallerton, with a household income of under £19,000 could qualify for Yorkshire Water’s WaterSupport scheme, which caps annual bills at £364, representing a £66 saving on the average bill of £430. But only a few miles north, a household under Northumbrian Water’s area could qualify for the SupportPLUS scheme, so long as their household income is less than £23,933, and their annual water and sewerage bill is more than 3% of their net household income. Under this scheme they could receive up to a 50% discount on their bill, which would save £207.50 against the average bill in that area.

Existing social tariffs can be ineffective at reaching the people they are meant to help

Moreover, existing social tariffs are notoriously poorly targeted. Even if eligible for the available scheme, the nature of the support that households receive is not always sufficient to cover the household's needs, leaving them still struggling. In Autumn 2023 1.3 million customers were receiving a social tariff. However, the Consumer Council for Water estimated that about 2 million eligible customers might not be receiving the support they are entitled to, to help them cover the cost of their water bills.¹⁸

Unlike with other services, such as the Warm Home Discount, water customers have to apply for support and prove their eligibility. Customers apply for social tariff, the application is then assessed by the supplier, and then confirms eligibility with the Department for Work and Pensions.¹⁹ However, even getting to the stage of apply for the support will depend on whether they are even aware that support schemes exist. By the most recent estimates, more than half of people are unaware that water companies offer support like social tariffs.²⁰ The result of this means that the take up of social tariffs can be low, and those who are most in need of social tariffs and who would feel the most benefit, do not always end up receiving that support.

Water companies have been trialling different methods to increase awareness of the support they can offer households who are struggling with their water bills. This has included proactively engaging with communities, increasing messaging of support on water bills themselves and making the application process smoother.²¹ This can help increase the uptake of what is available, but it still leaves the postcode lottery of generosity and eligibility unaddressed.

A further issue is that the current funding framework for social tariffs relies on cross subsidy, which is paid for by other households. The level of support can be increased if the level of cross subsidy is increased, and that these increases are supported by customers. However, the difficulty this creates, is that in areas with high levels of deprivation, the possibility to provide more generous support is limited.

Why a single social tariff?

A single social tariff, where the support and eligibility is uniform across all companies and consumers could resolve these issues. It would equalise support, and eliminated the postcode lottery that currently characterises the industry. Crucially it would help ensure that households that are in most need of support, are able to receive it.

The SMF has previously called for a single social tariff on essentials like broadband.²² A single social tariff was one of the key recommendations that came out of the CCW's review of the water sector in 2021, as means of providing "fair consistent and sustainable support", and eliminating water poverty.²³ The CCW has reiterated their recommendation recently, and it has been echoed by numerous charities and anti-poverty campaigners, including Independent Age, Fair By Design and National Energy Action.²⁴

What should a single social tariff in water look like?

A single social tariff is a strong idea in theory. But what should one look like? Key to designing a social tariff is eligibility and discount type.

When it comes to eligibility, there is a strong argument for using a bill-to-income ratio. Basing eligibility on benefits can miss out some low income households – last year we estimated as many as 938,000 households in the bottom quintile of equivalised income are not in receipt of benefits.²⁵ Basing eligibility on income is better, but still does not fully take into account essential needs, i.e. how much a household is having to spend. An income based approach would disadvantage a household with three young children that uses more water than a single household of comparable income, unless income equalisation was implemented.

Admittedly, setting up a bills-to-income ratio has its complications. Automatically enrolling consumers, as we would ideally like to do to make the social tariff as easily accessible as possible is a significant challenge, as there first needs to be extensive data sharing and standardisation between water companies and government agencies to make this happen.²⁶ Legislative change may be required to make this happen, particularly through the Digital Economy Act. However, more imaginative approaches to using data are feasible, as has been demonstrated through existing schemes such as Thames Water's WaterHelp scheme.²⁷

The other key consideration is how to deliver the discount. Here, there are several options. However, a key consideration is ensuring that the tariff needs to not only reduce consumer bills, but maintains incentives to use less water. Any delivery will need to strike a balance between the two. In all the cases outlined below, we assume firstly that all households are charged based on their actual consumption. In some cases (marked with an asterisk), we also assume the use of a rising block tariff i.e. higher tariff rates for higher use, discounted at the same rate for social tariff users.

Table 1: Options for a single social tariff

	Description	Affordability	Demand reduction
Bill Cap	Places a specific limit or a “cap” on what a customer will pay for their water.	It’s a relatively clear and simple mechanism, and would definitely help make bills more affordable	No incentive to reduce water use, unlike the other options we consider
Income banded discounts	Customers placed in a particular band for support depending on household income. Each band is associated with certain percentage discount on their bill, with total bill amount still based on consumption.	Can help households most in need, but there are logistical difficulties to implementing it, like ensuring household income data is always up to date, which could limit effectiveness	Should encourage reduction in water use at is based on consumption
Fixed discount	Households in receipt of social tariffs have their whole bill reduced by a particular percentage amount. Every household receives the same proportional discount on bills.	Most common way of delivering a social tariff currently, and helps with affordability	Would likely encourage water conservation, although the impact may be slightly weakened due to the discount on the final bill
Split discount*	Similar to a fixed discount, but rather than a whole bill discount, only a portion of the bill reduced, for example an allowance of water intended to reflect “essential usage”.	Similar to fixed discount would help households in need ensure that their essential water usage remains affordable	Households would continue to benefit from the proportional discount, but would still be incentivised to reduce consumption on “non-essential” water use
Separate modified tariff*	Rather than applying a discount on the final bill, households receiving a social tariff would be charged a lower unit price for water.	This would improve affordability, but could be difficult administratively to create an entirely separate tariff structure	As charging is still based on consumption, it would still positively affect demand reduction.
Consumption-contingent discount*	Discounts are only applied if consumption parameters are not breached, e.g. as long as a household doesn’t use more than a certain number of litres, they receive the discount	As long as this takes account of factors like household size or additional needs, it should be a means of achieving affordability	As it actively rewards water conservation, it should be beneficial for demand reduction

All these delivery options (bar a cap) are a feasible means of introducing a single social tariff that would address affordability and incentivise reduced consumption. However to be implemented effectively, most will require a substantial degree of data sharing and administrative coordination.

A single social tariff that uses a sophisticated bills-to-income ratio does not have to be vastly more expensive than the present system. Using the Living Costs and Food Survey, we estimated the cost of three relatively simple options for a single social tariff based on bills-to-income ratio eligibility and what this would cost on aggregate per year, assuming full take-up:

- A flat 50% discount for households below average income spending >5% on water is likely to cost approximately £540 million, or approximately £20.75 per household.²⁸
- A flat 50% discount for households in the bottom third of income spending >5% on water is likely to cost approximately £460 million, approximately £18.45 per household.²⁹
- Income banded discounts of 10%, 33%, 50% 67% and 90% on households spending >5% on water and with equivalised incomes up to £23,000³⁰ would likely cost around £790 million, approximately £31.30 per household.

There are two main options for how to fund expanded social tariff support: using general taxation, or using the existing cross-subsidy from water companies. General taxation has significant advantages as a funding model as it is likely to be a progressive approach to raising funds and is would not rely on individual companies' financial situations. However, implementing social tariff support on this scale could be compatible with the current system of cross-subsidies: indeed, the total funding for social tariffs is forecast to reach an annual average of £640 million for the 2025-30 period, meaning that proposed increased to funding could be redeployed to a new model.

Of course, these costs could be lowered by reducing the size of the discounts or setting tighter income or other eligibility criteria. This is simply to demonstrate that the costs of a comprehensive and well-designed single social tariff need not be outlandish: as mentioned earlier, companies already spend £259 million on social tariff support.

Conclusion

Social tariffs are a vital helping hand for millions of households across England and Wales to afford their water bill. But social tariffs can and should go further. Consolidating the fragmented social tariff landscape in the water sector into a single social tariff can make support for households better designed, more consistent and more visible to customers. A single social tariff also does not have to come at the expense of demand reduction goals or cost an unrealistic amount to deliver meaningful support.

ENDNOTES

¹ The WaterSure scheme, which has been in place since the 1990s, can also be considered a form of social tariff.

² <https://assets.publishing.service.gov.uk/media/5a798ef740f0b63d72fc6c46/pb13787-social-tariffs-guidance.pdf>

³

<https://www.bbc.co.uk/news/articles/c2e71k08dxpo#:~:text=The%20Consumer%20Council%20for%20Water,quarter%2C%20according%20to%20CCW%20data.>

⁴

<https://www.bbc.co.uk/news/articles/c2e71k08dxpo#:~:text=The%20Consumer%20Council%20for%20Water,quarter%2C%20according%20to%20CCW%20data.>

⁵ <https://www.ofwat.gov.uk/wp-content/uploads/2024/12/Summary-of-water-companies-published-plans-for-affordability-for-2025-30-republished-19-December-2024.pdf>

⁶ <https://www.ccw.org.uk/app/uploads/2024/11/Draft-determinations-research-summary-report.pdf>

⁷ <https://www.ccw.org.uk/app/uploads/2024/11/Draft-determinations-research-summary-report.pdf>

⁸ <https://www.ofwat.gov.uk/ofwat-approves-104bn-upgrade-to-accelerate-delivery-of-cleaner-rivers-and-seas-and-secure-long-term-drinking-water-supplies-for-customers>

⁹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-DD-sector-summary.pdf> ; <https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/what-it-means-for-customers-and-water-bills>

¹⁰ <https://www.ccw.org.uk/app/uploads/2024/11/Draft-determinations-research-summary-report.pdf>

¹¹ Information on social tariff schemes taken from CCW: <https://www.ccw.org.uk/save-money-and-water/help-with-bills/#social-tariffs>

¹² Information on average bills taken from Ofwat: <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-DD-sector-summary.pdf#page=17>

¹³ Some water companies have multiple eligibility criteria, sometimes three or more. Here we have shown the primary eligibility criteria and broadly categorised them.

¹⁴ Information on social tariff schemes taken from CCW: <https://www.ccw.org.uk/save-money-and-water/help-with-bills/#social-tariffs>

¹⁵ Information on average bills taken from Ofwat: <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-DD-sector-summary.pdf#page=17>

¹⁶ Some water companies have multiple eligibility criteria, sometimes three or more. Here we have shown the primary eligibility criteria and broadly categorised them.

¹⁷ <https://www.thameswater.co.uk/help/account-and-billing/financial-support/waterhelp>

¹⁸ <https://www.ccw.org.uk/news/households-urged-to-tap-into-water-company-support-ahead-of-utility-bill-rises/>

¹⁹ <https://www.citizensadvice.org.uk/wales/policy/publications/securing-lifes-essentials/#h-2-existing-bill-support-schemes-are-falling-short>

²⁰ <https://www.ccw.org.uk/publication/water-matters-2024/>

²¹ <https://www.ccw.org.uk/our-work/affordability-and-vulnerability/affordability-review/affordability-review-one-year-on/>

²² <https://www.smf.co.uk/wp-content/uploads/2023/09/Bare-necessities-Sept-2023.pdf>

²³ <https://www.ccw.org.uk/our-work/affordability-and-vulnerability/affordability-review/affordability-review-recommendations/>; <https://www.ccw.org.uk/publication/single-social-tariff-research/>

²⁴ <https://www.independentage.org/single-water-social-tariff-open-letter>

²⁵ <https://www.smf.co.uk/wp-content/uploads/2023/09/Bare-necessities-Sept-2023.pdf>

²⁶ <https://www.smf.co.uk/wp-content/uploads/2023/09/Bare-necessities-Sept-2023.pdf>

²⁷ <https://www.thameswater.co.uk/news/waterhelp-criteria-enhanced-to-help-more-customers-with-their-water-bills>

²⁸ Household income below £23,000 equivalised using the OECD equivalence scale.

²⁹ Household income below £17,000 equivalised using the OECD equivalence scale.

³⁰ The bands are set at up to £11,000, £14,000, £17,000, £20,000 and £23,000. This roughly reflects the first five deciles of the equivalised household income distribution.